MASTERING THE GAME

Business and Legal Issues for Video Game Developers

A Training Tool

WIPO
WORLD
INTELLECTUAL PROPERTY
ORGANIZATION

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DISCLAIMER

The book is designed to help readers with a general understanding of some of the legal and business issues in the video game industry and does not constitute legal or any other professional advice. This book is intended for educational and informational purposes only and is not a substitute for legal advice from an attorney.

Reasonable efforts were used to base information on reliable sources for the book, but the authors and publisher cannot assume responsibility for their validity and consequences of their use.

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EXECUTIVE SUMMARY

The videogame industry has grown dramatically in the last decade. It continues to evolve with new technologies, trends, business models, greater accessibility to game devices and distribution, and consequentially new legal and regulatory challenges. These significant changes are reflected in the scope and volume of this second edition.

This publication is primarily a guide for developers, legal professionals, students, and anyone interested in the video game industry to help them understand the many business and legal issues developers may encounter in the development and eventual distribution of a video game across numerous platforms. The topics range from intellectual property ("IP") and regulatory matters associated with game development to forming relationships with publishers, platform manufacturers, distributors, and content owners. In each of these relationships, the developer will need to be familiar with the specific business and legal issues and contractual terms so that they can negotiate effectively and identify risks in order to avoid potentially costly mistakes.

While the publication is for educational purposes and cannot replace the expertise of lawyers and other key personnel in the video game industry in negotiating deals, it hopefully can offer some guidance and explanations as to the major issues in developing and distributing a game, why various parties make certain decisions during negotiations, and the language that may be included in an agreement. Not all topics and jurisdictions are covered; much of the legal commentary primarily reflects practice in the United States, the European Union, and the United Kingdom, although many of the business and legal principles discussed are applicable in other parts of the world. In addition, these are large markets for video games, and with the ease in distributing a game worldwide it is important for developers to have a basic understanding of some of the issues they may come across when dealing with various publishers, distributors, platform manufacturers, licensors and regulations in these territories. Finally, when reading the publication, it is important to realize that laws change and every situation is different and negotiations will vary depending on the unique circumstances between the parties as well as bargaining power and perhaps past dealings. Some commentary is reflected a few times in different chapters to underscore the importance of certain business and legal terms.

The introductory chapter provides an overview of the video game industry, focusing first on the industry's size and comparing various numbers such as revenue and audience to those of other sectors in the entertainment industry, providing a perspective of its current dominant position. Next, a look at the demographics of game players and the growing importance of new markets led by China followed by a brief discussion on the major players, including the platform manufacturers, distributors, and publishers, And lastly, a snapshot look at the recent economic and gaming trends driven by new business models, esports, community involvement, influencers and immersive technologies, and legal trends involving privacy, antitrust, labor and intellectual property issues.

Chapter 2 discusses the basic IP issues and strategies associated with game development. With advances in technology, IP issues have taken on a greater significance in both the tools used to develop games and the content included in a game. Without a basic understanding of intellectual property, a developer could find themselves with a game that cannot be distributed because proper rights were not obtained correctly.

This chapter examines the historical protection and current coverage for copyrights, patents, trademarks, trade secret, and the right of publicity. Some significant cases in the United States, the European Union, and the United Kingdom are discussed in detail with some references to other jurisdictions and cutting edge legal topics are explored. The authors also discuss balancing a game company's legal needs to protect IP with the promotion of innovation and community development.

Chapter 3 examines the increasingly important role of independent developers and the evolving relationship between developers and publishers, with a primary focus on the business and contractual issues between the parties, whether the publisher is financing, marketing, and distributing a game or is just serving as a distributor. The importance of certain terms and why parties may negotiate them are analyzed, including rights, ownership, development and delivery issues, payment considerations, and legal responsibilities and obligations. Included in the chapter are a set of questions the developer should consider when evaluating whether to enter into an agreement with a publisher as well as what business issues a publisher may consider when looking at a developer.

Chapter 4 deals with the major business and legal issues in licensing agreements whereby the developer obtains rights to incorporate IP into their game ranging from sports and iconic trademarks to music. In some situations, a game may be based on a property such as a film, while in other situations, content may be incorporated into the game to add realism. In both situations, certain rights are required, and this chapter examines what steps the developer should take and factors to consider before licensing a property, followed by a discussion on the terms in a typical licensing agreement. In addition, as video games continue to grow in popularity, more and more IP originating from video games is crossing-over into other forms of entertainment such as films, publishing, music, and sports. This chapter discusses some of the contractual and business issues a developer/publisher needs to consider when licensing out their IP to other parties, including whether to hire an agent specializing in this field. The chapter also includes an introductory discussion on music and what options exist for incorporating music in a game, from the hiring of a composer to licensing or using public domain music, and what are the main contractual issues when dealing with some music agreements.

Chapter 5 deals with actor-talent agreements and the key terms typically negotiated between the parties when hiring talent to appear in a game and marketing materials, whether using their voice, likeness, or motion capturing them or a combination of any of the above. The chapter also discusses the growing role of the actor’s union in the United States and some of the procedures for hiring talent, and the minimum contractual obligations required when hiring union talent.

Chapter 6 deals with the major terms in a vendor-independent contract agreement, and some of the legal issues in hiring vendors which has taken on greater prominence as

developers/publishers hire more independent contractors, and changing labor laws in parts of the United States.

Chapter 7 addresses important business and legal issues dealing with the major console manufacturers and what steps are needed to develop and publish retail packaged goods and digital goods on the various platforms.

Chapter 8 focuses on the growing importance of PC distribution as a way for developers to reach consumers, as well as the challenges of distinguishing one game from another in what is becoming a very crowded field. The chapter also examines some of the most significant contractual terms between a developer and distributor, including rights granted, revenue share, obligations, marketing issues, and termination rights.

Chapter 9 talks about the incredible growth of the mobile gaming industry, perhaps the most accessible platform for developers to distribute their games on. Against this backdrop, this chapter takes a brief look at the major platforms, and discusses the most important legal and business issues that developers will need to be aware of, including those in various agreements that a developer may enter into whether acting independently with a distributor (i.e., app store) or through a publisher acting on its behalf. While most distributors' agreements are typically non-negotiable, it is still important to understand the obligations and potential risks of these deals, which this chapter will discuss.

Chapter 10 briefly examines some of the key areas of regulation that developers and publishers need to be aware of when making a game, such as data privacy, consumer protection, gambling, advertising, and marketing, including particular concerns dealing with children and influencers. In addition, the chapter provides a brief overview of game ratings and the importance of understanding how games are rated in some of the major territories, and the impact of ratings on development.

Chapter 11 covers confidentiality agreements and deal memos, two significant agreements that often serve as the foundation for any business relationship. The confidentiality agreement will usually be the first agreement reviewed by a developer when forming a relationship with another party, whether it is with a publisher interested in financing a game or working with a platform manufacturer. This chapter will examine the essential terms found in a confidentiality agreement. In addition, the chapter also discusses the significance, necessity, and problems of a deal memo, as well as points typically raised in the document.

Chapter 12 discusses the meaning behind common clauses that appear in almost all agreements involving any aspect of the video game industry, ranging from publishing agreements to licensing agreements.

ABOUT THE AUTHORS

David Greenspan has been involved in the video game business for over 25 years working, independently and in Business and Legal Affairs for some of the most significant video game publishers at the time in the industry. He has worked for 989 Studios/Sony, THQ, Bandai Namco Entertainment America, and Midway Games.

He has worked on more than 100 video games and has been involved in all aspects of video game development, publishing, licensing, distribution, marketing, and has negotiated hundreds of agreements covering these areas. Many of these deals have involved major game developers, publishers, distributors, motion picture studios, professional sports leagues, television networks, and advertisers. Although he is terrible at playing games, he negotiated a favorable royalty rate one time by defeating a licensor's lawyer in a sports video game.

David was the lead author of the 1st edition of *Mastering The Game: Business and Legal Issues for Video Game Developers.* Mr. Greenspan has taught classes for more than 20 years covering video games, entertainment law, and licensing with a primary focus on transactional issues. He has taught at several law schools, including Santa Clara University School of Law, where he is currently teaching his 14th year, and also recently at the University of Miami Law School. He was one of the first to teach legal and business issues covering the video game industry at the university level when he taught classes in this area at UCLA Extension from 1996-2000.

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Gaetano created and organizes the 'More Than Just a Game' conference series (MTJG - https://www.mtjg.co.uk/). a unique series of academic-led conferences on games and interactive entertainment law attracting an international network of researchers and legal professionals. MTJG now counts events in London (the flagship two-day conference), Paris, Madrid, Frankfurt, Maastricht, Milan and Warsaw.

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Mr. Boyd focuses on high technology companies in the video game industry, advertising, and public relations. He has extensive experience negotiating and drafting all of the operational agreements for these businesses, including software (SaaS), licensing, employment, and development agreements — for video games and other digital media across all platforms.

Mr. Boyd is co-author of Video Game Law: Everything You Need to Know About Legal and Business Issues in the Game Industry (Taylor & Francis/CRC Press, Fall 2018). He is also the co-author of the textbook Business and Legal Primer for Game Development (Charles River Media), and wrote the chapter, "Intellectual Property in the Video Game Industry" in the first edition of Mastering the Game.

He is a founding member and past Board member of the Video Game Bar Association and a member of the Advisory Board for the NYU Game Center Incubator. He is a frequent speaker at international media conferences and educational institutions, and he has been featured in a number of publications, including Fortune, Forbes and Gamasutra. Greg also taught a seminar on advanced topics in intellectual property for six years at New York Law School. He is admitted to practice law in New York and is a registered patent attorney with the USPTO

Andrea Rizzi is a dual qualified (Italy-UK) International commercial IP IT/media lawyer with 20 years of experience gained in Italy and the UK, both as a private practice lawyer as well as in house video game/interactive entertainment lawyer Andrea’s practice focuses on the digital entertainment and technology industries. Throughout his career Andrea has dealt with the most diverse legal issues related to the development, acquisition, and commercialization of some of the most successful videogames of all time, and has been involved with the setting up, acquisition, and sale of leading development studios. Andrea counsels some key videogame industry players in all major areas of business law and regulations.

CHAPTER 1

THE GLOBAL STRUCTURE OF THE VIDEO GAME INDUSTRY

1.1 – The Current Video Game Industry Landscape: The Numbers Behind The Industry

According to Newzoo, a leading video game research company, the video game industry generated revenue of approximately $178 billion worldwide in 2020.[1] This figure is greater than the current GDPs of 156 countries, according to 2020 United Nations statistics.[2] This record-breaking year for the industry was accelerated by COVID-19, with many people having spent their time playing video games at home because of the pandemic lockdowns. Newzoo forecasts revenue numbers to slightly increase to a little more than $180 billion in 2021 and increasing to $200 billion in 2023.[3] According to analysts, there are several reasons why it is expected that both revenue and the number of players will continue to grow in the coming years:

- Digital accessibility will become more widespread in both emerging and established markets.
- Greater market penetration of the next-generation console platforms, combined with the continuing success of Nintendo's Switch.
- More powerful mobile devices will be launched, which can run more content-intensive games.[4]

[1] These numbers are projected to increase despite some AAA titles pushed back to 2022 releases, and fewer consoles being manufactured because of a scarcity of some components. Newzoo's 2021 estimated numbers include consumer spending on physical and digital full-game copies, in-game spending, and subscription services (i.e., Xbox Game Pass), but excludes secondhand trade or secondary markets, advertising revenues earned in and around games, console and peripheral hardware, B2B services and online gambling and betting. Newzoo, "2021 Global Games Market Report: The VR & Metaverse Edition", *newzoo.com*. While there's no doubt that recent global revenue figures for the gaming industry are incredibly impressive, determining an accurate figure is a challenge. Estimates of 2020 revenue in fact vary between $139.9 billion and $208 billion according to the source. This is due to the different methods of calculation and to reporting sources not necessarily having the same level of reliability. Additionally, many private companies do not provide financial figures. Estimates are also complicated and vary widely because the platforms in the industry, including in the different sectors such as mobile and digital, are not necessarily clearly defined.

[2] "List of countries by GDP (nominal)", *wikipedia.org*. Figures for 213 countries, compiled by the United Nations Statistics Division and based on 2020 estimates.

[3] Newzoo, "2021 Global Games Market Report: The VR & Metaverse Edition", *newzoo.com*.

[4] Some games, including AAA titles, were not playable on previous devices because of the amount of memory required. Currently, more major publishers are beginning to develop specifically for mobile platforms as well as continuing to port AAA titles to mobile. This should expand their revenue streams, exposing more gamers to these types of games.

- Esports,[5] cross-platform play and cloud gaming will further expand.
- Live services and video-game streaming services will grow.
- More innovative gameplay will be possible, incorporating new technology and easier adaptability.
- Games will become more engaging, with more detailed stories and graphics, and yet at the same time there will be games that are quite simple so anyone can play them.
- Consumer interest will further increase due to the tremendous growth of streaming of game content and user-generated video game related videos.
- Virtual reality (VR) will attract a more mainstream audience.
- More games will be localized making them accessible to a greater number of players.
- Greater worldwide distribution and exposure of games from non-traditional markets.
- The Metaverse.

The current market revenue represents an increase of over 400% since 2007, when the iPhone was introduced and revenues totaled $35 billion.[6] Compared to 1995, when the PlayStation was introduced in the United States and the worldwide market was about $4.3 billion, revenue has increased more than 4,000%.[7]

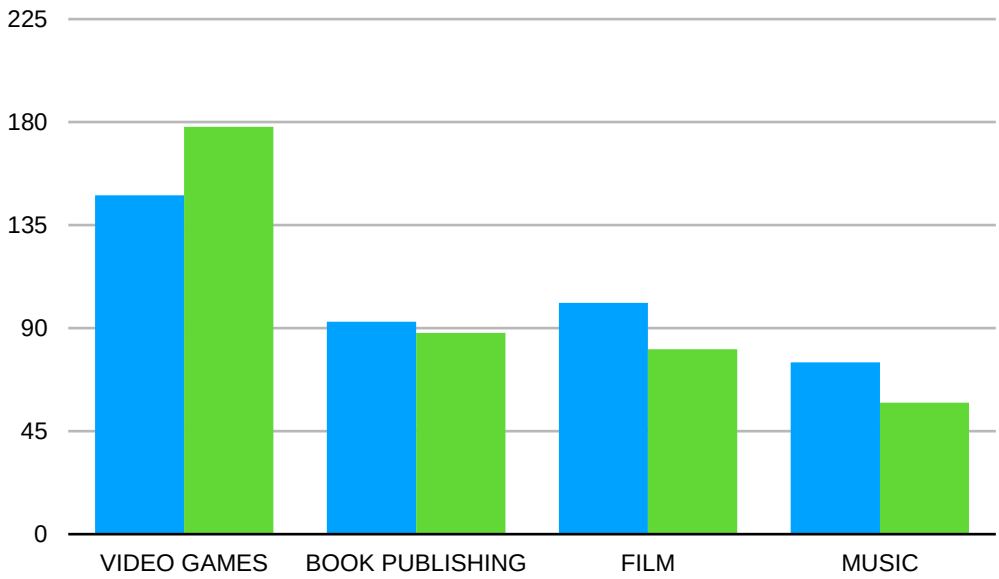
Extraordinary growth has thus been achieved in a relatively short period, for an industry that was on the verge of collapse in the 1980s.[8] Video games have become the primary form of entertainment for many people (this is especially true for a younger generation of players where games have become the center of youth culture). The social and artistic relevance of video games has become just as influential as other forms of entertainment – if not more. Video game revenue exceeds that earned in the film,[9] book

[5] Professional or semi-professional competitions using video games. See Section 1.7.4.
[6] Newzoo, "2018 Newzoo Global Game Market Report".
[7] Shapiro, Eben, "Sony, Nintendo's Partner, Will Be A Rival, Too", *The New York Times*, June 1, 1996.
[8] It was close to collapse at that time for several reasons: (i) retailers sending back massive stock to companies (infamously due to the massive failure of the *E.T.* game for the Atari 2600), (ii) a market saturated with too many console systems, (iii) a high number of poorly made games, and (iv) unsold games sitting in stores and warehouses. The Strong Museum, *A History of Video Games in 64 Objects*, Dey St., 2018, p. 158. See also "Video Game History", *history.com,* June 10, 2019.
[9] Film industry figures can vary according to the definition of what is included as revenue. The most reliable numbers are probably those of the Motion Picture Association ("MPA"), based in the United States, which serves as an industry trade group. In 2020, the MPA formerly known as the Motion Picture Association of America ("MPAA") reported that the combined global theatrical and home/mobile market was $80.8 billion (excluding the pay television subscription market). This represents an 18% decrease from the record-breaking year of 2019, when worldwide revenue reached $101 billion, in turn an 8% increase over 2018 and the first time figures surpassed $100 billion. Not unexpectedly, global box office revenue dropped substantially (about 72%) as theaters were closed due to the COVID-19 pandemic. In 2020, global box office revenue accounted for $12 billion in comparison to $42.2 billion in 2019. In contrast, digital revenue increased to $69.8 billion in 2020 from $48.7 in 2019. The MPA figures on revenue included that of movie theaters; content viewed digitally or on a disc, both home-based and on mobile devices including electronic sell-through; video on demand and subscription streaming; and estimates of subscriptions to television and online video services. Revenue from film-related merchandise and pay-television subscription revenue was not included as part of the study. Motion Picture Association, "2020 Theme Report", motionpictures.org.; and Motion Picture Association, "2019 Theme Report", motionpictures.org.

publishing,[10] and music industries. Moreover, video game revenue far surpasses revenue generated by the major sports leagues from around the world. Video games are also growing in importance for other entertainment sectors, as they provide a major source of Intellectual Property ("IP") for motion pictures, licensing and television broadcasting (including esports). They even act as concert venues for musicians.

Not only have video games become the number one source of entertainment, but they also continue to play a growing role in other aspects of society, including social interaction, education, health, science and the military.

Revenue Earned In 2019 (Blue) And 2020 (Green) For The Video Game, Book Publishing, Film And Music Industries



Comparing 2019 and 2020 revenue among the various forms of entertainment provides perspective on the size of the video game industry and why many now consider it the number one form of entertainment. Prior to the COVID-19 pandemic, revenues were increasing across the entertainment and sports industries, primarily driven by accessibility to content, higher ticket prices, streaming, expanded broadcasting rights and merchandising. But 2020 saw an abrupt reversal of fortune for the traditional entertainment and sports industries. The film, sports (professional and collegiate) and music industries saw their revenue drop considerably due to cancellations of live

[10] The Book Publishers Global Market Report 2021 noted that the global book publishers' market was $87.92 billion in 2020, a decrease from the $92.8 revenue generated in 2019. The report indicated that the industry is expected to reach $92.68 billion in 2021. "Global Book Publishers Market Report (2021 to 2030) – COVID-19 Impact and Recovery-Research", *businesswire.com*, April 13, 2021. See also "Book Publishers Industry to Decline from $92.8 Billion in 2019 to $85.9 Billion in 2020 – Trends & Implications of COVID-19", *prnewswire.com*, May 27, 2020.

events[11] and of film and television productions.[12] As a result, the revenue gap between the video game industry on the one hand and the film, sports and music industries on the other grew wider.

The film industry had its most successful year in 2019, reaching $101 billion in worldwide revenue: in 2020 this figure dropped to $80.8 billion primarily caused by the closure of theaters which saw a 72% decrease in revenue. The music industry generated approximately US$57.5 billion in worldwide revenue in 2020 down by about 25% from the previous year.[13] Revenues of the National Football League, the most successful sports league in the United States, reached $16 billion in 2019 and dropped to a little more than $12 billion in 2020.[14] The English Premier League, the most

[11] How important are live sports events for the overall revenue stream for the leagues? For the major sports leagues based in the US, stadium revenue according to Forbes in 2020 accounted for close to 40% of the league's revenue with the numbers being substantially higher for the professional hockey league (the NHL was at 70%). Birnbaum, Justin, "Major Sports Leagues Lost Jaw-Dropping Amount of Money in 2020", *forbes.com*, March 6, 2021. See also Kochkodin, Brandon, "U.S. Pro Sports Prove Big Enough to Handle $13 Billion Sales Hit", *bloomberg.com*, November 5, 2020. Of course these numbers can fluctuate especially with broadcasting fees increasing as traditional and online broadcasters compete for content.

[12] The video game industry suffered less economic impact in comparison, primarily due to its remote development; growth of digital distribution (which was also true for the other sectors); and the small financial role played by live events, these latter being critical to the sports, music and film industries. But at the same time, the industry was still impacted from component shortages for new consoles (manufacturers have lowered their production numbers for their 2021 fiscal year) to graphic cards to delays with the release of games (this will probably have a greater affect on 2021-22 revenues)This is especially true with AAA titles because of problems including coordination of development and manufacturing, certification from the platform holders and production and shipping issues for retail products. The effects of the pandemic on the film industry appear to have been more severe: when filming did eventually move forward following production suspension, production companies had to comply with several on-set restrictions that increased costs and filming time. Video game development was affected to some degree, but its developers, artists, coders, and even musicians and voice-over artists can work separately, whereas film production relies on people being physically together on set to make the product. Because of pandemic restrictions, theaters closed or severely limited the number of theatergoers, thereby reducing a significant stream of revenue. Consequently, the film industry may need a bit of time before it catches up to its 2019 figures. There are also concerns that many theaters could close permanently. See Aswad, Jem, "Music Revenue to Drop 25% in 2020, but Long-Term Outlook is Good: Goldman-Sachs", *variety.com*, May 20, 2020.

[13] Wang, Amy X., "Goldman Sachs Expects Global Music Revenue to Drop 25% This Year", *rollingstone.com*, May 15, 2020. While music streaming led by Spotify and Apple Music has driven recorded revenues higher (similar to video games whereby an abundance of content is easily accessible on a mobile device), the industry suffered from a lack of live events which to date has made up a major source of overall revenue. The 2020 estimated numbers mentioned were provided by Goldman Sachs Music in Air Report 2021, and cover revenue generated from recorded music, publishing, and live events. Goldman Sachs, "The Music in Air Report 2021", *goldmansachs.com.* See also Ingham, Tim, "Goldman Sachs: Universal is Worth Over $50BN, and Global Music Streaming Revenues will Rise $3BN this Year", *musicbusinessworldwide.com*, April 29, 2021.

[14] In many countries revenue from video games will exceed revenue earned by sports leagues. In the United States fo example, according to NPD, an analytics company, video game software sales in the United States reportedly grew to a record $49.9 billion (overall spending was $56.9 billion) in 2020 from $35 billion in 2019. Entertainment Software Association, "U.S. Video Game Content Generated $35.4 Billion in Revenue for 2019", *theesa.com*, January 23, 2020. In comparison, looking at the major sports leagues in the United States, The NFL earned $16 billion in 2019 dropping to about $12 billion in 2020. NBC Sports, "NFL Revenue Drops From $16 Billion in 2019 to $12 billion in 2020", *nbcsports.com,* March 11, 2021. Major League Baseball earned $10.7 billion in 2019 and about $4 billion in 2020. Young, Jabari, "Major League Baseball revenue for 2019 season hits a record $10.7 billion", *cnbc.com,* December 22, 2019; and Ozanian, Mike, "MLB Teams Lost $1 Billion In 2020 on $2.5 Billion Profit Swing", *forbes.com*, December 22, 2020. The National Hockey League consisting of teams throughout North America earned $5.09 billion based on the 2018-19 season and sliding to about $4.4 billion in 2020. Gough, Christina, "National Hockey League – total league revenue from 2005/06 to 2019/20", *statista.com*, February 2, 2021; and Birnbaum, Justin, "Major Sports Leagues Lost Jaw-Dropping Amount of Money in 2020", *forbes.com*, March 6, 2021. "The NBA earned -$8.76 billion based on the 2018-2019 season but dipped to around $8.3 billion for the 2019-2020 season", *statista.com*; and Wojnarowski, Adrian & Lowe, Zach, "NBA revenue for 2019-20 season dropped 10% to $8.3 billion, sources say", *espn.com,* October 28, 2020. Although revenue will vary by source, for a list of sports leagues revenue as compiled by Wikipedia, see "List of professional sports leagues by revenue" available at *https://en.wikipedia.org/wiki/List_of_professional_sports_leagues_by_revenue.*

significant football (soccer) league in England, generated approximately $7.1 billion in revenue in 2018-2019 and approximately $5.9 billion in 2019-2020.[15]

Not only is revenue in the video game space exceeding that of sports leagues, but it also drawing television audiences from esports events that are either exceeding those of some of the major sports leagues or close behind. According to the technology consulting firm Activate, more than 250 million people watch esports. Activate forecasts that, with the exception of the NFL, more people will watch esports than those who watch American professional baseball, basketball, hockey, and soccer.[16]

Several major video game titles have budgets comparable to Hollywood movies. And while the two industries have many similarities, the differences of the video game industry have enabled it to grow – especially during the pandemic – in more ways than the film industry and other entertainment media. One difference is that video games can be continually updated for many years with new content, thereby avoiding the costly and unpredictable outcome of sequels. A second is that video games can be relatively easily distributed on certain platforms throughout the world, while films still rely on theatrical releases as a major source for revenue and publicity. A third is that there are fewer challenges in making video games compared to films. Indeed, although AAA video game titles may take years to develop and involve issues similar to those associated with film production, many games –especially lower-budget mobile games – do not involve nearly as many obstacles, making them easier to produce and distribute.[17] Finally, another difference that contributes to the success of video games is the ongoing engagement of consumers, i.e., their active involvement in playing against each other in games such as *Fortnite* or in watching and commenting on games either as part of an esports tournament or on video game live-streaming platforms such as Twitch and YouTube or even creating content. This engagement leads to tremendous daily publicity and connection between developers, streamers and fans.

One similarity between the video game and film industry is their reliance on major franchises. A relatively small number of top franchises make up a significant portion of revenue in the various sectors (e.g., console and mobile). For many AAA publishers, their major franchises account for a considerable portion of their income and a disproportionate share of their profits.[18]

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[15] Garner-Purkis, Zak, “Don’t Be Fooled by the Premier League’s $1 Billion Predicted Revenue Drop”, *forbes.com*, June 11, 2020; and Lange, David, “Premier League Football Clubs Revenue in England (UK) from 2014/15 to 2020/21 by Revenue Stream”, *statista.com*, September 28, 2020.

[16] “Activate Technology & Media Outlook 2020”, *slideshare.net*, October 22, 2019. A major reason for professional sports interest in esports is the hope to attract the relatively young demographic groups who make up their fan base. Many potential young sports fans may now spend their time playing video games instead of watching and playing sports which clearly concerns sports leagues trying to build their base. One of the issues with esports attaining a mainstream television audience is that the viewer may not understand how the game is played, especially with all the nuances that make games unique.

[17] Most films involve very time-consuming procedures: acquiring a property or creating an original work, financing, hiring talent, and dealing with multiple unions covering the various stages of production.

[18] The top 10 gaming franchises in the US in 2020 were all established prior to 2020, illustrating how difficult it can be to crack the top-ten market. See Activision Blizzard, ‘‘2020 Annual Report’, *investor.activision.com*. Examples of the significance of major franchises owned by AAA publishers include the *FIFA* franchise, which represented approximately 12% of Electronic Art’s net revenue in their fiscal year 2020. Electronic Arts, “2019 EA Annual Report”, *ir.ea.com. Call of Duty*, *Candy Crush*, and *World of Warcraft* collectively accounted for 76% of Activision Blizzard’s consolidated net revenues in 2020. Activision Blizzard, ‘‘2020 Annual Report’, *investor.activision.com*. Similarly, for Take-Two, *Grand Theft Auto* products provided 29.26% of the company’s net revenue for the fiscal year ending in March 2021. Take -Two Interactive, “Take-Two Interactive 2021 Annual Report”, *ir.take2games.com*.

1.2 – Demographics

In addition to the impressive economic numbers, the number of people playing video games and the changing demographics over the years also illustrate the growing popularity of games throughout the world, regardless of age and gender. According to a 2021 Newzoo report, approximately 3 billion people throughout the world play video games with the Asia-Pacific market making up 55% of the world's players followed by the Middle East and Africa (Newzoo lists this as one region), Europe, Latin America and North America. Despite, North America representing 7% of the worldwide market, the United States was second in revenue earned with Canada ranked eighth.[19]

Not too long ago, the market was dominated by young males,[20] but today games are played by both men and women of all ages. Women gamers are narrowing the gap with men in numbers of players, as they now make up close to 46%,[21] although men still spend more time playing games.[22] According to a game's genre, platform and country, it can happen that more women than men play certain games. In Japan, for example, two out of three gamers are female.[23]

Today, the average age of a gamer is approximately 34[24] but varies slightly by country. The age group is very broad, as the range can include, for example, a 5-year-old playing a simple game which one author cannot figure out on an i-Pad, a teenager playing with friends, a 45-year-old who grew up playing games in the 1990s and 2000s and who continues to play, and even a 70-year-old who plays a card game on a mobile device for 10 minutes at a time. Still, the most important age category is 18-35. They spend the most time playing and spend the most money on games; which can also include spending above and beyond their own consumption and on behalf of their children or family members under 18.

This change in demographics over the years, which led to gaming being played by all ages, has been driven by the easy access to games (i.e., mobile devices and web portal games such as *Roblox*). Another factor is the incredible variety of games at various price points, from easy-to-play mobile hyper-casual games that are highly advertised, to elaborate multi-million-dollar console games.

There are a wide variety of video game genres as well. Stories and settings can be just as varied as movies: sci-fi, action, western, comedy, historical or romantic. Even within a genre, there can be variety from one title to the next. Some examples are "first-person shooters", where shooting is done from a "point-of-view" perspective; "role-playing", known as "RPG", in which the player takes on the role of a character; "casual" or "social," in which the objective of the game is to interact with friends; sports games, in which the end-user controls the athletes and teams; and battle royale games, which are basically

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[19] Newzoo, "2021 Global Games Market Report: The VR & Metaverse Edition", *newzoo.com*; and Wijman, Tom, "The World's 2.7 Billion Gamers Will Spend $159.3 Billion on Games in 2020; The Market Will Surpass $200 Billion by 2023", *newzoo.com*, May 8,2020.

[20] In 1995, there were reportedly 30 million gamers, and half were 18 or younger. Elrich, David J., "ROAD TEST; 32-Bit Video Games: Newest Kid on the Block", *nytimes.com*, September 14, 1995.

[21] The number was based on 33 markets and was a representative sample of the online population aged 10-65/10-50. Newzoo, "Consumer Insights-Games & Esports", *newzoo.com*.

[22] "Marketing To Gamers: What To Know About The Ever-Expanding Market", *insights.digitalmediasolutions.com*, June 22, 2020.

[23] *Ibid*.

[24] "2021 Gaming Industry Statistics, Trends, Data", *gamingscan.com*, June 2021.

a last-man-standing multiplayer experience. The design of a game is as varied as the ideas the developer can come up with.

Quite simply, a great percentage of the world's population can play any type of game at any time, anywhere in the world, and thanks to this the number of gamers continues to grow. Furthermore, developers have recognized that games can focus on any age category, gender and skill level and still be profitable.

1.3 – Geographic Breakdown

1.3.1 – The Major Revenue-Generating Countries

Historically, the gaming market has been dominated by the United States, Japan and Europe, in terms of both consumer spending and game development. All the major console devices have been developed either in Japan or the United States, and the major publishers have also been from those countries, with a few based in Europe. But that picture has changed dramatically within the last few years, with mobile devices and digital distribution having now made video games easily accessible, especially in countries where gaming had a smaller presence. According to Newzoo estimates, 92 million new gamers entered the market, mostly as mobile gamers, in 2020.[25]

Nowhere have changes in the industry been more evident than in China. One of the significant reasons for the incredible growth in the industry has been the emergence of new markets led by that country. With its growing economy, billion-plus population, and access to smartphones, China has become one of the biggest players in the industry, not only from a consumer and revenue standpoint, but also for its growing role in publishing, distribution, esports, software development and manufacturing of hardware such as consoles and smartphones. China is now the largest market in the world with gamers and generates the most revenue.[26] It is also home to some of the biggest publishers in the world, such as Tencent and NetEase, which continue to expand their presence on a global scale.[27]

At the same time while the Chinese market offers the possibility of incredible economic benefits for publishers and developers, China is a cautionary tale, as regulations imposed by the government can be unpredictable and present challenging and significant obstacles for publishers. Some of these obstacles include:

1. For a game to be distributed in China, it must be approved by the government and receive a publishing license (ISBN).[28]

[25] Newzoo, "2020 Global Games Market Report", *newzoo.com*.
[26] Newzoo, "2021 Global Games Market Report: The VR & Metaverse Edition", *newzoo.com*.
[27] In the last few years, Chinese companies have expanded their game distribution into new countries and, led by Tencent, have also been investing in established companies. Tencent is the largest game company in the world; they purchased Riot Games and have acquired varying interests in Supercell (Finland), Epic Games (US), Glu Mobile (US), Funcom (Norway), Bohemia Interactive (Czech Republic), Bluehole (South Korea), Marvelous (Japan), Grinding Gear (New Zealand), Activision Blizzard (US), Ubisoft (France), and Paradox Interactive (Sweden). Frater, Patrick, "Tencent Accelerates Games Company Acquisitions", *variety.com*, June 3, 2020.
[28] Over the last few years, the Chinese government has approved fewer games and it is even harder to get approval for international games which must be localized into Chinese. At the end of December 2020, Apple

2. In order to distribute a game in China, a publisher or a developer must work with a Chinese based company.
3. At the time of writing, platforms such as Google Play and Twitch are prohibited.
4. New releases are at times prohibited.[29]
5. Games from certain countries have been denied access to the Chinese market.[30]
6. Severe limitations on the amount of time minors can play games known as "anti-fatigue rules".[31]
7. Content regulations covering a number of areas that can be unpredictable.[32]

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removed 39,000 games from their app store for failing to comply with China's licensing requirements. Li, Pei, "Apple Removes 39,000 game apps from China store to meet deadline", *reuters.com*, December 31, 2020. Epic Games in November 2021 announced that after two years of beta testing *Fortnite* in China, they would stop pursuing distributing the game in China after it failed to obtain regulatory approval. and were prohibited from introducing microtransactions. Kain, Erik "Fortnite is Calling it Quits in China", *forbes.com*, November 2, 2021. It appeared that the economics probably didn't work with a prohibition on microtransactions and the limitations imposed on minors that significantly reduced the amount of hours they could play games.

[29] In 2018, the government suspended license approval for new games for both Chinese and foreign games for nine months. This decision reportedly cost the industry billions of dollars, including losses of $1.5 billion by Tencent. Liao, Shannon, "Apple blames revenue loss on China censoring video games", *theverge.com*, January 29, 2019.

[30] Although no official notice was released, China effectively imposed a blanket ban on new games from South Korea from March 2017 to February 2020, but since then seven games have received ISBN numbers as of July 2021. Jung-a, Song, "China Approves First Sale of Korean Video Game in Four Years", *ft.com*, December 3, 2020; and Takahashi, Dean, "China is approving more foreign games, but not so many American ones", *venturebeat.com*, February 18, 2020.

[31] The Chinese government has introduced a series of regulations over the years restricting the amount of time children under the age of 18 can play video games. The government has enacted these measures claiming to protect the physical and mental health of minors by preventing game addition and myopia. Ni, Vincent, "China Cuts Amount of Time Minors Can Spend Playing Online Video Games", *theguardian.com*, August 30, 2021. For some of the previous restrictions involving minors and gameplay see the following source for a list of the current National Press and Publication Administration anti-fatigue rules in China: Pilarowski, Greg et al., "Legal Primer: Regulation of China's Digital Game Industry", *pillarlegalpc.com*, January 6, 2021. In August 2021, China's National Press and Public Administration (NPPA) issued what at the time of writing is its most restrictive measure, which includes lowering the number of hours a minor can play online games from 13.5 to 3 hours per week, and only from 8 to 9 p.m. on Fridays, Saturdays, Sundays and other legal holidays. Pilarowski, Greg, Yu, Charles, and Ziwei, Zhu, "China Limits Minor Online Game Time to Three Hours Per Week", *pillarlegalpc.com,* September 14, 2021. Shortly thereafter, the government announced that live streaming services including those involving games would be prohibited from allowing anyone under 16 from registering to stream online. Sinclair, Brendan, "China Bans Livestreaming by Children Under 16", *gameindustrybiz.com*, September 27, 2021. South Korea also imposed laws limiting players under 16 from playing games from midnight to 6:00 a.m. According to the government, the law known as the Shutdown Law, and enacted in 2011, was aimed at preventing game addiction. At the time of writing, the law was in the process of being revoked. Im Eun-byel, "Korea to ax games curfew", *koreaherald.com*, August 25, 2021; and Bahk Eu-ji, "Korea to Lift Game Curfew for Chlldren", *koreatimes.co.kr*., August 25, 2021.
Both Tencent and NetEase introduced various limitation practices, including time limits on certain games, gamer ID checks and facial recognition to confirm a player's age to deal with myopia and game addiction. Handrahan, Matthew, "NetEase to impose restrictions on young gamers in China", *gamesIndustry.biz*, January 25, 2019; and Valentine, Rebekah, "Tencent adds 'digital lock' to certain games in China", *gamesindustry.biz*, March 1, 2019. Also, in 2021, more Chinese companies agreed to consider using facial recognition to help enforce governmental time limitations on minors. Batchelor, James, "Over 200 Chinese Games Firms Reportedly Vow to Self-regulate in Face of New Restrictions", *gameindustry.biz.*, September 24, 2021. Computer cafes, which are used by a significant portion of the gaming community in China, now require IDs to verify that customers are age 18 or older.

[32] While most countries have some form of restrictions or warnings on content (imposed by the government or by industry self-regulatory bodies), China imposes some of the most restrictive limitations involving violence, political content, distortion of history and sexual relationships. Some of the regulations are vague, difficult to predict what may be allowed, and are constantly changing. In addition China appears to be heading towards additional content restrictions involving history, religion, and character gender, to name a few. Rousseau, Jeffrey, "Chinese Government Tightens Video Game Restrictions", *gameindustry.biz*, September 30, 2021. For a list of content regulations in China see Pilarowski, Greg et al., "Legal Primer: Regulation of

8. Prohibitions on game consoles have previously existed.[33]
9. Enforcing intellectual property rights can be challenging.
10. Some of the broadest rules involving data privacy.[34]

The United States, as the home to some of the biggest publishers, has always been the biggest market and has consistently generated the highest revenues over the years until smartphone presence became widespread in China.

Behind the United States and China is Japan, which is home to Sony, Nintendo and several major publishers such as Bandai Namco, Sega, Square Enix, Capcom and Konami. The remaining top revenue-generating countries are South Korea, which has been a leader in esports and technology as well as home to major publishers such as NCSoft and Netmarble, followed by the United Kingdom, Germany and France.[35]

1.3.2 – Regional Markets

The Asia-Pacific market, led by China, Japan and South Korea, is the largest regional market in terms of revenue. According to Newzoo, this market is projected to generate $88.2 billion in 2021, accounting for slightly over 50 % of the global market.[36] This market also includes India with its population of over 1.3 billion and the world's second-largest smartphone market.[37] even though only about 32% of the population in 2021 owns a smartphone which is by far the lowest of the top 20 countries by users.[38] However, according to the mobile research company data.ai formerly known as App Annie, India is the world's biggest mobile game market by downloads,[39] making it potentially the next big market. North America is the second-biggest market, followed by Europe.[40] Latin America is a distant fourth but continues to grow as its bandwidth

China's Digital Game Industry", *pillarlegalpc.com*, January 6, 2021. See also Pilarowski, Greg et al., "China's New Game Approval Requirements", *pillarlegalpc.com*, May 17, 2019. Some commentators have noted that a country may prohibit a game in their territory if the government considers the game to include unfavorable content, no matter where the game is distributed. Therefore, a game can meet a country's regulations and still be prohibited because of violent or political, etc., content in the versions of the game distributed outside that country. See Fahey, Rob, "Gaming will be a frontline in China's censorship drive | Opinion", *gamesindustry.biz*, October 9, 2020.

[33] China legally permitted distribution of PlayStation and Xbox in the country only in 2015. D'Orazio, Dante, "China officially ends ban on video game consoles", *theverge.com*, July 25, 2015. It was the ban on consoles and software piracy issues that led to the growth of online gaming in China.

[34] China implemented in November, 2021, a new privacy law known as the Personal Information Protection Law (PIPL) to some degree modeled after Europe's GDPR but more challenging for gaming companies because many of the restrictions are very vague and difficult to determine at this time what might fall within the law. The law limits both Chinese and foreign companies from collecting consumer information without their consent; from storing more personal data than necessary; and restricts Chinese nationals' personal data out of the country. Dou, Eva, "In China, escalating cost of business sends some companies to the exits", *washingtonpost.com*. November 25, 2021. See also Creemers, Rogier and Webster, Graham, "Translation: Personal Information Protection Law of the People's Republic of China-Effective November 1, 2021", *digichina.stanford.edu*, August 20, 2021, revised September 7, 2021.

[35] Ranking of top ten countries by estimated video game revenue for 2020. "Top 10 Countries/Markets by Game Revenue", *newzoo.com.* See also: "Top 100 Countries by Game Revenues", *knoema.com*, August 13, 2019.

[36] Newzoo, "2021 Global Games Market Report: The VR & Metaverse Edition", *newzoo.com.*

[37] Singh, Bhupinder, "Top 20 Countries with Most Smartphone Users in the World", *indiatimes.com*, July 20, 2021. Historically, India has not been a major market, possibly due to a hesitant role out of consoles and the cost of hardware which may have been out of reach for most of the population.

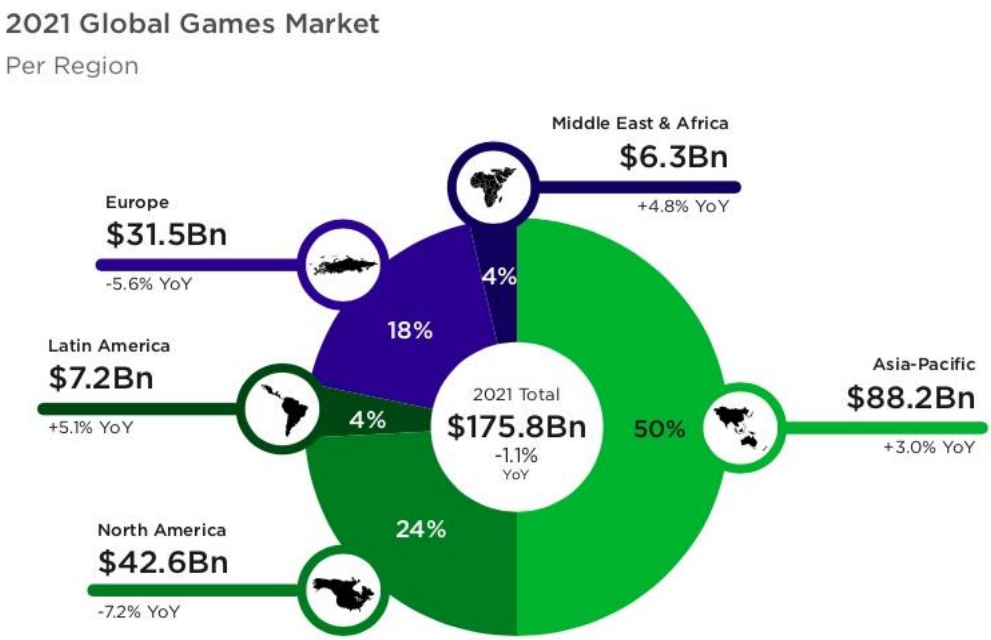
[38] Newzoo, "2021 Global Games Market Report: The VR & Metaverse Edition", *newzoo.com*.

[39] App Annie "2021 Mobile Gaming Tear Down", *appannie.com.*

[40] See 2019 European Video Games Industry Insight Report written by the European Games Developer Federation (EGDF) and the Interactive Software Federation of Europe (ISFE) available at

capacity improves and gaming population increases. Mexico, Brazil, Argentina, Chile and Colombia are the leaders in revenue there and are home to growing development communities. Africa and the Middle East are the smallest market but also shows potential for growth.[41]

Regional Revenue Distribution[42]



1.4 – Current State Of The Video Game Industry: The Players

The continuing growth of the video game industry has been fueled by new forms of distribution, business models, technology and easy access to devices that can play games and can connect people across the globe, thereby creating a unique social platform. This growth includes an assortment of different players such as consumers, independent developers, publishers, regulators, streamers and ancillary industries. As a result, the industry is constantly evolving and is quite complicated: it requires some

http://www.egdf.eu/wp-content/uploads/2021/08/EGDF_report2021.pdf. For additional information on the state of the industry in individual European countries see *http://www.egdf.eu/category/data-studies/egdf-members/*. Many of the reports discuss either a specific issue within a country (e.g., esports, VR), or provide an overall picture of the industry within the country, and may cover such issues as the state of the development community, games originating from that country, legislation, and investment and educational opportunities. The reports are either in the native language or English and most are updated annually.

[41] Newzoo, "2021 Global Games Market Report: The VR & Metaverse Edition", *newzoo.com*. See also "Newzoo Global Games Market Report 2019" on the same website for a more detailed analysis of regional revenue from 2019.

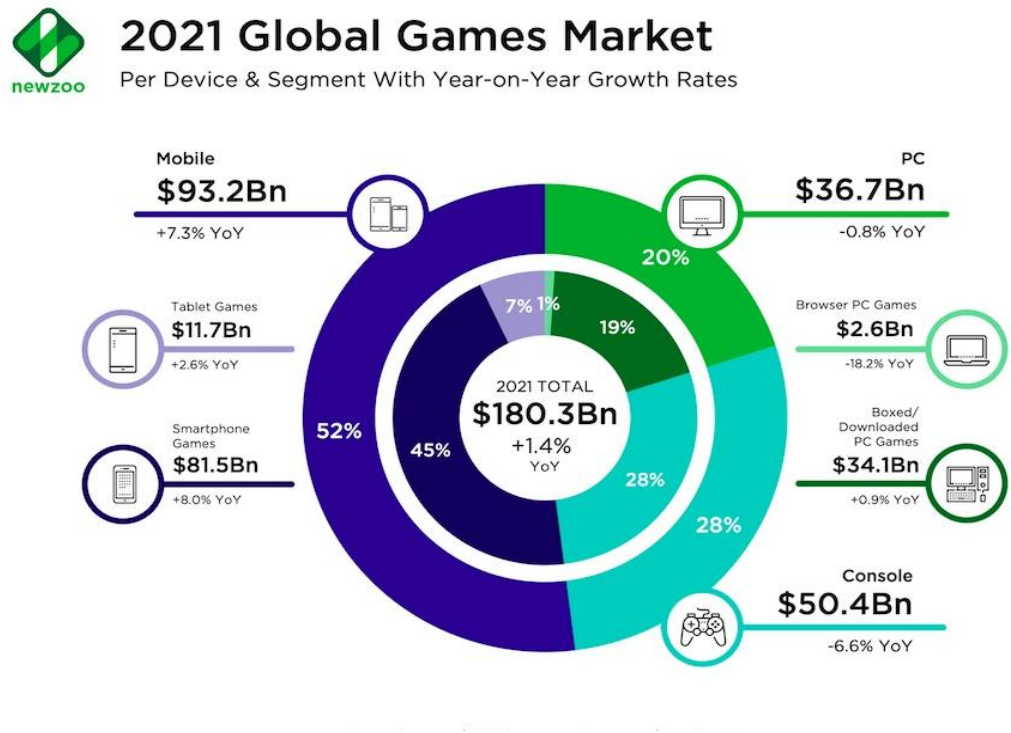
[42] Chart based on 2021 projections. *Ibi*d.

explanation to be fully understood. This section will provide a general overview of the industry by outlining the current platforms, distribution channels, major companies, areas of growth and some of the major new challenges.

1.4.1 – Game Distribution: The Platforms

Not too long ago, the video game market was dominated by the major console manufacturers. Sony, Nintendo and Microsoft were the gatekeepers of the industry at a time when personal computer (PC) gaming had lost much of its significance and mobile and digital platforms had yet to make their mark.

2021 Estimates by Newzoo



© Newzoo

Fast forward, and the industry is now dominated by mobile devices such as smartphones and tablets (with an 80-20% split). These make up over 50% of the global market and are projected to reach approximately 52% in 2021.[43]

Mobile has become the number one platform thanks to easy access to devices and games, various price points including free-to-play and improved quality. Furthermore, increasingly powerful mobile devices are covering all types of genres. The console platform still plays a significant role in some countries, but not as much in markets dominated by mobile. Nevertheless, consoles sales and distribution of games associated with that platform, whether retail or digital, generated the second-highest

[43] *Ibid*.

revenue. In fact, revenue from console sales is expected to grow as a result of the relatively recent releases of new consoles by Sony and Microsoft, and the continuing strong sales of Switch. Despite chip shortages and delays in the distribution chain due to the COVID-19 pandemic, sales numbers, although less than what had been forecasted, have been relatively strong for the consoles.[44]

At the same time, the PC platform has bounced back in recent years to likewise play a prominent role, thanks to digital distributors such as Steam, publisher-developer digital platforms and the emergence of Epic's Game Store. For many people, PC has also become the preferred platform to stream, participate in stream sessions, make and post video content about games, and play dedicated in-browser games.

Video games can be divided into three distinct platforms: console, PC and mobile. Console games run on dedicated hardware that connect to a television (e.g., Microsoft Xbox One Series). PC games run on general-purpose personal computers (with Windows being the most common operating system), and mobile games run on various types of mobile devices including smartphones and tablets.[45]

THREE PLATFORMS OF VIDEOGAMES		
CONSOLE	PC (PERSONAL COMPUTER)	MOBILE/CASUAL
• Run on dedicated hardware • Expensive to develop • Wide variety of genres • System controlled by IP owners • Box product and digital	• Run on Windows, Mac or Linux • Wide variety in price and genre • No single gatekeeper for platform • Most sales through digital	• Run on tablets and phones • Least expensive to develop, but development costs increasing and difficult to retain players • All genres, but social and casual games play a big role • Largest number of gamers

1.4.2 – Console Manufacturers And Various Platforms

The so-called traditional video game market made up of consoles and PC gaming still plays a crucial role in the industry but, as a result of mobile's increasing popularity, no longer plays the dominant role it once did. Console-related revenue, which includes retail and digital sales, is projected to generate a bit more than $50 billion in 2021, a decrease of about 9% from 2020.[46]

[44] As of October 2021, Sony had sold over 13.4 million PlayStation 5 units. Purslow, Matt, "Sony Has Now Sold 13.4 Million PlayStation 5 Consoles" *gamesindustry.biz*, October 28, 2021.
[45] For Cloud Gaming see Section 1.5.3.
[46] Newzoo, "2021 Global Games Market Report: The VR & Metaverse Edition", *newzoo.com*.

Console hardware entered its ninth generation with the release of PlayStation 5 and Xbox Series X and Series S in November 2020. While both are reported to have broken records for units sold at their initial launches,[47] previous consoles (e.g., PlayStation 4) will still play an important role for the next few years as developers continue to produce games for those platforms, taking advantage of their huge installed base and the shortage of available new consoles because of manufacturing problems (i.e., chip shortages) brought about by the COVID-19 pandemic.

PlayStation 4 was released in the United States in November 2013. It had sold over 116 million units worldwide as of July 2021 and became the second-best-selling PlayStation behind PlayStation 2 while selling the most games for any console.[48] Nintendo Switch, which can be used as either a console or portable device, released in March 2017, has sold a bit more than 89 million units as of June 2021[49] and enjoyed the highest number of first-year sales of all other consoles.[50] Microsoft comes in a distant third with Xbox One, released in November of 2013 in the United States. It had sold about 50 million units as of January 2021.[51] In addition, each platform provides various subscription services at different price points for purchasing downloadable games, additional content, game demos, multiplayer gaming and cloud storage.

The popularity of each console varies greatly by geographic market, although the United States is the leader in sales of each console, as well as in sales for software. This can be clearly seen by the fact that almost 70% of Xbox One sales occur in the United States, while at the same time its sales are almost non-existent in Japan, which is the number two country in sales for PlayStation 4 and Nintendo Switch.[52]

The dominance of premium console game sales in North America and Europe is further illustrated by a SuperData report that projected sales of such games in those regions would represent 87% of the worldwide market in 2020 ($8 billion and $4.7 billion respectively).[53] In contrast, Asia was projected to account for only $60 million, which reflects the region's reliance on mobile devices and digital sales,[54] the lack of Xbox's presence in Japan, and China's previous ban on consoles.

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[47] Deakin, Daniel R., "PlayStation 5 sales vs Xbox Series X and S: Estimated figures give PS5 the win but Microsoft's consoles and the Nintendo Switch are in great demand", *notebookcheck.net*, November 27, 2020.
[48] Vailshery, Lionel Sujay, "Cumulative Unit Sales of Sony PlayStation 4 Consoles Worldwide from August 2014 to November 2021", *statista.com*, September 29, 2021. More than 1.5 billion PlayStation 4 games have been sold as of April 2021. Croft, Liam, "PS4 Has Sold More Games Than Any Other Console in History", *pushsquare.com*, April 28, 2021.
[49] Craddock, Ryan, "Switch Console Sales Hit 89 Million, Has Now Outsold PS3 and Xbox 360", *nintendolife.com,* August 5, 2021. While considered a console in the traditional sense, Switch can also serve as a portable device and does not have to be hooked up to a television to play.
[50] Batchelor, James, "Nintendo Switch Breaks Records for First-Year US Sales", *gamesindustry.biz*, March 21, 2018. Until September 2021, Nintendo Switch was the best-selling console in the United States for 33 consecutive months. Craddock, Ryan, "For the First Time in 33 months, Switch Wasn't the US' Best-Selling Console in September", *nintendolife.com*, October 18, 2021.
[51] William D'Angelo, Switch vs PS4 vs Xbox One Global lifetime Sales-January 2021-Sales", *vgchartz.com,* March 1, 2021.
[52] Haigh, Marilyn "Why Japanese Gamers Don't Buy Xbox", *cnbc.com,* October 8, 2019.
[53] Super Data, "2019 Year in Review: Digital Games and Interactive Media", available at *https://direc.ircg.ir/wp-content/uploads/2020/01/SuperData2019YearinReview.pdf*. In 2020, 44% of the €23.3 billion spent on gaming in Europe was from console related revenue with smartphones accounting for 40%. Partis, Danielle, "European Games Market Generated €23.3 Billion in 2020" *gameindustry.biz*, August 25, 2021. According to a 2021 report from the Consumer Technology Association, over 50% of American households own a game console. Partis, Danielle, "Over 50% of Households in the US Own a Game Console" *gameindustry.biz,* July 20, 2021.
[54] *Ibid*. Outside North America and Europe, mobile gaming generally made up the largest share of revenue.

1.4.3 – Mobile Gaming

The biggest change in gaming in the last several years has been the meteoric rise of mobile gaming. According to Newzoo, worldwide spending on mobile games reached $73.8 billion in 2020[55] primarily driven by in-app purchases[56] and is projected to reach $93.2 billion by the end of 2021.[57] With the advent of smartphones and Internet accessibility, gaming on mobile devices went from simplified games resembling the console games of the late 1980s to mobile games that have more similarities than differences with modern console and PC games. In an incredibly short period of time, mobile has become the leading platform in both number of gamers and revenue. Mobile now draws more revenue than consoles and PC combined. This has primarily been led by the growth of the Chinese market.[58]

The mobile market is split into two large camps. On one side is Apple's iOS, which runs on its iPhone and iPads and is a closed platform overseen by Apple. On the other is Google's Android OS, which runs on a large number of phones and tablets made by a variety of manufacturers, though led by Samsung. In 2021 gaming reached an estimated $41 billion in the Apple App Store, $28 billion in the Google Play Store and more than $21 billion in 3rd party app stores.[59]

And while Apple and Google dominate the mobile market, the next few years may see some new players, especially from China. With Google banned in China, several alternative third-party Android app stores have filled the void. These app stores are led by major entertainment, hardware and telecom companies (e.g., Tencent, Huawei, Xiaomi, Vivo and China Mobile) and have reportedly generated an estimated $8 billion in revenue in China.[60]

Mobile has become the most attractive platform for consumers because it provides easy access to games on mobile devices throughout the world and a large number of games covering all the various genres and price points. At the same time, it has become an attractive option for developers because of the relatively low costs of game development and the ease of distributing games throughout the world. This low cost has also enabled more development outside of the traditionally strong markets such as the United States and Japan. Mobile development studios and publishers can be found across the globe, from the traditional development hubs in Japan, the United States and Europe, to China, South Korea, Eastern Europe and Latin America.

A major obstacle for developers is that the ease of releasing an application makes for two real dangers: their application may be lost in the crowd, and their game may be

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[55] Newzoo, "Global Games Market Report 2020", *newzoo.com.*

[56] In-app purchases can involve a wide range of items (i.e., weapons, vehicles), cosmetic enhancements referred to as "skins" (i.e., in-game costumes), personalities/athletes, and even dance moves known as "emotes".

[57] Newzoo, "2021 Global Games Market Report: The VR & Metaverse Edition", *newzoo.com*.

[58] One of the main reasons mobile has been the platform of choice in China is that consoles were banned until 2015. Even following their introduction, it has been a very difficult market because of numerous regulations established by the government involving distribution and manufacturing issues.

[59] These estimates were provided by Newzoo which defines revenue to includes in-app purchases, subscriptions or paid installs for apps that are categorized as games by app stores. The revenue numbers exclude hardware sales, taxes, advertising revenues earned in and around games, business-to-business services and online gambling and betting. Newzoo, "2021 Global Games Market Report: The VR & Metaverse Edition", *newzoo.com*. But see, Iqbal, Mansoor, "App Revenue Data (2021)", *businessofapps.com*, August 4, 2021, updated November 2, 2021, where numbers seem to be skewed a little higher although revenue may have been defined differently.

[60] Iqbal, Mansoor, "App Revenue Data (2021)", *businessofapps.com*, August 4, 2021, updated November 2, 2021.

cloned. An additional obstacle is that the top 10 grossing applications have dominated the revenue stream for many years, as evidenced by the fact that those games still accounted for close to $10 billion and 15.8% of the market in 2019, and the top 30 games for almost 32%.[61]

While the number of smartphones may stabilize, there is continuing optimism that the mobile market will continue to grow. Some of the drivers behind the mobile market's potential growth are increased access to games including AAA titles (which will lead to more players), advancements in technology that will improve graphics and gameplaying methods (e.g., through augmented and virtual reality), cross-platform play and cloud computing (which will provide access to more advanced games), and the growth of esports.

1.5 – Distribution: Digital, Retail And Cloud

1.5.1 – Digital Distribution

The video game industry has grown substantially over the years, along with the introduction of new devices and new channels of distribution. For many years following the introduction of the first commercial console gaming system (Magnavox Odyssey) in 1972, retail sales were the only way to get games into consumers' hands. To play the games, consumers had to either purchase a console that included games or purchase specific software to play on each console device or personal computer.

Gaming entered a new era when digital distribution was introduced, making consoles and PCs as well as the purchase of retail software no longer a prerequisite to play games. Consumers can now download games on multiple devices, including mobile, PC, and console. And while they may face limitations from bandwidth capacity, devices and memory requirements to run those games, this is becoming less and less of a problem. The ease of access to games, led primarily by mobile and the appeal of a "free-to-play" business model, opened up gaming to billions of potential gamers. Free-to-play spending (an Orwellian oxymoron...) accounted for 78 % ($98.4 billion) of all digital game revenue in 2020, an increase of 9% from 2019.[62]

Digital sales, which include revenue generated by mobile sales and PC and console digital sales, generated approximately $127 billion in 2020 up from $109 billion in 2019.[63] This growth has been driven mainly by improvements in technology, greater access to devices and the Internet and growth in bandwidth capabilities, which have all provided many consumers a relatively easy way to access a huge assortment of games with the touch of a keyboard. Digital distribution has led to an unprecedented number of games being released by independent developers and publishers. Consumers can now access not only new games, but also catalog titles, as retail shelf space and inventory control are no longer barriers to sales.

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[61] Chapple, Craig, "The Mobile Games Market is Getting Bigger-and Not Just For the Top Ten", *gamesindustry.biz*, February 3, 2020.
[62] Valentine, Rebekah, "Digital Games Spending Reached $127 billion in 2020", *gamesindustry.biz*, January 6, 2021.
[63] *Ibid*; James Batchelor, "Record $120.1 Billion Earned by Games and Interactive Media in 2019", *gamesindustry.biz,* January 2, 2020.

In contrast to digital distribution growth, physical video game retailers are closing branches – perhaps a sign of the times – and a parallel can be drawn with video rental shops such as Blockbuster that could not keep up with the rising demand and popularity of online streaming services. Gamestop, for example, the largest video game retailer in the world, has closed over a thousand stores in the last few years[64] and ended operations in the Nordic countries.[65] The evolution and gradual shift of the distribution chain are also highlighted by hardware variations, such as the all-digital and disc-free versions of the Xbox One S. This trend can also be seen in the most recent releases of PlayStation 5 and Xbox One X Series as well as in the new ecosystems being built entirely around digital distribution and streaming such as Google Stadia and the Quest Store and Viveport for the Oculus Quest and HTC Vive VR Headsets respectively.

By far the dominant leader in PC digital distribution is Valve's Stream, launched in 2003. With over 1 billion registered accounts, over 120 million monthly active users including 62.6 million daily users, and as of February 2021, had more than 50,000 games available for distribution,[66] Steam has the largest user base of any digital distributor. To put this into perspective, if Steam was a country, it would be the 16th largest country by population.[67]

Other independent digital distributors exist, such as GOG's Galaxy and Humble Bundle, but one of the biggest challenges to Steam has been the relatively recent launch of the Epic Games Store. Epic Games, the publisher behind *Fortnite*, is a relative newcomer as a distributor in the digital space. It has achieved remarkable success in generating revenue and building up a fan base since its launch in December 2018, but profitability may still be years away, illustrating the costs and resources needed to challenge Steam's success.[68] In 2020, players spent more than $700 million in the Epic Games Store, and while *Fortnite* accounted for most of that revenue, $265 million was spent on third-party games.[69] The Epic Games Store had more than 180 million active accounts and more than 50 million active users as of September 2021, despite lacking a number of the features Valve had developed on Steam at that time.[70] Backed by an aggressive business model to attract developers and publishers, Epic Games has signed a number of exclusive deals with major publishers and also takes a fee of 12%, compared to the industry standard of 30% (this is also typically the same fee taken by console manufacturers).

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[64] Gray, Lauren, "This Legendary Chain is Closing Over 1,000 Stores by March", *bestlifeonline.com*, December 12, 2020.
[65] Valentine, Rebekah, "GameStop Winding Down Operations in Denmark, Finland, Norway, and Sweden", *gamesindustry.biz*, December 10, 2019.
[66] Brendan Sinclair, "Steam Saw 21% More Games Sold in 2020", *gameindustry.biz*, January 13, 2021; Bailey, Dustin, "Steam Just Reached 50,000 Total Games Listed", *pcgamesn.com*, February 12, 2021; Bolding, Jonathan, "Steam Just Broke Its Record Player Count by Nearly 300k", *pcgamer.com*, February 2, 2020; and Chalk, Andy "Steam Users Played for Nearly 21 Billion (Yes, Billion) Hours in 2019", *pcgamer.com*, February 5, 2020.
[67] "List of countries by population (United Nations)", *wikipedia.org*.
[68] Albergotti, Reed, Shannon, L., Klimentov, M., "Apple Takes Its Fight with Epic Games over the App Store to Court", *washingtonpost.com*, May 3, 2021.
[69] Yin-Poole, Wesley, "The Epic Games Store is Getting a Lot More Popular", *eurogamer.net.*, January 28, 2021.
[70] *Epic Games v. Apple Inc., 493 F. Supp. 3d 817 (N.D. Cal. 2020)* involving Epic's motion seeking a preliminary injunction against Apple asking the court to require Apple to reinstate *Fortnite* to the Apple App store, and to stop Apple from terminating its affiliates' access to developer tools for other applications.

Many AAA publishers also have digital stores that distribute primarily their own games. Some of these include EA's Origin,[71] Ubisoft's+ (formerly Uplay+), Bethesda Softwork's Launcher, and Activision Blizzard's Battle.net.

On the console side, digital distribution is handled by the console manufacturers. PlayStation, Switch, and Xbox have their own digital ecosystems, and many games are distributed exclusively through their online services.

1.5.2 – Retail

The success of the digital market has taken a huge bite out of the retail market, as more and more gamers purchase their games online. But retail still plays a role in many countries despite this trend, and revenue driven from retail sales is relevant.[72] As previously mentioned, there are several reasons why retail sales will remain viable for at least the next few years. These include limitations on bandwidth, payment options, amount of memory needed for downloadable games (although becoming less of an issue with cloud gaming) and the fact that some gamers still like having a physical disc (e.g., for special editions). However, retail will soon represent a significantly smaller percentage of the market.

For publishers, retail sales pose challenges. In addition to the costs regularly associated with retail sales (manufacturing, price protection, returns, shipping, co-op advertising, warehousing), the trend toward fewer retail stores makes for particular issues, such as intense competition for space and for promotional support, as well as greater dependence on a few major retailers, leading to possible uncertainty in the market and tougher contractual terms.

1.5.3 – Cloud Gaming

Companies are now looking to the next stage of distribution, and cloud gaming has the potential to expand the market even further by exposing more types of games to current and future gamers, without the need for any type of specific hardware or a physical copy of the game. Cloud gaming allows gamers to access games regardless of their device choices and without the latest hardware or upgrades, provided they have the required Internet connection whether wireless or cellular.[73] With cloud gaming, games will no longer need to be stored on hardware that, up to now, has provided the computing to run the games; instead, the games will be streamed from servers, known as "the cloud".

Cloud gaming eliminates the barriers imposed by hardware allowing consumers to play games they may not have been able to access previously, including AAA titles on simpler devices such as smartphones and tablets. In addition, cloud gaming may introduce more consumers to a greater selection of games, through subscription-based

[71] Even though EA has its own digital platform, after an eight-year absence it decided in 2020 to return to the Steam platform and offer new games. See Orland, Kyle, "So Long, Origin? EA Comes Back to Steam with New Games", *arstechnica.com,* October 29, 2019. EA seemed to recognize the incredible reach of Steam and acknowledge that the platform provides access to gamers who may have been reluctant to commit to EA's platform.

[72] Historically, the top retail games have represented a highly disproportionate percentage of retail sales. By way of example, according to the NPD Group in 2019, the top 10 titles represented almost 33% of retail sales in the US market. See Activision Blizzard, "2020 Annual Report", *investor.activision.com.*

[73] Playing games on the cloud involves several different business models, including monthly fees and free games driven by advertising.

streaming services similar to Netflix for films and Spotify for music.[74] The success of this type of service will depend on the service providers' access to quality games,[75] ease of use, cost and the amount of bandwidth required. Despite the obstacles in these areas, cloud gaming services for various platforms are backed by some of the biggest companies in the tech and gaming world, including Microsoft (Xbox Cloud Gaming), Google (Stadia), Sony (PlayStation Now), Tencent (Start), Amazon (Luna) and Facebook (Facebook Gaming).[76] In addition, cloud gaming requires significant infrastructure to succeed because it needs servers around the world. It was for this reason that previous cloud service distributors failed.[77]

The upside for publishers and developers is that cloud gaming provides an additional distribution channel that can reach a broader audience, exposing consumers to games they may not have tried in the past. This is especially true for the Asian market, which relies heavily on mobile devices, and the growing markets in Latin America, the Middle East and Africa, where hardware such as consoles and high-end PCs may be unaffordable or unavailable to many consumers. According to the market research firm Niko Partners, the number of cloud gamers in Asia will grow from 3 million in 2019 to 60 million in 2023 and as high as 500 million by 2028.[78] Cloud gaming may also enable publishers to entice casual gamers playing on mobile devices to new genres and more sophisticated games that could lead to more revenue. It may also expand development opportunities through greater processing power and multiplayer server hosting.

One of the main business issues for service providers and publishers will be the business models used with consumers and how publishers will earn money, especially when dealing with monthly subscription services. Up to now, some service providers have been offering various monthly subscription models that provide access to a library of games, along with additional benefits such as a limited number of free games. Others are offering a free service that may be ad-supported or limit user time, but they also offer purchase of individual games. Game subscription services are a relatively untapped market for the industry. At the time of writing, they represent less than a

[74] Sony (PlayStation Now), Microsoft (Xbox Cloud Gaming) and Google (Stadia) launched subscription-based streaming services offering a library of games. Apple (Apple Arcade), Google (Play Pass) and Microsoft (Project Cloud for Android devices) also introduced similar services for mobile devices.

[75] Success for any cloud gaming service will depend on the quality of the content available to consumers. Both Microsoft and Sony can build upon their exclusive content through their internal studios and third-party development deals to attract consumers, but they will still need content from the major publishers that distribute many of the most popular games. While publishers will most likely offer catalog games, the question of whether they will do the same for new AAA releases depends on how the publishers will be compensated if they were to participate in a Netflix-type service. Indeed, they do not want to undermine the premium prices they charge for original games. An advance and guarantee might justify a deal with a distributor, but perhaps only for games that are not necessarily AAA titles. Another compensation possibility would be for the publisher to offer a major title only a certain number of months after its release. Finally, a publisher could have a separate option to offer their titles on a platform for a separate fee. This would be similar to HBO, which charges a separate monthly fee as part of a television package.

[76] Still others include Nvidia's GeForce Now, NetEase and Vortex.

[77] Some commentators believe that cloud gaming in most countries may be years away from reaching its potential because of the infrastructure needed to build bandwidth. See "Cloud Gaming: From Niche Play to Killer App", *nikopartners.com*, October 28, 2019. OnLive was the most well-known company attempting to bring cloud gaming to the market in the 1990s, but it primarily failed because of bandwidth issues. One of the main reasons why bandwidth is so important is "latency," which is the time between the user's inputs and when they take effect. If the latency is delayed, it ruins the player's experience as the game reaction is delayed from the time the player enters their input. This is especially problematic for sports, fighting, and first-party shooter games. See "Cloud Gaming", *wikipedia.org*.

[78] Niko Partners, "Cloud Gaming: From Niche Play to Killer App", *nikopartners.com,* October 28, 2019.

quarter of the revenue generated from sales of console and PC games, but the market continues to grow.[79]

The other main component for any business model in this market is how content providers such as publishers are compensated. This will vary by distributor, but publishers will only be interested if the revenue exceeds other opportunities and there is potential growth. To entice well-known publishers, service providers may offer guarantees and/or advances as well as royalties that are either set in advance or based on the number of times the game is accessed.

Initially, publishers will most likely agree to offer older titles, especially those that are service-based with new content, but for new releases publishers – and especially the major ones – will most likely be unwilling to make them part of a subscription service unless a game is funded by the service provider and/or accompanied by other benefits. For smaller publishers, this may be an attractive model to earn revenue and build their portfolio and relationships.

1.6 – Major Players

1.6.1 – First Party

"First party" is a term used to denote the makers of video game consoles. First-party companies not only manufacturer hardware but also develop and publish software. Some developers are subsidiaries of a first party and known as "first-party developers"; they develop solely for the first party's platform.

Microsoft

While the Windows operating system was always relevant for PC gaming, games were not a major part of Microsoft business until it dove into the video game world with the release of the Xbox in 2001. Microsoft followed up the Xbox with the Xbox 360, the Xbox One and their latest release, the Xbox Series X. Microsoft has been a leader in digital distribution and is aggressively focusing on a multi-platform, subscription model.

Microsoft's Xbox Game Studios is made up of a number of franchises and over 20 development studios spread throughout the world. One of their studios is 343 Industries, which is responsible for the *Halo* franchise, and others acquired within the last few years include ZeniMax (the parent company of Bethesda Softworks), Ninja Theory, Playground Games and Obsidian Entertainment to name a few.[80]

[79] Microsoft reported that the number of subscribers to its Xbox Game Pass digital subscription service jumped dramatically, from 10 million in April 2020 to 23 million one year later. Reeves, Brianna, "Xbox Game Pass Hits 23 Million Subscribers", *screenrant.com,* April 21, 2021. Sony's PlayStation Now cloud subscription service had about 3.2 million subscribers as of May 2021. Harradence, Michael, "Sony Confirms PS Now Has Reached 3.2 Million Subscribers, Up 2.2 Million Since Launch", *psu.com*, May 27, 2021. Additional revenue can be generated from gamers via both the purchase of games outside those offered and downloadable content.

[80] Meitzler, Ryan, "Xbox Game Studios-Here Are Microsoft's 23 First-Party Studios to Date", . At the time of publication, Microsoft was in the process of acquiring Activision Blizzard as part of a $68.7 billion deal.

Nintendo

Nintendo has been a mainstay in the video game industry for almost 40 years. Based in Kyoto, Japan, Nintendo first launched the Nintendo Entertainment System (also known as the Family Computer or Famicom) in 1983 and since then has released several console and handheld gaming platforms. Nintendo is well known for several iconic game franchises, including *Mario*, *Donkey Kong* and *Zelda*.

Nintendo has a very strong first-party development portfolio, which develops many of the Nintendo franchise games. Most first-party development is done by the Nintendo Entertainment Analysis and Development division, but Nintendo also has other first-party development studios, such as Monolith Soft. It also works with some non-first-party development studios.

Sony

The Japanese tech giant entered the video game arena in 1994 with the release of PlayStation. Ironically, it was a collapsed business deal between Sony and Nintendo to create an optical disc add-on to the Super Nintendo Entertainment System (SNES) that led Sony to develop their own console, despite internal skepticism at the time.[81] PlayStation would become the first video game console to sell over 100 million units[82] and has sold over 500 million systems of the various iterations of the original PlayStation console.[83]

Sony's success is partly due to its ability to have a number of exclusive titles, as well as to its strong first-party development and to agreements with a number of developers for exclusive partnerships.

Valve

Although not necessarily considered a "first party", since PC gaming does not have first parties in the same way as console gaming does, Valve can be considered in the same category as the above three companies. It is a major source for PC games and now will once again enter into the hardware arena with a handheld PC gaming device. [84]

Like Microsoft and Nintendo of America, Valve is based in the State of Washington, in the United States. It started out as a development studio, mostly known for its *Half-Life* series of games. Steam started in 2002 as a platform for distributing patches and updates to PC games sold retail. It has since grown to be the largest PC game

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[81] Mellado, Fabien et al., *PlayStation Anthology*, Greeks Line, 2015-17, pp.19-39. See "How Intellectual Property Laws Shaped the PlayStation", available at either *https://www.wipo.int/sme/en/shaping_your_business/*

[82] "PlayStation 2 Breaks Record as the Fastest Computer Entertainment Platform to Reach Cumulative Shipment of 100 Million Units", Sony Computer Entertainment press release, November 30, 2005.

[83] Williams, Callum, "Study Reveals How Many Game Consoles Have Been Sold Globally", *gamerant.com*, May 26, 2020. In July 2000, Sony released a smaller model known as PS One, which was then followed by a model that included an attached screen. PS One went on to outsell all other systems until the end of the year, including PlayStation 2. See *https://www.giantbomb.com/playstation/3045-22/.*

[84] At times, Valve has acted similar to the traditional first parties by dabbling in hardware (e.g., Steam Machine, Steam VR). In February 2022, Valve released a handheld PC gaming devicewith has Steam platform access built in and allows users to access streaming services, web browsers and game stores (e.g., Epic Games Store).See Bankhurst, Adam, "Steam Deck: Everything We Know About Valve's Handheld Gaming PC, ign.com, February 18, 2022.

distribution platform but also serves as a means for digital rights management, servers for online play and community features.

1.6.2 – Publishers

Not all games are made by first parties; in fact, only a very small percentage of games are. The vast majority of games are made by third-party publishers and developers. And as more development tools become more readily available and at lower costs, an increasing number of developers are creating games for the various platforms.

Currently, there are many very large third-party publishers that develop and distribute games for PC, console and mobile platforms. Often, these large publishers have several in-house development studios and will also contract with independent development studios to develop games on their behalf, as well as publish and distribute games of others. Other companies have entered the market and acted as publishers for independent developers for games that may not be of interest to the major publishers. According to Newzoo, in 2018, for the first time, the top 25 public game companies grossed over $100 billion while accounting for nearly 80% of the global market.[85]

The major difference between a third-party developer and a first party is that often games are cross-platform. However, that distinction is beginning to change, especially with PC games. For many years, the list of major publishers had remained relatively stable, with only the occasional new publisher entering the top 10 thanks to a hugely successful game. But that picture has changed recently, along with the influx of companies from China and South Korea that now play major roles.

MAJOR PUBLISHERS		
Publisher	**Headquarters**	**Major titles**
Tencent	Shenzhen, China	*Honor of Kings*
Sony	Tokyo, Japan	*The Last of Us, Spiderman, God of War*
Nintendo	Kyoto, Japan	*Animal Crossing: New Horizons, Legend of Zelda, Super Mario, Donkey Kong*
Microsoft	Redmond, USA	*Halo, Forza, Flight Simulator*
NetEase	Hangzhou, China	*Identity V, Knives Out*
Activision Blizzard (acquired by Microsoft pending approval)	Santa Monica, USA	*Call of Duty, Overwatch, World of Warcraft, Diablo*

[85] Taylor, Haydn, "Top 25 Public Game Companies Grossed Over $100bn Combined Revenue Last Year", *gamesindustry.biz*, April 17, 2019.

Electronic Arts (EA)	Redwood City, USA	*FIFA series, Battlefield, Mass Effect, The Sims, Madden NFL*
Ubisoft	Montreuil , France	*Assassin's Creed, Far Cry, Tom Clancy, Prince of Persia*
Epic Games	Cary, USA	*Fortnite*
Sega	Tokyo, Japan	*Sonic, Virtual Fighter, Phantasy Star*
Take-Two	New York City, USA	*Grand Theft Auto, Red Dead Redemption BioShock, Civilization*
Square Enix	Tokyo, Japan	*Final Fantasy, Dragon Quest, Tomb Raider*
Bandai Namco	Tokyo, Japan	*PAC-MAN, Tekken, Soulcalibur, Dark Souls I-III*
Time Warner	Burbank, USA	*Mortal Kombat, Batman, Lego*
Konami	Tokyo, Japan	*Silent Hill, Metal Gear*
Capcom	Osaka, Japan	*Street Fighter, Resident Evil, Mega Man*

1.6.3 – Major Mobile Publishers

Although all major publishers also develop or publish mobile games, some companies have formed solely to develop, distribute and port games for mobile or social web platforms. While Japan and the United States account for most of the major publishers for console, these mobile publishers are much more diverse and cover all parts of the globe. A number of Asian companies based in South Korea, Japan and China have become some of the top mobile gaming companies, along with new companies emerging in the United States, Scandinavia and the rest of Europe.

A SAMPLE OF MAJOR MOBILE PUBLISHERS		
Publisher	**Headquarters**	**Major titles**
Tencent	Shenzhen, China	*Honor of Kings*

NetEase	Hangzhou, China	*Fantasy Westward Journey*
Activision Blizzard (King Digital)	Santa Monica, USA	*Candy Crush*
EA Mobile	Redwood City, USA	*FIFA, Madden NFL*
Bandai Namco	Tokyo, Japan	*Pac-Man, Dragon Ball* franchise
Nexon	Tokyo, Japan	*MapleStory, Dungeon Fighter*
Rovio	Espoo, Finland	*Angry Birds*
Roblox	San Mateo, USA	*Meep City, Jailbreak*
Supercell-1	Helsinki, Finland	*Clash of Clans, Hay Day*
Niantic	San Francisco, USA	*Pokémon Go*
Netmarble	Seoul, Republic of Korea	*Lineage 2 Revolution, Marvel Contest of Champions*
Zynga (Take-Two)	San Francisco, USA	*Farmville, Mafia Wars*
Gree	Tokyo, Japan	*Driland*
Gameloft	Paris, France	*N.O.V.A., Let's Golf, Minion Rush, Asphalt*
Gamevil	Seoul, Republic of Korea	*Cartoon Wars, Baseball Superstars, Zenonia*
Machine Zone	Palo Alto, USA	*Game of War: Fire Age, Mobile Strike, Final Fantasy XV: A New Empire*
Jam City	Culver City, USA	*Harry Potter: Hogwarts Mystery, Cookie Jam*
Scopely	Los Angeles, USA	*Marvel Strike Force, Star Trek Fleet Command*

1.7 – Beyond The Game: Growing Areas In The Industry

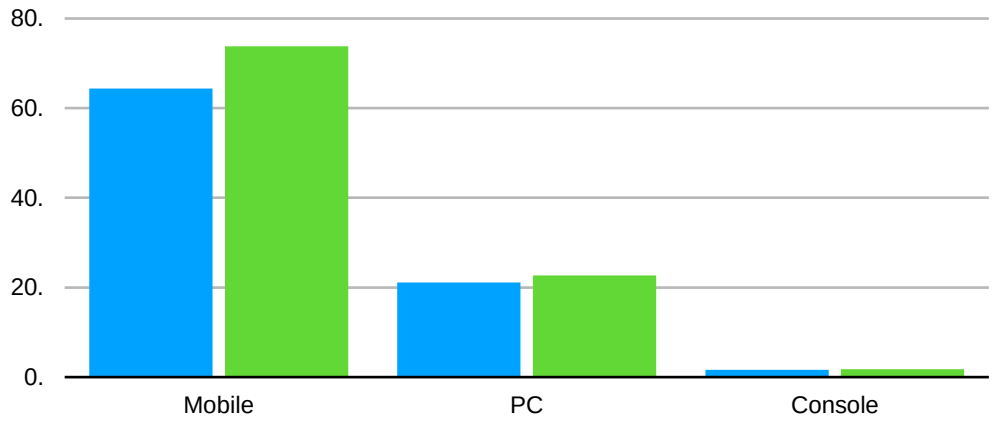
1.7.1 – Monetization Models: The Impact Of Free-To-Play And The Growth Of Live Services

For most of the short history of video games, the method by which games generated revenue remained relatively consistent, in the form of games sold at a premium price at retail stores. That began to change with the hugely successful release of 989 Studio's *EverQuest* followed by Activision Blizzard's MMORPG[86] *World of Warcraft*, which was based on a monthly subscription to play the game. But it was not until the introduction of digital distribution – first achieved through PCs driven mostly by Steam and then through mobile devices and later consoles – that new monetization models would forever alter the industry. These models have not only impacted how consumers play and pay for games, but they have also affected how games are developed and distributed.[87]

With so many games entering the digital market, developers have hoped that allowing gamers to try their game with no upfront costs might attract gamers who eventually would pay for game-related downloadable content and microtransactions.[88] While the free-to-play model has taken on different iterations, it has revolutionized the industry by making most games available to the public at no cost and yet by 2020 accounted for $98.4 billion in revenue for 78% of the total digital games revenue.[89] The top ten free-to-play games in 2020 each earned over $1 billion (four games earned over $2 billion). *Honor of Kings* led that year at $2.45 billion,[90] while *Fortnite* had the top revenue in 2019 with $1.8 billion.[91]

[86] "MMORPG" is the abbreviation for "massively multiplayer online role-playing game."
[87] Many of the major publishers are releasing fewer AAA titles and instead focusing more on providing live services for their successful games. At the same time, publishers most likely are putting more money into the new games they release with the hope that they can be monetized for many years. This approach can be risky if a game fails and the publisher is releasing fewer games, but a success can be incredibly lucrative.
[88] Microtransactions typically involve in-game purchases, for a small amount of money, of various virtual items. These may include costumes; weapons; skins; and power-ups, which allow gamers to move through a game more quickly.
[89] In 2020, Asia accounted for 59% of the worldwide free-to-play digital revenue. See SuperData, "2020 Year In Review: Digital Games and Interactive Media", *digitalmusicnews.com*, 2021.
[90] *Ibid*.
[91] SuperData, "2019 Year in Review". Available at *https://direc.ircg.ir/wp-content/uploads/2020/01/SuperData2019YearinReview.pdf*

Worldwide revenue for free-to-play games by platform in 2019 (blue) and 2020 (green) in $ billion[92]



Although it can be challenging to convince consumers and especially casual gamers to purchase content, by 2020 some 50% of gamers had made a microtransaction purchase.[93] However, most of that money is spent by only a small percentage of gamers. Despite this, extraordinary numbers that have led to new forms of monetization using the free to play model.

As companies explore new ways to monetize their games,[94] more and more publishers have adopted a live-service revenue model similar to those introduced in the software industry.[95] In this service, publishers provide various forms of additional content and features for games (whether initially purchased, licensed at a premium price or free-to-play) on an ongoing basis. Various fees apply, depending on such content.

For publishers, successful games built on this form of monetization can have greater profit margins, by reducing development expenses and eliminating retail costs. Previously, developers created sequels to maintain interest in a franchise. And while this is still essential for sports games and major franchises, they can now provide content on an ongoing basis for a fraction of the cost. In this way, they continue to engage gamers while earning a continuous revenue stream[96] through in-game purchases, subscription offerings and other features, thereby extending the life of a game. For some publishers, this live-service business model now represents a significant share of their business. Electronic Arts reported that 45% of its net revenue

[92] *Ibid*.
[93] "Video Game Industry Statistics, Trends and Data in 2021", *wepc.com*.
[94] The traditional forms of monetizing games have included retail and digital sales, advertising, subscriptions that can be for a single game or a library of games, and season passes.
[95] This type of monetization is often referred to as a "live service" because the game is continually evolving with new updates. The key to a live service is the ability of the developer to retain users.
[96] Development costs and marketing for all types of games on all the various platforms continue to increase, especially for AAA titles, many of which rival the costs of Hollywood blockbusters. At the same time, premium prices of many games have remained relatively stable over the last 15 years, although prices increased for some games with the release of the new consoles by Sony and Microsoft.

was generated from live services in 2019[97] and that by 2020 it had increased to 51%.[98] Another advantage to this recurring year-round business model is that it is less reliant on the importance of seasonal games, especially those released in November and December.[99]

1.7.2 – Video Games And Community

Social interaction has always been a part of the video game culture. It has taken on different forms since the early days: arcades, where players would compete against each other to attain the highest score; participation in multiplayer online games; and today's competitive gaming for prize money that can reach millions of dollars.[100] Now more than ever, community involvement is a significant part of the video game universe, as fans, players and announcers (often referred to as shoutcasters) interact with one another on a continuing basis. This can be on chat sessions and chat platforms such as Discord, through esports and via streaming sites that focus on game commentary and game broadcasts by gamers. All these trends have helped expand interest in games and differentiated them from other forms of entertainment that are for now unable to duplicate this fan-player-commentator interaction.

The growth in community involvement has been driven by the expansion of live and video-on-demand streaming. With live streaming, gameplay is broadcast live on the Internet via streaming platforms such as Twitch and Facebook Gaming. The content may be a gamer's gameplay with commentary, reviews and instructional videos, or an esports competition. In contrast, video on demand typically consists of the streaming of previously recorded gameplay, which may or may not be edited. What makes streaming unique compared to other forms of entertainment is that both formats involve interaction between the "streamers" who play and comment on the games, and the fans who watch the games as well as the fans engaging with each other.[101]

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[97] Electronic Arts, "2019 EA Annual Report", *ir.ea.com*. For EA's fiscal 2020, the company announced that $2.7 billion (just over half of EA's total revenue) was generated from in-game content and live services. See Kenmare, Jack, "The Mind-Blowing Figures Behind EA Sports' Net Revenue From Ultimate Team", *sportbible.com*, May 21, 2020. One outcome of the growing popularity of live services is that major publishers might invest less in new AAA properties, especially with the combination of increased development costs and the uncertainty that accompanies the release of a new title.

[98] Electronic Arts, "2020 EA Annual Report", *ir.ea.com.*

[99] Activision Blizzard, "2020 Annual Report", *investor.activison.com*. According to the research company NPD Group, sales in November and December are two or three times as high as the rest of the year because of holiday demand. Richter, Felix, "Video Game Sales Are Extremely Seasonal", *statista.com*, November 25, 2020. The growth of live services and continual content availability could lead to less reliance on sales in November and December.

[100] Many consider the first major esports tournament to have occurred as early as 1980 when Atari sponsored a *Space Invaders* Tournament that attracted over 10,000 participants. See "esports History", *esportsforgamers.weebly.com*. See also Taylor, T.L., *Raising The Stakes: E-Sports and the Professionalization of Computer Gaming*, The MIT Press, 2012, pp.1-33.

[101] Twitch has entered into deals with a number of professional sports leagues to broadcast games that will include commentary from Twitch users and provide athletes to stream content to fans. Hsu, Tiffany, "Twitch Users Watch Billions of Hours of Video, but the Site Wants to Go Beyond Fortnite", *nytimes.com*, September 26, 2019; updated June 29, 2020; and Warren, Tom, "Twitch Launches a New Sports Category as Amazon Pushes for Sports Dominance", *theverge.com*, July 22, 2020. See also Taylor, T.L., *Watch Me Play: Twitch and the Rise of Game Live Streaming*, Princeton University Press, 2018.

Gameplay streaming falls into three categories: esports, "live-play"[102] and speedrunning.[103] Although each experience is different and there are advantages to watching live vs. on demand and vice versa, the popularity of gameplay streaming has been explained by several factors other than the entertainment value, such as the possibilities to (i) find out about a new release or a catalog title through a game review, (ii) learn new gaming skills from professional players and streamers, (iii) engage directly with streamers through chats, (iv) listen to commentary from streamers, and (v) chat with other viewers.

With more than 1 billion viewers,[104] a growing fan base and the worldwide popularity of esports, streaming opportunities for publishers and developers has become an important tool to help market their new releases and, to some degree, their catalog games. This is also especially true for many independent developers, who may lack the resources to engage in the more traditional ways of marketing such as print and television. However, while more than 22,000 games are streamed on Twitch, You Tube and Facebook Gaming, [105] a high percentage of viewers watch just the top games, and a similar pattern has emerged with esports.

The typical viewer is male and in the 18-34 age category. However, video game streaming attracts a young audience as well. According to the research group SuperData, in 2019 approximately 78% of gaming preteens age 10 to 12 watch online gaming videos, and for children ages 7 to 9 the percentage is around 67%.[106]

Streaming has also attracted some of the biggest tech companies, which compete aggressively for streamers, content and esports broadcasts. Many such deals are exclusive.[107] Several companies make up the main streaming platforms: Twitch (acquired by Amazon for almost $1 billion in 2014),[108] YouTube Gaming (acquired by Google in 2006 for $1.65 billion),[109] and Facebook Gaming. But the space is dominated by Twitch, which according to one report, in the 3rd quarter of 2021, controlled a little more than 70% of the market based on hours watched, the equivalent of over 5.7 billion

[102] Live Play involves the playing of games that are streamed live and viewed by others. Typically, these games will be accompanied by commentary, which may include strategy on how to play the game.
[103] Speedrunning involves the completing of a game or a portion of a game as fast as possible. See Woodcock, Jamie, "The impacts of live streaming and twitch.tv on the video game industry", *jamiewoodcock.net,* January 3, 2000.
[104] Statista reported 1.2 billion viewers in 2020, an increase of 18% over the previous year. Clement, J., "Number of Gaming Video Content (GVC) Viewers Worldwide from 2016-2020", *statista.com*, March 17, 2021. See also Stuart, Keith, "Fights, Camera, Action: The Beginner's Guide to Streaming Video Games", *theguardian.com*, August 17, 2020.
[105] Newzoo, "2021 Global Esports and Live Streaming Market Report", *newzoo.com.*
[106] Valentine, Rebekah, "78% of Gaming Preteens Also Watch Online Gaming Videos", *gamesindustry.biz*, October 30, 2019.
[107] See Stephen, Bijanm "Twitch Just Locked Down Top Streamers DrLupo, TimTheTatman, and Lirik", *theverge.com*, December 10, 2019; Khan, Imad, "Why Twitch is Still the King of Live Game Streaming", *nytimes.com*, December 15, 2019; and Taylor, Haydn, "Twitch Signs Three Exclusivity Deals with Major Streamers", *gamesindustry.biz*, December 11, 2019. In August 2020, the China-based company Bilibili entered into a $113-million three-year exclusive deal with Riot Games for the broadcast rights to the *League of Legends World Championship*, Mid-Season Invitational and *League of Legends All Star* in China. Esguerra, Tyler, "Riot Signs 3-Year Deal Granting Bilibili Exclusive Broadcasting Rights in China for International Events, *dotesports.com*, August 3, 2020. In 2018, Twitch reportedly paid $90 million to Activision/Blizzard for a two-year exclusive broadcasting deal to stream Seasons 1 and 2 games of the Overwatch League. Wolf, Jacob, "Overwatch League to be Streamed on twitch.tv in Two-Year, $90 Million Deal", *espn.com*, January 9, 2018.
[108] Gittleson, Kim, "Amazon Buys Video-Game Streaming Site Twitch", *bbc.com*, August 25, 2014.
[109] Sorkin, Andrew Ross and Peters, J., "Google to Acquire YouTube for $1.65 Billion", *nytimes.com*, October 9, 2006.

hours. Facebook Gaming attracted 15.7% of the market and You Tube Gaming made up 13.8%.[110]

In contrast to the dominance of a few companies and games that make up the lion's share of streaming platforms, the top five streamers on Twitch reportedly account for only about 4% of viewing time.[111] However, each of those top five has more than 5 million followers.[112] Their seemingly small percentage of viewing time may be attributable to the fact that there are 11 million streamers,[113] many of which probably get only a handful of viewers in an extremely crowded market.

The top streamers can make millions of dollars, and their huge followings allow them to have tremendous influence on consumer purchases. Consequently, they are highly sought out by both streaming platforms, publishers/developers and brands. Indeed, a popular streamer can attract a large audience to the service of a streaming platform, and they can help promote the games of developers, who will thereby benefit from additional sales.[114]

Although the way in which streamers may make money varies slightly by platform, most do so by sharing in a percentage of subscriptions purchased by fans for their channels, advertising and donations. Streamers may focus on one game or type of genre or focus on a wide range of games.

1.7.3 – Intellectual Property Issues In Streaming

Streaming is all about content. And, with the growing popularity in streaming, content holders have become attentive to who controls the content and how it is used. Indeed, an increasing number of fans, many of whom are unaware of IP rights, are starting to stream, driven by the relative ease in which this can be done with PCs and consoles. This situation has resulted in new legal challenges for streamers, developers and publishers (who in this section will be collectively referred to as developer) and third-party content holders.

Streaming involves multiple content owners, each controlling various IP rights that primarily involve copyrights and trademarks. The question is "Who owns or controls the rights when games are streamed for broadcast?".

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[110] Cale Michael, "Facebook Gaming Surpasses YouTube Gaming in Total Hours Watched, Twitch Controls 70 Percent of the Streaming Market", *dotesports.com*, October 27, 2021. Viewer numbers have spiked upwards since the COVID-19 pandemic, as people quarantine at home. According to StreamElements and *Arsenal.gg*, overall viewership, which also includes non-related gaming content, jumped to 1.6 billion hours watched in October 2020. This figure is the highest total to date for Twitch and nearly double the number of hours of 2019. At the same time, the hours watched in October on Facebook Gaming slightly exceeded 300 million hours, an increase of 118% over the previous year. Chase, "State of the Stream October 2020: Twitch has biggest month to date, Just Chatting is the most watched category of the year, and HasanAbi dominates the charts", *blog.streamelements.com*, November 18, 2020.

[111] "Growth in the Video Gaming Ecosystem: the new role of games as media", *occstrategy.com.* A unique feature of streaming is that the most popular streamers send their viewers to another "live" streamer in the form of a "raid" when they sign off from their broadcast. This keeps the viewer connected to content that has been approved by the original streamer they follow and helps the subsequent streamer grow their fan base.

[112] "Top 100 Most Followed Twitch Accounts (sorted by Followers Count)", *socialblade.com.*

[113] Both Sony and Microsoft have added features to their consoles that allow players to stream directly from their console to Twitch. In addition, many PCs have incorporated software and various features to assist consumers in streaming their gameplay.

[114] According to one study, online videos were the second-most important factor in deciding purchases, after "what friends are playing".

It is the developer who owns the game, and they will either own or have licensed elements within the game that might be part of a stream. Generally, as the owner of the copyright, the developer will have the right to control the exploitation and distribution of their game. That right is enforced pursuant to terms and conditions that must be agreed upon by a streamer prior to broadcasting.[115] There are several business and legal reasons why a developer will want to limit parts of their game from being distributed.

First, depending on the underlying rights controlled by a third party used in a game, a developer may be limited in what rights they can allow streamers to use as part of their broadcast. For example, even though a music publisher may have licensed their music for a game, that license may prohibit for their music to be streamed. As a result, if the developer has not secured the rights to third-party content for streaming purposes, then they cannot license the rights. This is one of the reasons a developer does not want to give blanket licenses to streamers and wants to make sure that any content that is used has been properly licensed or is owned by the developer. A developer may also elect not to provide certain scenes so as not to reveal parts of the game to potential consumers.[116]

Ownership or control of the IP by the developer is also a means for them to prevent a streamer from using their content if the streamer engages in conduct inconsistent with the developer's terms of use. This could include misuse of the developer's trademarks, unapproved forms of monetization by the streamer, inappropriate conduct, or failure to obtain approval from the developer. Examples could be the case of the streamer adding content (e.g., pornography) or commentary (e.g., racist, sexist) that is inappropriate and the developer therefore choosing to terminate their license with the streamer. In the United States, however, streamers have the right to use a certain amount of gameplay to provide game commentary under "fair use" as discussed in Chapter 2. But there are limits to how much gameplay can be shown, as too much gameplay may put the commentary outside the framework of fair-use protection.[117]

Third-party content owners also have IP rights that need to be respected by streamers to avoid infringement claims as well as removal from a streaming site.[118] Unauthorized use of content may involve the use of unlicensed material added by the streamer or use of unauthorized gameplay. An example is the case of a streamer adding unlicensed music as part of their stream. This problem recently came to the fore when music publishers sent Digital Millennium Copyright Act (DMCA) takedown notices to Twitch, with the claim that streamers were using unlicensed music.[119] Repercussions can be

[115] Examples of major publishers' Terms of Use implemented involving use of content can be found on at the following sites: *https://www.epicgames.com/site/en-US/fan-art-policy*, *https://square-enix-games.com/documents/materialusagepolicy*, *https://www.blizzard.com/en-us/legal/dd76b654-f2c4-4aaa-ba49-ca3122de2376/blizzard-video-policy*, *https://www.nintendo.co.jp/networkservice_guideline/en/index.html.*

[116] It can be difficult to find a balance, as streamers can provide tremendous marketing opportunities for a developer. Developers must ask themselves at what point will they lose control of their content and whether showing too much material will reduce or increase sales.

[117] The International Olympic Committee (IOC) served a takedown notice to a streamer, claiming that his commenting on an Olympic event during broadcasts was unauthorized and in violation of copyright laws. The notice led to the temporary disablement of the streamer's Twitch channel. At the time of writing, he is challenging the IOC under "fair use". See Grayson, Nathan, "Twitch's Most Popular Streamer is Taking on the Olympics, For Better or Worse", *washingtonpost.com*, August 6, 2021.

[118] In Twitch's agreement with streamers, if a streamer receives three takedown notifications for violating the intellectual property rights of owners, their accounts can be terminated, although they have the right to dispute the claims. See also *https://www.twitch.tv/p/legal/community-guidelines/music/.*

[119] See Aswad, Jem, "Twitch, Amazon Slammed by RIAA and Major Industry Groups for Using Unlicensed

significant if music publishers pursue such claims aggressively. This is true not only for the streamers, which could be subject to infringement and potential damage claims from the content owners as well as removal from Twitch, but also for Twitch, if it can be shown that under the DMCA's safe-harbor protection they failed to take the required appropriate action and knowingly hosted specific and identifiable music that was being infringed.[120]

Furthermore, streamers own the copyrights to their own commentary, although this would exclude any pre-existing ownership rights to the underlying material broadcast, such as the game and its contents. Consequently, developers should, in some situations, request as part of their terms and conditions that the streamer license back to the developer a worldwide, royalty-free license for its use.

1.7.4 – Esports

"Esports" refers to professional or semi-professional competitive gaming in an organized format. It has grown from humble origins[121] to become a big business currently undergoing evolution and change. Though its relevance to video game development might not be immediately apparent, it is something any developer should keep in mind, as any game that can be played competitively can eventually become an esport (even if the market is currently dominated by very few titles).

Although esports revenue is relatively small compared to the overall industry revenue, it is attracting much attention. Indeed, in addition to large volumes of avid fanbase, streaming, broadcasting[122] and investments, esports are also standing out for their

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Music; Twitch Disputes Claim", *variety.com*, October 26, 2020; and Stephen, Bijan, "In Twitch's Fight with the Music Industry, Streamers are Paying the Price", *theverge.com*, November 12, 2020. In September 2021, the National Music Publisher's Association entered into an agreement with Twitch, and while the agreement does not provide licensed music for streamers, it does adopt, according to Twitch a more 'flexible' process than that imposed by the DMCA in dealing with potential disputes. Gryson, Nathan, "Twitch Makes Deal with NMPA, but Streamers Still Can't Play Licensed Music", *washingtonpost.com*, September 21 2021. At the time of this writing, Twitch has yet to enter into music licensing deals to allow streamers to use music in their broadcasts unless streamers enter into a separate license agreement with music publishers. In contrast, Facebook has entered into music license agreements that allow for selected streamers to use agreed-upon music.

[120] To avoid potential copyright infringement claims, music is sometimes muted. In *Cyberpunk 2077*, the developers incorporated an innovative streamer mode that removes music that might pose a copyright issue, although there was an initial problem at launch with some scenes. Kent, Emma, "Whoops, Cyberpunk 2077's Streaming Mode Still Contains a Copyrighted Song", *eurogamer.net*, December 10, 2020. Streamers need to be conscious not only of copyright issues with the owners of the music but also with rules imposed by the streaming services such as Twitch. For example, Twitch Terms of Use note that "repeat infringers" of copyright can have their accounts terminated immediately. This usually occurs in the United States, when the streaming service receives a DMCA notice that infringing material appears on their service that was downloaded by a user.

[121] The first documented competition dates back to 1972. See Brand, Stewart, "SPACEWAR Fanatic Life and Symbolic Death Among the Computer Bums", *Rolling Stone*, 1972.

[122] A report by Syracuse University located in the State of New York discusses the potential value of esports and predicts that esports audiences will have surpassed all viewership for American professional sports leagues by 2021 except for American professional football (i.e., the NFL). The estimated numbers of viewers in millions for American professional sports leagues and esports are as follows: (i) National Football League (NFL): 141; (ii) e-Sports: 84; (iii) Major League Baseball (MLB): 79; (iv) National Basketball Association (NBA): 63; (v) National Hockey League (NHL): 32; and (vi) Major League Soccer (MLS): 16. The four largest audiences for sports worldwide are for football (soccer) at 4 billion, cricket at 2.5 billion, field hockey at 2.5 billion and tennis at 1 billion. Of note is that in some years the League of Legends esports tournament attracts more viewers than the finals of each American professional sport except the NFL's Super Bowl game. "With Viewership and Revenue Booming, Esports Set to Compete with Traditional Sports", *onlinegrad.syracuse.edu,* 2021; and Roundhill Team, "Esports Viewership vs. Sports in 2020", *roundhillinvestments.com*, September 25, 2020.

increasingly higher prize pools,[123] expansion into mobile devices, college scholarships[124], participation from sports leagues and celebrities, and even interest from the International Olympic Committee.[125]

On the other hand, the past few years have seen the lines between esports, live-streaming, and even influencer marketing become blurred. This situation combined with the pandemic, travel restrictions, and ecosystem and economic instability have negatively impacted key esports revenue streams, making it increasingly difficult to determine the size and relevance of the phenomenon. According to Newzoo, global esports revenue was $947.1 million in 2020 and originally was estimated to increase by 14.5% to over $1.08 billion in 2021.[126] Most of the revenue ($833.6 million) in 2021 came from media rights and sponsorship.[127] Other forms of revenue come from fees received by publishers for use of their IP, digital, streaming, merchandising and ticket sales.[128]

The global games live-streaming audience was estimated to be 728.8 million in 2021, and esports enthusiasts will make up 234 million of this number.[129] This continuous growth shows how esports has become a powerful advertising tool to promote a game and to keep its community very engaged.

China represents the biggest market for esports in both revenue ($360.1 million) and viewership, with an estimated 92.8 million enthusiasts in 2021.[130] The United States and Brazil are second and third respectively in viewership. North America and Western Europe follow China in total revenue with $243.0 million and $205.8 million respectively.[131]

The esports ecosystem is complex and includes many different stakeholders. Even for major publishers, esports can be a challenge to run on their own. Huge investment in resources and revenue are needed to build the infrastructure and manage a league. Moreover, there are many different issues involved, such as managing IP, hiring and managing players, finding venues, organizing sponsorship, managing event organizers and negotiating deals.

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[123] Prize pool amounts of esports tournaments have reached astonishing numbers, e.g., $34 million for the "International 9" (DOTA 2). See Nordmark, Sam, "The top 10 highest prize pools in esports", *dotesports.com*, 2021. The top five esports games paid out over US$400 million and top players can earn over one million dollars per year. Hoppe, David, *Esports in Court, Crimes in VR, and the 51% Attack*, Vision 2020 Press, 2020, pp. 14-15.

[124] Over 175 American universities/colleges have esports teams. For a list of schools in the US, see: *https://www.ncsasports.org/college-esports-scholarships/varsity-esports.* The NCAA, the governing body of college sports in the US, has not taken a position on whether to oversee esports. Some of the issues that the NCAA would have to deal with would include: (i) content of games and what games would be allowed; (ii) IP; and (iii) players ability to earn revenue.

[125] See "The Olympics need esports more than esports need the Olympics," *ft.com,* August 3 2021*;* and Bieler, Des, "IOC announces inaugural slate of Olympic-licensed esports events", *washingtonpost.com*, April 22, 2021.

[126] Newzoo, "Global Esports & Live Streaming Market Report 2021", *newzoo.com*. However, the effects of COVID-19 prevented live events thereby reducing projected revenues.

[127] *Ibid*.

[128] *Ibid*.

[129] *Ibid*. The League of Legends World Championship was 2020's biggest tournament in terms of live viewership hours on Twitch and YouTube, with 91.9 million hours. League of Legends Champions Korea Summer was the most-watched league by live viewership hours on Twitch and YouTube, generating 53.9 million hours. *Ibid*.

[130] Asia accounts for approximately 54% of the market in terms of revenue. Takahashi, Dean, "Niko Partners: Asia is 54% of the $1B global esports market", *venturebeat.com,* July 22, 2021.

[131] "Newzoo, "Global Esports & Live Streaming Market Report 2021", *newzoo.com*.

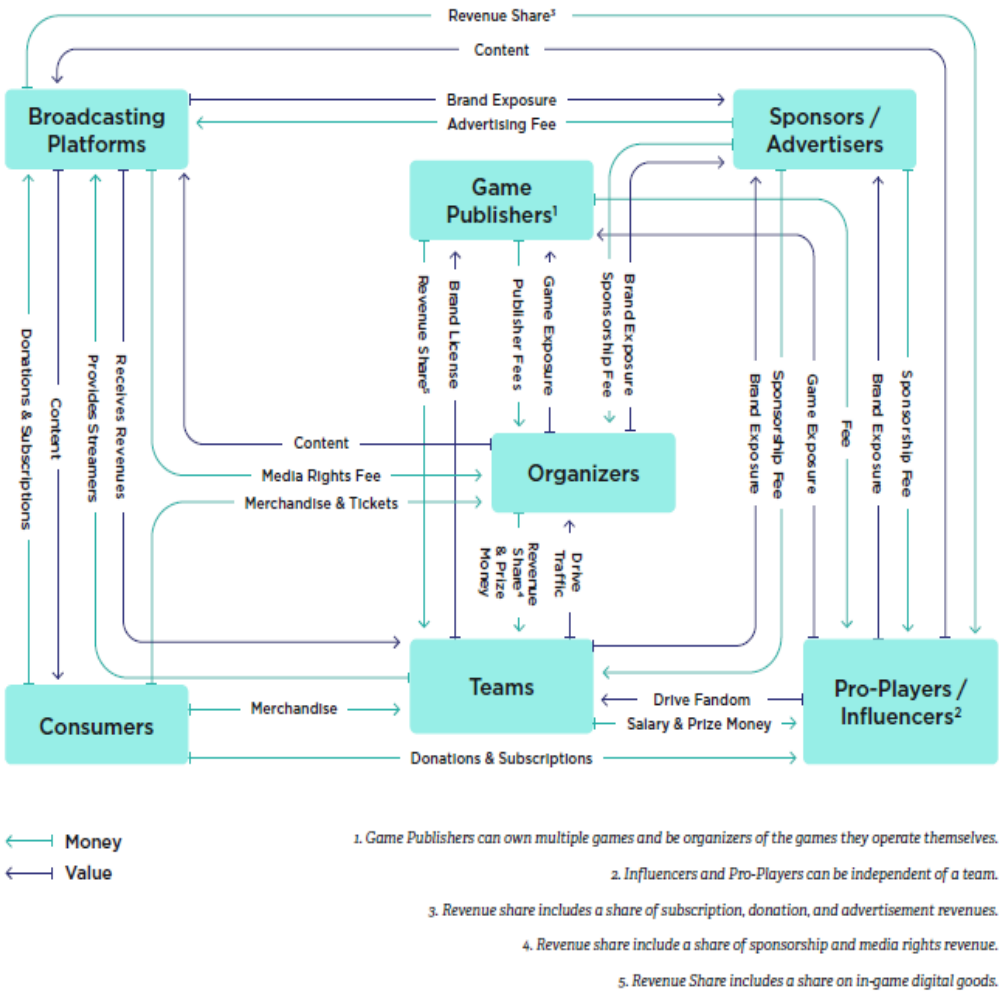
Most importantly the developer or publisher controls the underlying IP providing access to the video game for esports competitions. As a result, in comparison to traditional sports, they can exercise a very high level of control over their game.[132] The developer or publisher will therefore want to decide how much if any control they want to exercise on esports, because this will determine the legal complexity involved.[133]

Furthermore, the structure of esports can differ according on the level of control the developer or publisher wants to exercise, as seen in the examples below.[134]

- Developers can choose to rely entirely on third parties to create and manage esports and in return receive a fee for such rights (e.g., *Counter-Strike: Global Offensive*).
- Developers can decide to split between the publisher and third parties to manage esports events (e.g., *DOTA2*).
- Developers can decide to let the publisher create and manage esports entirely (e.g., *Starcraft, Overwatch, League of Legends*).

The spectrum goes from zero to total control and the developer can – if they wish – even influence the nature of the players' contract down the line. Developers and publishers will also have to decide whether or not to foster (or even attempt to stifle) grassroot events and the growing interest in semi-professional esports events and leagues.

[132] In traditional sports, no one owns the rights to the game.
[133] See Chapter 10 "Esports" in Nabel, Dan and Chang, Bill, *Video Game Law in a Nutshell*, West Academic, 2018.
[134] *Ibid*.



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Whichever model is chosen, and in proportion to the control exercised, the developer/publisher will encounter several potential legal issues, including governance, labor law, competition law, IP law, contract law and others.[135] Moreover, the regulation of esports is still quite a controversial topic and not internationally harmonized. Some examples: esports is not regulated in the United Kingdom but is regulated specifically by law in France;[136] in Russia and Thailand it is considered a "sport"[137] but in Sweden it

[135] Chao, Laura L., "'You Must Construct Additional Pylons': Building a Better Framework for Esports Governance", 86(2) *Fordham Law Review*, 737, 756, 2017.
[136] Auxent, Adrien, "Esports are now officially legal in France", *archive.esportsobserver.com,* September 30, 2016.
[137] Lingle, Samuel, "Esports is now a sport in Russia", *dotesports.com*, June 9, 2016, Russia is recognized as the first country to acknowledge esports which did so in 2001 (but revoked in 2006 and reinstated in 2016) while Thailand did so as recently as 2021. Hoppe, David, *Esports in Court, Crimes in VR, and the 51% Attack*, Vision 2020 Press, 2020, pp. 67-68. If esports is recognized as an official sport in a country it may entitle players to certain benefits as illustrated in Thailand whereby players have access to public funding. Marie Dealessandri, "Esports Professionally Recognized in Thailand" *gameindustry.biz*, September 28, 2021.

is not,[138] and Italy has yet to decide how to govern it.[139] In addition, multiple international regulatory bodies have been formed with different scopes, aims and objectives to tackle esports issues. It may be difficult to create a single international governing body for regulating esports, given its complex, fragmented and un-cohesive ecosystem.[140]

1.7.5 – Artificial Intelligence

The relationship between artificial intelligence ("AI") and video games works both ways: AI tools are used in game development to generate content, and video games are used as a testbed environment for AI to learn. For example, ironically, Rockstar's *Grand Theft Auto V* (a staple of road chaos and mayhem), was used to teach autonomous vehicles how to drive in the secure context of a virtual world.[141] As video game objects need to be pre-labeled to be managed by the game engine, this classification makes it possible to overcome real world problems of computer vision and object recognition. In a digital learning environment, an object labeled as "car" can be easily spotted and identified as something different from a road or a pedestrian.[142] More generally, video game environments have fewer variables than the open world, thus making analysis of the data fed into an AI system more easily observable.

AI is opening new avenues for game development. It also has the potential to speed up development and reduce cost and time in getting games to the market by eliminating the need for working on repetitive or tedious tasks that could be instead delegated to AI.[143]

AI can also help enhance creativity, players' experience and gameplay itself. It can even create video games independently. AI possibilities seem endless: it can enable graphic rendering of level design, generate music scenarios, develop credible non-player characters, and make customized storytelling. Any possible digital asset can be created or enhanced algorithmically.

1.7.6 – Immersive Technologies

Virtual Reality

In November 1994, Nintendo revealed their ambitious standalone game system, the Virtual Boy, claiming it to be the "…first virtual reality system developed and produced

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[138] "The International", a *Dota 2* tournament run by Valve, had to be moved from Sweden because the Swedish government refused to recognize esports as an official sport, leaving players unable to get a sports visa. See *https://www.dota2.com/newsentry/2992060508108464823*

[139] Rizzi, Andrea, Serao, N., and Nowak, L., "Esports in Italy: an Industry Ready to Take off (or Still in Search of its Regulatory Soul)?", 2 *Interactive Entertainment Law Review* (IELR) 42, 2019.

[140] Martinelli, Jacqueline, "The Challenges of Implementing a Governing Body for Regulating Esports" 26(2) *University of Miami International and Comparative Law Review*, 499, 506, 2019. The first recognized international eSports association was The International E-Sports Federation (IeSF) formed in 2008, which promotes recognition of eSports as sport. See *https://iesf.org/about/what-we-do.*

[141] Roberson, Matthew Johnson, et al., "Driving in the Matrix: Can Virtual Worlds Replace Human-Generated Annotations for Real World Tasks?", *arxiv.org,* October 6, 2016, revised February 25, 2017.

[142] Tilley, Aaron, "Grand Theft Auto V: The Rise And Fall Of The DIY Self-Driving Car Lab", *forbes.com,* October 4, 2017.

[143] Hello Games spearheaded the AI assets revolution, using an algorithm that promised almost infinite procedurally-generated new worlds for their space exploration title, *No Man's Sky*. Services such as Aiva, Amper and MuseNet offered assistance in composing situational music. *AI Dungeon* is a game capable of generating an infinite number of unique stories, tailored to the player by the use of algorithms based on technology by OpenAI, the same company that wrote the software which defeated the human champion team at DOTA2. See *https://play.aidungeon.io/main/home.*

for the mass market."[144] This first virtual reality set was released in 1995 but unfortunately discontinued within a year.[145] It promised to deliver exciting virtual experiences to players, but the hard reality was that the technology was just not there yet.[146] For example, technical limitations at the time limited the display to generate black and red colors, and the advertised VR was, in reality, a 3D effect under a marketing disguise. Likewise, Nintendo's virtual utopia was a collection of video games with "…crude wireframe graphics and multiple layers of 2D sprites."[147] After the Virtual Boy's failure, the promised land of VR for the masses appeared to be but a dream, and no AAA publisher or developer dared to venture down that route again until the early 2010s.

In 2012, the Oculus Rift for PC made its debut on Kickstarter, a popular crowdfunding platform. The Rift was marketed as a "…new virtual reality (VR) headset designed specifically for video games that will change the way you think about gaming forever…a truly immersive experience that allows you to step inside your favorite game and explore new worlds like never before."[148] While the headset's marketing was eerily similar to the Virtual Boy, the technology supporting Rift was actually up to task. By the end of their Kickstarter campaign, Oculus had raised 975% of their original funding goal, and the company was acquired by Facebook in 2014 for a reported $2 billion.[149]

Fast forward to today, and many companies, AAA developers and publishers are actively investing in VR gaming, both in hardware and software. As a result, almost all gaming platforms now have optional VR headsets that could be used to play video games, navigate through short experiences (i.e., mountain climbing or historical events such as the BBC's VR experience on the 1916 Easter Rising),[150] or socialize with other players in virtual worlds.[151] Current VR headsets create the illusion of presence in virtual environments (each headset and video game to a varying degree) and allow players to experience immersive gameplay. While the cost of VR headsets was prohibitive for many users at first, greater availability of VR platforms and technological advancements have brought those costs down.[152]

The most active players currently in the field are Facebook with its Oculus Rift and Oculus Quest line-up, HTC with its Vive headsets and PlayStation with PlayStation VR which combined controlled about 77% of the market.[153] These companies also maintain platforms through which players can socialize and purchase video games and experiences, by cultivating separate ecosystems mirroring the console market. Samsung and Google have also invested in mobile VR, allowing users to turn their

[144] Nintendo, "Nintendo Introduces Video Game Players to Three-Dimensional Worlds with New Virtual Reality Video Game System", *Business Wire*, November 4, 1994.
[145] Flanagan, Graham, "The Incredible Story of the 'Virtual Boy' – Nintendo's VR Headset from 1995 that Failed Spectacularly", *businessinsider.com,* March 26, 2018.
[146] Edwards, Benj, "Unravelling the Enigma Of Nintendo's Virtual Boy, 20 Years Later", *fastcompany.com,* August 2015.
[147] *Ibid*.
[148] Oculus, "Oculus Rift: Step Into the Game", *kickstarter.com,* January 2016.
[149] Stuart Dredge, "Facebook closes its $2bn Oculus Rift acquisition. What next?", *theguardian.com*, July 22, 2014.
[150] See *https://www.bbc.co.uk/taster/pilots/easter-rising-voice-of-a-rebel*.
[151] Examples are Valve's *Half-Life: Alyx. See https://store.steampowered.com/app/546560/HalfLife_Alyx/*; VR Chat Inc.'s *VR CHAT at https://hello.vrchat.com/*, and Force Field's *Anne Frank House VR at https://www.oculus.com/experiences/rift/1801263533272595/?locale=en_US*.
[152] For example, a player originally had to have a powerful enough PC to be able to run video games in VR, on top of the costs of buying an expensive VR headset.
[153] These numbers were reported in 2019. Horwitz, Jeremy, "Sony Wins 30% of VR Hardware Revenues as Demand Fades for Cheap Headsets", *venturebeat.com*, August 5, 2019.

mobile phones into VR headsets with Gear VR and Google Cardboard, respectively.[154] Even Nintendo, despite its failure with the Virtual Boy, has made a small return to VR with its Nintendo Labo VR Kit, which turns the Switch console into a VR headset.[155]

With more developers and publishers supporting VR, it appears that a new industry is slowly forming and heading a step closer toward maturity. As of January 2020, Sony reported to have sold 5 million units of PlayStation VR.[156] Superdata's figures show that VR video game revenue increased by 25% in 2020, jumping from $471 million up to $589 million.[157] Finally, every video game released to date can be potentially converted into a VR game, giving the industry ample opportunity to grow.[158]

While the Virtual Boy was way ahead of its time, its goal of transporting players into "virtual utopias" may now be closer than ever before. With fast-paced developments in neighboring technological fields such as cloud gaming and AI computing, the VR industry is slowly expanding.

Augmented Reality

One definition for Augmented Reality (AR) describes it as "…a system that fulfills three basic features: a combination of real and virtual worlds, real-time interaction, and accurate 3D registration of virtual and real objects."[159] As futuristic as "AR video games" may sound, they have arguably been around since the proliferation of wearable technology and the smartphone revolution.[160]

In the early 2000s, Nokia had become a dominant mobile phone maker, enjoying a significant market share in the industry.[161] Part of the reason Nokia was so successful was its push to reconceptualize mobile phones as multimedia devices equipped with the latest available technology and cameras.[162] Many other companies followed Nokia's lead, and cameras became a core component for mobile phones. With an established user base, mobile phone applications utilizing phone cameras started appearing, and in 2003 Siemens developed a game called *Mozzies* that was evidently "…the first mobile application utilizing the camera as a sensor."[163] The player's goal in *Mozzies* was to

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[154] Samsung, Gear VR (2015), see *https://www.samsung.com/global/galaxy/gear-vr/* ; Google Cardboard, see *https://arvr.google.com/cardboard*.
[155] Nintendo, Nintendo Labo Toy-Con 04: VR Kit (2019), see *https://www.nintendo.com/products/detail/labo-vr-kit/*.
[156] Parlock, Joe, "PlayStation VR Sells Five Million Units Since 2016", *forbes.com*, January 7, 2020.
[157] Graham, Peter, "VR Game Revenue In 2020 Increases 25% to $589m Superdata Reports", *vrfocus.com*, January 8, 2021.
[158] The latest example is *Resident Evil 4* ("*RE4*"). Originally released way back in 2005, *RE4* is finding its way to the Oculus Quest 2 as an exclusive VR video game. Robertson, Adi, "A Resident Evil 4 VR remake is launching on Oculus Quest 2", *theverge.com*, April 15, 2021.
[159] Wu, Hsin-Kai, Lee, S.W., Chang, H., Liang, J., "Current Status, opportunities and challenges of Augmented Reality in Education", 62 Computers & Education, p. 42, 2013.
[160] While certain types of AR technologies are commonly used for AR video games, they also have military and business applications. For example, it was reported that Microsoft won a US Army contract for AR headsets. See Novet, Jordan. "Microsoft wins US Army contract for augmented reality headsets, worth up to $21.9 billion over 10 years", *cnbc.com*, April 1, 2021. Google Glass is a wearable AR device used by companies such as DHL. See *https://www.google.com/glass/start/*. IKEA has also developed an AR shopping mobile application that allows users to browse through their catalog. White, Jeremy, "IKEA's Revamped AR App Lets You Design Entire Rooms", *wired.com*, April 20, 2021.
[161] Lee, Dave, "Nokia: The Rise and Fall of a Mobile Giant", *bbc.com*, September 3, 2013.
[162] Hanlon, Mike, "Nokia Launches NSeries Branded Multimedia Device Range", *newatlas.com*, April 28, 2005.
[163] Bordallo Lopez, Miguel et al., "Interactive Multi-Frame Reconstruction for Mobile Devices", *Multimedia Tools and Applications*, p. 3, 2012.

"…shoot down…synthetic flying mosquitos projected onto a real-time background image by moving the phone around and clicking at the right moment."[164]

AR video games have become more prevalent only with the advent of smartphones and mobile game application stores. While mobile AR video games have been commonplace since the early 2010s, it was arguably not until the release of *Pokémon GO* in 2016 that AR put its mark on the industry's map. *Pokémon GO's* premise is simple; players set out in the real world with their smartphones, turn on their cameras, and try to find and catch Pokémon that virtually pop up on their screens.[165]

Pokémon GO became a cultural phenomenon. The AR mobile game reportedly generated $206.5 million in revenue and became the most downloaded mobile game within its first month of release.[166] It is also one of the most successful mobile video games of all time and had a tremendous impact on the design philosophy of other AR mobile video games and video game franchises.[167] For example, CD Projekt, a Polish Video Game developer, have released *The Witcher: Monster Slayer*, an AR location-based mobile game, similar to *Pokémon GO,* set in *The Witcher* fictional video game universe.

AR technologies in video games are slowly becoming a dominant force in the mobile video game market. However, while AR technologies have so far been limited to mobile gaming, future technologies such as Microsoft's HoloLens line of headsets are expanding possibilities.[168] If costs allow for a consumer-grade AR headset to be released in the near future, both AR and VR video games will become more commonplace in the industry.

1.8 – Legal Challenges

The changes in the video game industry are leading to some new legal risks and challenges. These changes include new hardware, new distribution methods, new monetization methods such as the adoption of non-fungible tokens ("NFT"),[169] new ways to use content (e.g., streaming) and greater development capabilities to capture more realism. And whenever an industry changes, it takes time for laws and regulations to catch up. Sometimes this means that it is unclear how governments and courts will react to certain business practices. Other times it means that regulations and laws written to be applicable to technology from thirty years ago are applied haphazardly to groundbreaking tech. Since laws and regulations are changing constantly and vary by country, companies trying out new things need to be careful and seek advice on how to

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[164] *Ibid*.
[165] *Pokémon GO* uses AR technology to superimpose "…computer-generated information over your physical surroundings…to put virtual creatures at real-world locations." See Chamary, J.V., "Why 'Pokémon GO' Is The World's Most Important Game", *forbes.com*, February 10, 2018. See also Rushe, Dominic, "My Secret Shame: I Am (still) Addicted to Pokémon Go", *theguardian.com*, June 26, 2019.
[166] Swatman, Rachel, "Pokémon Go Catches Five New World Records", *guinnessworldrecords.com*, August 10, 2016.
[167] Chamary, J.V., "Why 'Pokémon GO' Is The World's Most Important Game", *forbes.com*, February 10, 2018.
[168] See Microsoft's HoloLens 2, available at *https://www.microsoft.com/en-us/hololens*
[169] Newzoo defines NFTs as a unit of data stored on a blockchain that certifies the uniqueness and ownership of digital assets. See Newzoo, "2021 Global Games Market Report: The VR & Metaverse Edition", *newzoo.com*. NFTs contain unique identification codes and metadata that distinguishes them from each other. They therefore cannot be traded or exchanged at equivalency, unlike fungible tokens (i.e., cryptocurrencies). Sharma, Rakesh, "Non-Fungible Tokens (NFT) Definition", *investopedia.com*, March 8, 2021.

reduce their exposure. In addition to these uncertainties, the revenues earned in the video game industry have made it a prime target for potential litigation.

Mobile distribution is a perfect illustration of the complexities of legal issues across the globe. Increased access to mobile distribution means exposure to the various laws in the jurisdiction where the consumer resides. Even within the United States, laws on privacy, consumer protection, publicity rights and taxes vary by state. Further, different countries have different decency standards, and some content may be legal in most countries but illegal in others. As a result, a developer needs to be aware of the different laws and regulations in the distribution territories or at the very least the major revenue-generating territories, and of those that impose the strictest regulations. We may well wonder what might be some of the potential legal challenges in the industry in the near future?

1.8.1 – Intellectual Property (IP)

One of the most significant legal challenges facing the industry today is IP, both in litigation involving companies protecting their IP and in measures to avoid infringing the rights of others. IP litigation has been part of the industry's landscape since the time of copyright issues with Pac-Man and patent controversies involving the earliest consoles, namely Magnavox Odyssey. With technological advances in hardware and software and the ability to capture more realism in games, IP continues to be in the forefront of legal disputes. At the same time, courts in some countries, especially the United States, have recognized games as creative expression equal to other forms of entertainment such as motion pictures and books, and they have expanded the rights of developers in IP and rights of publicity.

Recent examples of the realism captured in games that have led to litigation have included whether a developer infringed the copyright of a tattoo artist by replicating tattoos on players' avatars in sports games and the use of accurately portrayed vehicles and other trademarks in historical settings without the owner's written consent. Previous litigated matters in IP such as cloning, rights of publicity and the extent to which trademarks can be used without permission in stories will continue to evolve, especially as new jurisdictions deal with these issues. In addition, potential contentious issues may arise dealing with ownership of content created by AI and players, the use of various trademarks including whether trademarks can be protected in a fictional world, the replication of artwork such as graffiti in public spaces, the use of copyrighted material (e.g., game content and music) by streamers on live-streaming services such as Twitch, and whether underlying IP rights were properly licensed for new forms of distribution.

Furthermore, patent litigation will continue to be a concern, whether it involves "patent trolls" or legitimate claims, especially with the high costs associated with defending a claim. Companies need to be careful that the technology they use does not infringe the patent rights of another party. This is true whenever they develop a game, create new hardware or license software (regardless of whether or not they are indemnified by the licensor). Although software patents can be an issue in many countries, patent litigation is especially an issue in the United States. But that is not to say the issue is limited to US companies, as any company distributing games in the United States could potentially face liability under American patent law.

IP constantly undergoes reform, and reforms impact video games even when they are not the direct target. One example is the Contract Adjustment Mechanism in Article 20 of the Digital Single Market Copyright Directive,[170] which introduced a "best-seller" clause at the EU level.[171] Under Article 20, authors and performers can claim additional, appropriate and fair remuneration, beyond what was originally agreed between the parties if the originally agreed remuneration transpires to be disproportionate to the subsequent revenues. Additionally, Article 19 (the "transparency obligation") gives them the right to access information on how their works are being exploited and how much revenue is being generated. This can be enforced against the original contracting party or against third parties. There is also an Article 23, which stipulates that "any contractual provision that prevents compliance with Articles 19, 20 and 21 shall be unenforceable in relation to authors and performers."[172] It is not yet fully clear to what extent implementation of Article 20 by the EU Member States will impact the video game industry and its standards in negotiations with European authors and performers.

1.8.2 – Monetization

Each monetization scheme brings with it a different legal challenge. And as developers continue to try to figure out new ways to monetize games (with most of them being provided for free on certain platforms), this issue will continue to be closely followed. For example, in-game currency can involve banking law, consumer-protection law and tax law. Additionally, the way a game sells certain items can bring gambling laws into play: an example is "loot boxes", which some countries have determined to be forms of gambling.[173] In some situations, new regulations lead to new business models.

1.8.3 – Privacy

The world is becoming more connected, and gamers are no exception. The ability to play online with friends used to be the only way for gamers to connect. Now games are connected to social media sites, and it has become very popular to share achievements, scores, highlights and other aspects of games with friends this way. In addition, many games gather information on gamers as a way to target consumers with advertising and in-game purchases. How companies manage all the private information, especially when dealing with children and in the transfer of information among countries, will be an ongoing concern for consumer groups and governments. We can expect more oversight in this area, which may include greater enforcement of recent regulations and the adoption of more restrictive regulations on the collection and sharing of information. Furthermore, companies will most likely need to invest more resources and time in

[170] The "Directive (EU) 2019/790 of the European Parliament and of the Council of 17 April 2019 on copyright and related rights in the Digital Single Market and amending Directives 96/9/EC and 2001/29/EC", available at *https://eur-lex.europa.eu/legal-content/en/TXT/HTML/?uri=CELEX:32019L0790*.

[171] Before the introduction of the DSM Directive and in particular Article 20, EU Member States relied on a variety of legal remedies to facilitate a fair remuneration system for the benefit of authors and to prevent buyout contracts. These included requirements to provide remuneration that is appropriate (Germany) or proportional (Spain), best-seller clauses (France) and methods to specify remuneration for each form of exploitation (Belgium and Poland). However, as many of these rules were not mandatory, they were subject to numerous exceptions or were simply not followed in practice. For a full analysis see Stechova B., "How to Best 'Sell' the 'Best-seller' Clause?", PhD thesis, QMUL, 2017.

[172] Treppoz, Edouard and Arbant, G., "The EU Copyright Directive: The New Best-Seller Right", *lexology.com*, May 2, 2019.

[173] Japan outlawed "gacha" style games, which required gamers to buy packs of random items to put together collections to gain access to even rarer items.

protecting information about players and their own intellectual property against the growing threat from hackers and ransomware.

1.8.4 – Labor Issues

Employment-related issues have recently taken on greater prominence. These include hiring practices targeting women and minorities, the formation of unions[174] in response to working conditions,[175] sexual harassment, and the classification of workers as to whether they are employees or independent contractors.[176] On this latter issue, some US states led by California have altered the legal landscape by putting a greater burden on employers to prove that workers are in fact independent contractors and not employees. This could impact the gaming industry by placing greater obligations on publishers and developers, which have traditionally employed independent contractors in a number of roles in the development and distribution of games.

1.8.5 – Antitrust Concerns

One of the biggest legal and regulatory issues in the near future will involve antitrust issues and potentially greater government oversight in this area, especially with some of the biggest tech companies such as Apple, Google and Facebook. While some of these issues may not necessarily deal with the video game industry directly, they most likely will still have an impact on the way business is conducted, for example in dealing with licensing fees, privacy, access to platforms, and market share.[177]

At the same time, significant legal challenges in various countries, dealing with the business practices of some companies that provide video game distribution platforms (e.g., Google, Apple, Steam), are making their way through the courts. Many of those challenges involve complex issues in various jurisdictions that apply different laws on market share and on licensing fees paid by developers for their games to appear on such platforms.

In 2020, Epic filed several lawsuits in various jurisdictions claiming that Apple and Google are monopolies and that their 30% fees[178] for all revenue earned on their platforms and their requirement that in-app payments be made through their own

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[174] See Fogel, Stefanie, "Game Workers Unite UK Is That Country's First Games Industry Union", *variety.com*, December 14, 2018. See also: D'Anastasio, Cecilia, "A Big Union Wants to Make Videogame Workers' Lives More Sane, *wired.com*, January 7, 2020.

[175] One recurring issue involves the long hours experienced by some developers in trying to meet milestone deadlines, commonly referred to as "crunch time". This has traditionally been associated with developers trying to finish games to meet their announced release date, but, as more games move to live-service business models, there is also now more pressure to provide additional content in very short release windows, resulting in additional crunch time for many developers. See Taylor, Haydn, "What Yesterday's EU Court Ruling Means for the Games Industry", *gamesindustry.biz*, May 15, 2019. For additional information on some of the working issues raised by independent contractors in the industry, see Rocks, David, "Boom Times in a Troubled Neighborhood", *Bloomberg Businessweek*, August 31, 2020, accessible at *https://www.magzter.com/article/Business/Bloomberg-Businessweek/Boom-Times-in-a-Troubled-Neighborhood*.

[176] See Chapter 6.

[177] Apple's in-app payment system deemed anti-competitive involving a dating app in the Netherlands. Foo Yun Chee, Sterling, Toby and Nellis, Stephen, "Exclusive: Dutch Watchdog Finds AppleApp Store Payment Rules Anti-Competitive-Sources", *reuters.com*, October 7, 2021.

[178] Both Apple and Google reduced their fees to 15% under certain situations, focusing primarily on smaller revenue-generating companies.

system were anti-competitive.[179]

In September of 2021, the first decision involving this issue was handed down by a federal judge in California, who ruled that, while Apple should not be deemed a monopoly (the judge noted that "success is not illegal"), the company had engaged in anti-competitive practices under California's Unfair Competition Law involving its "anti-steering" provisions,[180] and that those practices limited consumer choices on payment methods. As a result, the court ruled that Apple must allow for developers to advise consumers on alternative external payment methods via links (e.g., in-app buttons) or other forms of communication.[181] Notably, the decision did not require Apple to allow for alternative app stores and payment process systems on its phone.

At the time of writing, it is uncertain what effect the decision will have on licensing fees (including fees charged by other platforms). Likewise, it is not known how these alternatives will be implemented and whether they will be embraced by consumers, nor whether this will eventually lead to lower purchasing costs for them. One thing is certain: this decision will result in further legal proceedings (both parties have filed appeals) involving issues with the interpretation and enforcement of the decision.[182]

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[179] See *https://cdn2.unrealengine.com/apple-complaint-734589783.pdf* and *Epic Games, Inc. v. Apple Inc.,* 493 F. Supp. 3d 817 (N.D. Cal. 2020*)* at *https://cand.uscourts.gov/wp-content/uploads/cases-of-interest/epic-games-v-apple/Epic-v.-Apple-20-cv-05640-YGR-Dkt-812-Order.pdf* for a copy of the Apple complaint and the subsequent US District Court's decision. Epic had announced that *Fortnite* gamers would pay a reduced amount if they purchased in-app game currency directly from Epic, bypassing the Apple and Google app stores. Spangler, Todd, "Epic Games Says Apple Has Threatened to Cut Off 'Fortnite' Maker's Developer Access", *variety.com*, August 17, 2020. Apple and Google responded to Epic's attempt to establish a separate payment system for *Fortnite* gamers by banning the game for having violated the company's guidelines. It was this action that led to the lawsuit. New users could not download the game, and current users were eventually unable to play the game on iPhones because the game could not be updated. The US District Court did not require that Apple reinstate *Fortnite* on their platform. When the Android version of *Fortnite Battle Royale* was launched, it was not available on Google's Play Store and instead was offered on Epic's website. It was reported that Epic believed their site would be attractive enough to draw gamers without the need to use Google's platform and would also result in huge savings for the company, which also knew this approach was not without risks. This reportedly cost Google approximately $50 million in lost revenue from platform fees. Perez, Sarah, "Google Will Lose $50 Million or More in 2018 From Fortnite Bypassing the Play Store", *techcrunch.com*, August 10, 2018.

[180] Under the iOS license agreement, the anti-steering provisions prohibited app publishers from steering users away from its in-app payments.

[181] The court ordered Apple to allow publishers to link to the payment options by December 9, 2021, but a federal appeals court decided to delay the ruling (the court put on hold the lower court's permanent injunction) until the appeals process was exhausted which could be at least a year away. Apple argued among other things that the original ruling would pose privacy and security risks. *Epic Games, Inc. v. Apple, Inc*., 2021 U.S. App. LEXIS 36191. At the time of this writing, it was unclear what forms of communication would be permitted.

[182] John and Hollister, Sean, "Apple is Appealing the Epic Games Ruling It Originally Called a 'Resounding Victory'", *theverge.com,* October 6, 2021; and Lyons, Kim "Epic has Appealed Friday's Ruling in the Epic v. Apple Case", *theverge.com*, September 12, 2021.

CHAPTER 2

INTELLECTUAL PROPERTY IN THE VIDEO GAME INDUSTRY

2.1 – The Importance Of Intellectual Property

Intellectual property (IP)[183] is the most important branch of law for video game developers and publishers to understand and is a vital subject in video game development contracts, employment agreements, distribution, advertising and every license in the game industry. As houses are made from wood and stone, video games are made almost exclusively from IP.

IP law enables developers to commercialize their creative works and protect them from infringers and competitors who want to exploit their IP and use it without permission or compensation.

What does someone buy when they buy a game? In the old days before digital distribution, there were retail computer and video game stores where customers could choose from a selection of available video games. They would purchase a box with a manual and a CD made from less than five dollars' worth of material. How, then, could people be persuaded to pay $60 or $70 for a product that we call a "game"? They are persuaded, even eager, to do so because they are really buying a larger entertainment experience beyond the physical goods. This experience is legally enjoyed by consumers through a limited license to the IP. The game engine, concept and in-game art, music, story, game world, middleware and graphics are all IP.

As we venture into the next generation of game consoles and continue to see an increase in the number of gaming devices and distribution platforms, including mobile, social and tablet, more money than ever will be invested in game development. Since its founding, the video game industry has both embraced and been driven forward by technological changes and opportunities. There is nothing to indicate that this trend will not continue to fuel the next generation of development. Game development for many large titles already meets or exceeds film budgets in terms of years in production and total budget. Consequently, protecting that ever-growing capital investment from competitors and pirates is becoming increasingly important. Of equal importance is harnessing the IP of a game for maximum value in order to recoup costs and generate profits. This can mean anything from developing a video game franchise based on the original IP to exploiting the in-game IP in film, television and merchandise or in other ways.

[183] Adapted from the first edition written by S. Gregory Boyd and Jas Purewal. The authors are grateful for the contribution and updates to this second edition to S. Gregory Boyd, Sean Kane, Rick Zou, Saphya Council, Matthew Dobill, Dr Michaela MacDonald, Nicoletta Serrao, and Emanuele Fava.

As simple as these statements are, the questions and strategies generated by them are more complex.

IP is an emotionally charged issue in the software community at large and the game development community in particular. Many people are in favor of open-source initiatives and against software patents, patents in general or even IP in general. These points of view are clearly influential and are the subject of heated debate at the highest public policy and legislative levels throughout the world. For example, when Warner Bros patented its Nemesis system gameplay mechanic in *Middle-earth: Shadow of Mordor*, the video game community was in uproar over a perceived chilling of innovation across the industry because other developers must rethink using a recurring enemy mechanic. Still, as an educational and reference tool, this chapter serves as a guide to what the legal issues currently are, not how they might eventually evolve or how they should be.

The current IP law system is not only complex; it is also constantly evolving in order to adapt to the ever-changing technological landscape. The limited and often fragmented harmonization at the international and regional level in key areas, such as image rights, copyright or the right to free speech (freedom of expression in the European terminology), further adds to the overall complexity.[184] Competitors are sophisticated and will try to use the IP system against your company. For this reason alone, it is important to understand the current IP legal framework.

In order to start summarizing these concepts and afford a preview of the remainder of this chapter, the following table contains examples from a game project and the type of IP law that could be used to protect each component.

IP PROTECTION OF VIDEO GAME COMPONENTS			
Copyright	**Trade Secret**	**Trademark**	**Patent**
Music Code Story Characters Art Box design Website design Advertisements User interface Motion capture Voice acting	Customer mailing lists Pricing information Publisher contacts Middleware contacts Developer contacts In-house development tools Deal terms	Company name Company logo Game title Game subtitle Identifiable “catchphrases” and non-traditional marks associated with the game or company	Inventive game play or game design elements Technical innovations such as elements in software, networking or database design Hardware technical innovations

[184] Some countries may have IP rights that do not exist elsewhere, such as the database right in the European Union (EU), or their system might be difficult to compare, such as design patents in the United States and registered and unregistered design rights in the EU.

2.2 – Copyright

Copyright[185] is arguably the most important IP protection for most game companies. It easily qualifies as the best tool for protecting game property because of its power, versatility and ease of use. Copyright protects original works of authorship. It protects expressions of original works, such as literary, audiovisual works or computer programs, by granting the rights holder exclusive rights, including the right to copy or distribute the work. This protection arises automatically, upon creation or fixation (depending on the jurisdiction: in some countries, such as the United States and the United Kingdom, a work also needs to be fixed in a tangible medium of expression to be protected by copyright) without any formalities (however, see the issue of registration in the United States), and usually for the benefit of the author. The exclusive rights often last for the duration of the author's lifetime plus 70 years after their death.

The copyright system stemmed from the British Statute of Anne of 1709 and spread throughout the rest of British territories and the United States. In continental Europe, the "author's right" system developed from the French decrees of 1791 and 1793. In the nineteenth century, the concept according to which the right of authors to control their creative works was directly related to their personality evolved in France and Germany. Author's law and copyright are different concepts, and even within the copyright family the United Kingdom and United States can diverge substantially.

Sticking to the United States for now, copyright law has its roots in the Constitution. Specifically Article I, Section 8, Clause 8 provides that Congress shall have the power "to promote the progress of science and the useful arts, by securing for limited times to authors and inventors the exclusive right to their respective writings and discoveries." The "writings" language focuses on how Congress derives its power to make laws for copyright. Another critical element of the phrasing above shows that copyright protects these writings for a limited time.

Copyright laws across the world are harmonized to a certain degree thanks to the Berne Convention for the Protection of Literary and Artistic Works, (adopted in 1886 and updated for the last time in 1971).[186] Further uniformity has been achieved in the European Union (EU),[187] where over the past few decades the national legislation of member states has been partially harmonized. This has been done at the EU level (roughly analogous to the federal level in the United

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[185] In this book, the term "copyright" is used in a broad sense to include author's right and related rights, unless otherwise specified.

[186] World Intellectual Property Organization (WIPO), *"Berne Convention for the Protection of Literary and Artistic Works*". *https://www.wipo.int/treaties/en/ip/berne/.*

[187] The EU currently has 27 member states, namely: Austria, Belgium, Bulgaria, Croatia, Cyprus, Czechia, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Poland, Portugal, Romania, Slovakia, Slovenia, Spain and Sweden.

States) through a range of legislative acts[188] including the Information Society Directive,[189] the much-discussed Directive on copyright in the Digital Single Market[190] and the Copyright Term Directive.[191] As a result, while it is possible to talk in general terms about EU copyright law, there are often differences among countries. Therefore, this chapter can only give a general overview of EU copyright law and its comparison with US law.

THE EU LEGAL SYSTEM

The EU is an economic and political association of sovereign European countries. Each country ('Member State') has its own legal system creating domestic laws for that country. In addition, the EU itself passes legislation. This legislation in some cases becomes part of each Member State's legal system automatically, but the EU legislation more frequently sets out the principles which Member States are meant to implement in their own ways. As a result, while in many legal fields there is a degree of similarity between EU Member States, there are often considerable differences that are at times clarified and at times exacerbated by Member States and EU court systems. This inconsistency can sometimes make it hard to state with certainty what the "EU position" is on a particular topic.

2.2.1 – What Can Be Protected By Copyright?

In the United States, eight categories of works are eligible for copyright protection under Section 102(a) of the Copyright Act, namely: literary works; musical works, including any accompanying words; dramatic works, including any accompanying

[188] A "directive" is a legislative act that sets out an objective that all EU member states must achieve, although they are free to draft and implement their own laws on how to do so; "regulations" are legal acts that apply automatically and uniformly to all EU member states as soon as they come into force. See European Commission, "Types of EU Law". *https://ec.europa.eu/info/law/law-making-process/types-eu-law_en.*

[189] Directive 2001/29/EC on the harmonization of certain aspects of copyright and related rights in the information society is the reference law on copyright in Europe. This Directive mandates each EU member state to implement in its legal framework a number of fundamental provisions to ensure the maintenance and development of creativity in the interests of authors, performers, producers, consumers, culture, industry and the public at large.

[190] In 2019, the European Parliament approved Directive (EU) 2019/790 on copyright and related rights in the Digital Single Market (DSM). Among other things, this Directive introduces new exceptions to exclusive rights (including for text and data mining); regulates the use of copyright works in digital and cross-border teaching activities; permits the use of out-of-commerce works by cultural heritage institutions; and establishes a protection of press publications concerning online uses. Its most controversial aspect of this new directive is Article 17, which regulates the use of protected content by online content-sharing service providers. Until now, most countries have implemented a legal mechanism whereby internet service providers (such as hosting services, access providers, social media networks, etc.) were not responsible for the content uploaded or facilitated by its users, as long as they did not have "actual knowledge" of the illegal content and, if they did obtain such knowledge, they were obliged to act diligently to remove such information expeditiously. Once the Member States implement the DSM Directive, this principle will change radically, and content-sharing service providers will no longer be able to apply such limitation of liability. This will have a considerable impact on the video game industry, particularly since gameplays are among the most watched videos on platforms such as YouTube. Gameplays are protected by copyright and in absence of limitation and exceptions, online content-sharing service providers that permit users to upload them will require authorization from video game publishers; in the absence of a license, they will have to employ best practices to ensure the unavailability of gameplays uploaded by their users, in the terms that prospective national laws will determine.

[191] Directive 2006/116/EC on the term of protection of copyright and certain related rights.

music; pantomimes and choreographic works; pictorial, graphic and sculptural works; motion pictures and other audiovisual works; sound recordings; and architectural works.[192]

Interactive entertainment is protected in the United States as either an "other audiovisual work" or, perhaps surprisingly to some, as a "literary work." This distinction is important only in relation to the registration of copyright, the relevance of which will be discussed below. Practicing attorneys often discuss which designation is more appropriate, but filings using either are common. Games are not unusual in this way, since other creative endeavors also fall into more than one category. Registration under the category of "literary work" may seem strange for a computer program, but Section 101 defines literary works as including works expressed in "words, numbers or other verbal or numerical symbols or indicia, regardless of the nature of the material objects such as books, periodicals, manuscripts, phonorecords, film, tapes, disks, or cards, in which they are embodied." Clearly, the source code is a collection of words, numbers and symbols stored on some media. The United States is not alone in this approach as both the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS Agreement)[193] and the World Intellectual Property Organization (WIPO) Copyright Treaty (WCT)[194] state that computer programs, whether in source or object code, shall be protected as literary works within the meaning of Article 2 of the Berne Convention.

As far as games are concerned, copyright covers stories, characters, imagined environments and geographical locations,[195] music, art, graphics and even the software source code itself. Moreover, it also protects the game as a whole under the category of audiovisual or literary work. However, the full scope of copyright protection is not absolute and is often misunderstood to provide a wide-ranging monopoly over a video game concept or method of play. In reality, copyright protects only the expression of ideas, not the ideas themselves.

Under US law, this means two things. First, no game ideas are protected by copyright until they are fixed into some expressive medium (such as code or print or a saved art file). Second, similar ideas expressed in different ways are permitted uses that do not necessarily infringe on another's copyright (even if, as we will see more in detail below, at times in a game it may be hard to tell exactly what the "idea" and the "expression" of an idea is). Determining infringement in copyright requires comparing the protected fixed expression in the copyrighted game to the fixed expression of the accused infringer. With the rise of short development cycles in social and mobile games, this comparison becomes more complex than ever before, but game industry copyright cases have been

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[192] United States Code, Title 17, Sect.102(a). Publicly visible architectural works, when used as a general part of the scenery in games, do not normally require a license to be represented in a video game because of statutory exceptions. However, prominently featuring buildings (such as making them the focus of a game level), destroying buildings, using the interior of or distinctive sculptural elements on the exterior of buildings may all cause an issue. For example, Sony faced difficulties when it used the interior of Manchester Cathedral for in-game combat. For further details see: Wikipedia, "Controversy over the use of Manchester Cathedral in Resistance: Fall of Man", *wikipedia.org*. See also *Leicester v. Warner Bros*., 232 F.3d 1212 (9th Cir. 2000) involving the motion picture *Batman*, where no separate protection for sculptural works attached to buildings applied.

[193] TRIPS Agreement, Art.10(1).

[194] WCT, Art. 4.

[195] Such as Middle-earth, Pandora from *Borderlands*, Mos Eisley from the Star Wars universe, Azeroth from *Warcraft*, and the post-apocalyptic world and cities in *Fallout*.

illustrative of this quandary since the early 1980s over copyright cases involving arcade machines and Atari before Facebook and Apple came to prominence.[196]

The UK system is arguably the most similar to the US one (for example, fixation is one of the criteria for subsistence of copyright). The position in the EU is even more complicated. At the time of writing, EU law is still formally applicable in the United Kingdom – but since the United Kingdom has now left the EU, national law will likely start to deviate from the rest of the EU Member States.[197]

Generally speaking, "author's right" countries such as France, Germany and Italy have traditionally put greater emphasis on a copyrighted work being the creation of the mind and the author, whose personality is reflected in their work. The emphasis is not only on protecting the economic interests of the author, but also their personal and reputational interests. This objective is primarily achieved through moral rights, which determine the originality requirements for a work to be protected by copyright, such as the "author's own intellectual creation" in the EU, "labor, skill and/or judgement" in the United Kingdom and "modicum of creativity" in the United States. Without getting into much more detail, in practical terms the threshold for copyright protection may be higher for some type of works in "author's right" jurisdictions than it is in the United States or the United Kingdom.

Traditionally, each EU Member State could determine, within the boundaries of the Berne Convention and the EU Directives, the requirements that a work must fulfill to earn copyright protection. However, over the years the Court of Justice of the European Union (CJEU) has harmonized the law. In a recent case, the Court established that two conditions must be satisfied for a work to be protected under copyright law in the EU. First, the subject matter of protection must be original in the sense of being the author's own intellectual creation. Second, only those elements of the work that constitute the expression (but not the idea itself) of such creation will be protected.[198]

The result is that any developer who wants to seek EU copyright protection for their video game must fulfill both requirements. These elements may appear somewhat vague and ambiguous (they can be for lawyers as well), but their flexibility helps to adapt to different circumstances and cases. That said, as far as the game industry is concerned, it is safe to assume that all modern video games are protected by copyright in the EU, at least in some of their elements, even in the strictest of jurisdictions.

Even though video games are more complex than films, unlike films, they do not have a specific legal treatment in the EU. Furthermore, most national copyright laws do not mention video games in the list protected subject matter. Obviously, this does not mean that video games are not protected by copyright; indeed, the opposite is true. However, considering that they consist of multiple works and

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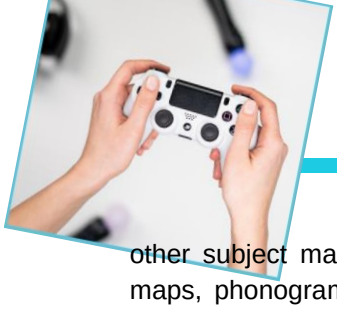
[196] Pac-Man was the source of an early copyright infringement case against K.C. Munchkin. See *Atari, Inc. v. North American Philips Consumer Electronics Corp.*, 672 F.2d 607 (7th Cir.1982).
[197] Kempton, Nick, "Interaction of EU and UK copyright in a post-Brexit world: will video games get more protection than they bargain for?", *Interactive Entertainment Law Review* 3(2) (2020), p.131.
[198] Case C-683/17 *Cofemel – Sociedade de Vestuário SA v. G-Star Raw CV* (European Court of Justice (ECJ), September 12, 2019). In order to satisfy the "originality" condition, the Court also reminded that the work must reflect the personality of its author, as an expression of his free and creative choices (Case C-145/10, *Eva-Maria Painer v Standard VerlagsGmbH and Others* (ECJ 7 March 2013). Furthermore, the work for which copyright is sought must be identifiable with sufficient precision and objectivity (Case C-310/17, *Levola Hengelo BV v Smilde Foods BV* *ECJ 13 November, 2018).



other subject matter including literary works, musical compositions, graphics, maps, phonograms, performances and software, questions occasionally arise regarding the legal nature of these peculiar works of authorship. In fact, depending on the legal classification of video games under EU law – are they computer programs, audiovisual works or some other kind of works? – different outcomes may be reached. Computer programs, for instance, have their own special set of rules under EU law, which sometimes significantly diverge from that of other copyright works.[199] This means that, in some cases, it may be crucial to understand whether a video game should be treated as a computer program or as something else.

This was discussed by the CJEU in a case involving the unauthorized sale of equipment which, once installed on Nintendo consoles, circumvented the protection system present on the hardware and enabled the console to run pirated games.[200] The Court concluded that video games constitute complex matter comprising not only a computer program but also graphic and sound elements, which, although encrypted in computer language, have a unique creative value. In other words, in that instance the Court did not apply to video games the specific EU computer program regime but the general rules for the other categories of works, which, in that case, were more favorable to the copyright holder.[201]

2.2.2 – What Rights Are Conferred By Copyright?

Another counter-intuitive element of copyright is that it is not the right to do anything; instead, copyright is a negative right. It does not grant the holder the right to reproduce a work, but rather it grants the holder the right to prevent others from reproducing that work. The list of rights specifically set out in Section 101 of the United States Code, which have their counterparts also in EU copyright legislation, are the rights to make copies, make derivative works, distribute, public performance and public display.

Copyright is also easy to invoke. In the United States, copyright comes into being as soon as an original work is fixed in a tangible medium; in the EU, as soon as the work is expressed, which in practical terms generally takes place through some kind of fixation. As soon as plans are drawn or code is written, copyright arises. In contrast, patents and trademarks invoke important and complex registration processes and fees, and trade secrets require that certain steps be followed within the company in order to qualify for protection.

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[199] Directive 2009/24/EC on the legal protection of computer programs.
[200] Case C-355/12, *Nintendo Co. Ltd and Others v. PC Box Srl and 9Net Srl* (ECJ January 23, 2014).
[201] Under EU law, technological protection measures (TPMs) that permit authors to limit certain acts with regard to a work are regulated differently for computer software than for other copyrighted works. The Computer Programs Directive (2009/24/EC) only forbids the marketing of devices whose "sole intended purpose" is to facilitate the circumvention of TPMs, whereas the Information Society Directive (2001/29/EC) more broadly forbids the marketing of devices "primarily" – not solely – "designed, produced, adapted or performed" for that purpose. This has an important practical impact because, if we consider video games as (entertainment) software, then the more restrictive (for copyright holders) Computer Program Directive will apply. Therefore, if a TPM circumvention device has more than one purpose (or feature, which is common), then its circulation does not contravene the law. On the other hand, if video games fall within the broader scope of the Information Society Directive, video game producers will have more chance of stopping the distribution of such devices, because TPM circumvention is likely to be their main purpose, if not their sole purpose.

Even though registration is not necessary to invoke copyright, it is still a good idea to register a game in the United States because it changes damage calculations and is necessary in order to initiate an infringement claim. In the EU there is no registration requirement for copyright works; copyright in a work exists as soon as the work comes into existence and there is no legal requirement to register with a national regulator. This is also the practice in most other countries that have signed the Berne Convention. We will come back to the topic of registration below.

2.2.3 – Some Examples Of Copyright

One key element of copyright is that the perimeter of what can be copyrighted is surprisingly broad, beyond the minimal standards of original expression. From Botticelli to *Breakout*, all original creations can be protected by copyright. Early game industry litigations fought over whether or not games were protectable by copyright, but eventually, as games grew in complexity, those issues were resolved in favor of copyright protection both in the United States and in the EU.

The game *Breakout* is an interesting example because it was the subject of a series of US cases surrounding its originality and the minimal level of creativity necessary for protection to arise. Atari tried at least twice to register the copyright in the game, but registration was initially rejected because of the perceived lack of originality and simplicity in the artistic display of the game. Visually, *Breakout* consisted merely of a rectangular object moving in one plane that reflected a small ball into a multicolored wall of rectangles. The ball eliminated a portion of the wall of rectangles and rebounded toward the bottom of the screen, where the player attempted to move the lower rectangle to redirect the ball back toward the wall of rectangles. Atari had to fight a series of cases over the application rejection from 1989 to 1992, but eventually won the fight.[202] This series of cases is important, not only to game IP but to copyright in general. The cases stand for the proposition that courts or the Register of Copyright will not judge the creativity or artistic quality in copyright. Any original fixed work in a tangible medium is protected.

Copyright is also the basis for infringement claims against games accused of cloning. In recent years, many claims against cloning have been filed. One example from 2012 was *Spry Fox v. Lolapps, Inc.,* which involved *Triple Town* and its clone, *Yeti Town*. The claim resulted in a settlement agreement where ownership of *Yeti Town* was transferred to Spry Fox.[203] In 2015, *Machine Zone, Inc. v. Ember Entertainment, Inc.* was filed, alleging that the game *Empire Z* was merely a "re-skin" of *Game of War* and copied elements such as the overall plot, theme, mood, setting, pace, characters, economy and sequence. The case was settled by the parties in early 2016.[204] In 2016, *DaVinci Editrice S.R.L. v. Ziko Games, LLC et al.* was filed. While this case involved card games versus video games, it is illustrative for the video game industry as the copyright allegations included copying of game rules, character roles, life points and winning requirements. Ultimately, the court dismissed the infringement claims prior to

[202] *Atari Games Corp. v. Oman*, 298 U.S. App. D.C. 303, 979 F.2d 242 (1992).
[203] Pearson, Dan, "Spry Fox wins ownership of Yeti Town as part of Triple Town settlement", *gameindustry.biz*, October 15, 2012. *Spry Fox, LLC v. Lolapps, Inc.*, No. 2:12-cv-00147 (W.D. Wash., 2012).
[204] *Machine Zone Inc. v. Ember Entertainment Inc*., No. 3:15-cv-01554, U.S. District Court for the Northern District of California.

trial.[205] Finally, in a bizarre twist, in 2017 *Psychic Readers Network, Inc. v. Take-Two Interactive Software, Inc. et al.* was filed. This case alleged that a character in *Grand Theft Auto: Vice City* infringed a copyright in a character, Ms. Cleo, previously used as The Psychic Readers Network's spokesperson. Zynga has also been involved in multiple cloning cases since the start of the company. As sophistication grows and development costs for social and mobile games remain relatively low, cloning is occurring more frequently. Practically, mobile clones may release on an app store and make their money quickly with extreme revenue techniques before complying with a takedown when someone takes notice. Still, this is not a new phenomenon in the game industry. In the early 1980s, Atari was involved in litigation over its *Pac-Man* IP against a Phillips game entitled *K.C. Munchkin*.[206]

It is however important to stress that not all game clones necessarily infringe copyright of the original games. It is often said that as long as the clone does not copy the art, music, characters, code and so on of the original game, but only its game rules and mechanics, then no infringement occurs. This is only partially true. Game rules and mechanics are commonly considered as general and functional ideas that cannot be monopolized by anyone; this means that different games can use the same rules and mechanics, provided that they *express* them in a different way. It is not always easy, however, to understand whether a certain aspect of a game is merely an (unprotectable) idea, or rather a (protectable) expression of that idea. Arguably, a specific combination of the rules and mechanics of a game may as well be a copyright-protected expression of that game. As a rule of thumb, if practically all game rules and mechanics have been copied from an original game, then copyright in that game is likely to be infringed. This matter was discussed in the 2012 US case, *Tetris Holding, LLC v. Xio Interactive, Inc,* in which the court found that certain mechanics-related aspects of the famous *Tetris* game were indeed protected by copyright and could not be used in another *Tetris* clone (i.e., the dimensions of the playing field; the display of "garbage" lines; the appearance of "ghost" or shadow pieces; the display of the next piece to fall).

2.2.4 – US Copyright Filing Information

Although any original work may qualify for protection as soon as it comes into existence, the copyright can also be registered for additional rights in the United States.[207] Copyright registration is absolutely necessary to litigate over copyright infringement in the United States and an early registration usually yields a better damage calculation. Consequently, it is prudent to register copyright even before writing a "cease and desist" letter to potential infringers (see Section 2.2.6 on protecting copyright). Balancing all the factors, the registration is so cheap, easy, and necessary for real legal teeth that the cost and effort required for the federal registration are easily worth it.

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[205] *DaVinci Editrice S.R.L. v. Ziko Games, LLC et al.,* No. 4:2013cv03415 - Document 73 (S.D. Tex. 2016).
[206] Ihalainen, Jani, "Retrospective – Copyright in Video Games", *ipiustitia.com*, October 27, 2014.
[207] See US Copyright Office "Frequently Asked Questions" at *http://www.copyright.gov/help/faq/* , for further information on how to do so.

In the EU, on the other hand, copyright holders are allowed to litigate copyright infringement and to claim damages to the full irrespective of whether or not they have previously registered their copyright. As a matter of fact, copyright is rarely registered in Europe. Some countries, such as France, Italy or Spain, offer a voluntary registration system, the benefit of which is very much limited to the provision of a rebuttable presumption of ownership of the copyright work and legal certainty that the work was created on or before the registration date.

In practice, registering a copyright in the United States entails submitting a copy of the work to the US Copyright Office, filling an application form and paying a filing fee. The form required to register a copyright is only a few pages long and the cost is approximately $45. The Copyright Office provides detailed instructions and information on completing the forms and contact information for questions.[208] Of all the forms of IP that benefit from registration, this is the easiest and cheapest.

2.2.5 – Term Of Protection

The length of copyright protection is another element that makes it attractive to game developers. At the international level, the minimum duration is 50 years after the death of the author; however, many national legislations provide for longer terms (70 years in the United States and the EU, 100 years in Mexico).

Copyright duration has varied over time. In respect of computer games, in the United States the length of copyright for works created after 1978 is 95 years after publication and 120 years after creation for corporate creations.[209] For personal creations, it is the life of the author plus 70 years.

All EU member states have a uniform term of protection for creative works; generally, this is the life of the author plus 70 years for personal creations and 70 years after publication for corporate creations. When there is joint authorship, the term of protection is 70 years from the death of the last surviving author. Importantly, duration concerns only the exploitation rights but not the author's moral rights (the right to be identified as the author of a work and to object to derogatory treatment of a work), which have divergent treatment in terms of both content and duration in each member state (moral rights are discussed in subsection 2.2.13, below).

These rules mean that no one can copy the original *Pac-Man* until about 2100. They also mean that derivative works (works based on one or more preexisting works, such as a sequel or prequel game) require a license until that time expires as well (derivative works are discussed in subsection 2.2.8, below). For *Pac-Man*, this means that cartoons, board games, clothing or re-creating that yummy *Pac-Man* cereal are not allowed without the appropriate legal permissions. Around the year 2100, barring a legislative extension prompted by lobbyists, people can go wild and cover the planet with *Pac-Man* copies and derivative works after the

[208] The US Copyright Office maintains a useful website at *https://www.copyright.gov/* to help people through the process of copyright registration. It also provides informational circulars in non-technical English at *https://www.copyright.gov/circs/*, explaining copyright registration for creative works and other topics. *Copyright Office Circular 61*, available at *https://www.copyright.gov/circs/circ61.pdf*, provides detailed information on the copyright registration of computer programs and video games.
[209] This discusses what publication is, among other questions: US Copyright Office, 'Definitions' *http://www.copyright.gov/help/faq/faq-definitions.html*.

original game falls into the public domain, as long as they are careful not to infringe any other IP right such as trademarks – but that is a story saved for later.

Consider how length affects what is possible for copyright. The length of protection is intimately tied to potential revenue generation. Game developers can use copyright to protect their original expressions, build new games and sell related products for a century or longer. The economic rights can literally be developed and exploited over generations. Mickey Mouse, Star Wars and Superman, which have existed for decades and been exploited across multiple media, including games, are excellent examples of this. For a period, the game industry believed that ever-increasing technological sophistication and graphical representation were key to high revenue-generating games. Successful social and mobile games such as *Candy Crush* and *Angry Birds* now confirm that simple, even 2D, games can achieve eight- and nine-figure revenues.[210] These games are likely to remain popular to some degree over a much longer lifecycle than originally anticipated through the games themselves as well as popular derivative properties (which will be discussed later).

2.2.6 – Protecting Copyright

The most basic step in dealing with copyright infringement is to send out a "cease and desist" letter. This letter simply explains that you own the copyrighted material, that the material is registered (if the letter is sent in the United States), and that the other party is using the material without your permission, in other words they have not secured a license from you. The letter usually goes on to explain the penalties for infringement and demands the other party to "cease and desist" from using the material.

If the infringement is online, a similar letter can be sent to the other party's Internet service provider (ISP) – a Digital Millennium Copyright Act takedown notice in the United States or an e-Commerce Directive (2000/31/EC) takedown notice in the EU. Most ISPs do not want to bear the potential liability of hosting copyright-infringing material. This letter to the infringer and/or the ISP is often enough to stop the infringer, although a potential infringer may challenge the allegation.[211]

In any event, this process should be managed by an attorney. This is the case particularly in the United States, where strict requirements exist for the content of

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[210] *Candy Crush Saga* brought in an estimated $930 million in revenue between August 2017 and July 2018 according to Sensor Tower, while the annual revenue for *Angry Birds* in 2017 reached almost €300 million ($325 million). Nelson, Randy, "King Just Had Its Best 12 Months of Candy Crush Revenue Ever", *sensortower.com.* August 15, 2018. See also Clement, J., "Annual revenue generated by Rovio Entertainment from 2010 to 2020", *sensortower.com,* July 15, 2021.

[211] See Myers, Gary, *Concise Hornbooks: Principles of Intellectual Property*, 3rd edition, West Academic Publishing, 2017, pp. 200-201. Under the Digital Millennium Copyright Act safe harbor provision, a "notice and takedown" notice must meet certain requirements. The notice must be in writing either in physical or electronic form to the designated agent of a service provider and include:

1. The signature of the copyright owner or owner's agent, in physical or electronic form.
2. Identification of the: (i) copyrighted work(s) infringed; (ii) the infringing activity; and (iii) the location of the infringing activity (this can be done by providing the URL).
3. Contact information of the notifying party that is sufficient for the service provider to contact them (this can include an email address, phone number or address).
4. A statement that the notifying party has a good faith belief that the material is not authorized by the intellectual property or copyright owner, its agent, or the law.
5. A statement that the information provided is accurate and the notifying party is authorized to make the complaint on behalf of the intellectual property or copyright owner.

the letter and legal penalties for sending a letter that does not involve a legitimate claim.

In the EU, the risk of incurring negative consequences because of sending such a letter, provided that the sender is able to show their good faith, is generally lower. National laws of EU Member States tend not to require the same level of formalities as those expected under US law. Nevertheless, when dealing with copyright claims, it is generally advisable to involve an attorney in the process. This would, among other things, avoid the other party filing a lawsuit seeking recognition from a court that the claim in the "cease and desist" letter is legally unfounded, which could have negative implications for legal costs, given that the court could order the party that made an illegitimate claim to reimburse the other party's legal costs.

2.2.7 – Penalties For Infringement

Copyright owners have a range of exclusive rights that enable them to control how the work is used. Engaging in any of the protected acts without the owner's permission and outside of legal exceptions may result in copyright infringement. One of the remedies available to game developers is the option to prevent infringing parties from selling works that include the developer's copyrighted work(s). Developers can also sue for damages and profits equal to the profits made by the infringing parties from selling the illegal works. Furthermore, in the United States, willful copyright infringement carries a statutory penalty of up to $150,000 per work infringed. In the EU, broadly speaking, there is no principle of statutory or punitive damages in civil copyright infringement lawsuits. For that reason, awarded damages are substantially lower in the EU than in the United States, as are litigation costs.

In a typical copyright lawsuit filed in June 2004, Midway brought a case in the United States against Sony Ericsson for violating its copyright on the game *Defender* from 1980.[212] Midway claimed that Sony Ericsson was using the game on its mobile phones without permission. Midway requested that the court award damages and reimbursement of its legal fees, and required Sony Ericsson to turn over all mobile phones, software and other materials in its possession related to the alleged copyright violation. The case was settled out of court and dismissed a few months later, but still serves as an excellent example of the remedies that can be requested in copyright cases.

In another US lawsuit started in 2007, Epic Games accused Canadian game developer Silicon Knights of having incorporated Epic's Unreal Engine 3 code into its own engine, thus infringing Epic's copyright over the code. In 2012, Epic was eventually awarded over $9 million on various grounds, including copyright infringement. But this was not the end of it. The court also ordered Silicon Knights, among other things, to recall and destroy all unsold retail copies of the games they had built with Unreal Engine 3 code, which included relatively popular games such as *Too Human* and *X-Men Destiny.* In 2014, following the dismissal of their appeal against the decision,[213] Silicon Knights filed for bankruptcy. This is another

[212] Jenkins, David, "Midway Sue Sony Ericsson", *gamasutra.com*, July 2, 2004.
[213] Crecente, Brian, "Court upholds findings in $9.2M Epic Games, Silicon Knights lawsuit", *polygon.com*, January 10, 2014.

good example of what copyright infringement can potentially lead to and the power of copyright protections.

Copyright infringement can also lead to criminal penalties resulting in prison time, particularly when people violate copyright by illegally selling or distributing games over the Internet. In the United States this is provided for under Title 17, Section 506(a) and Title 18, Section 2319 of the United States Code. Criminal penalties also exist in Europe, where they largely depend on national legislation as they are not harmonized at the EU level.

In the United States, an instance of this came to light in February 2004 when Sean Michael Breen, leader of the RAZOR1911 warez group, received a four-year prison sentence and was ordered to pay nearly $700,000 in damages for copyright infringement. He was one of 40 people arrested in a sting operation by US Customs Service "Operation Buccaneer".[214]

Another example surfaced in early 2006, when a court in Minnesota convicted Yonatan Cohen for criminal copyright infringement for making a game console that included unlicensed Nintendo games. He was sentenced to five years in prison, lost hundreds of thousands of dollars in cash and property and was deported to Israel. Worse, his punishment included the use of his own resources to pay for advertisements in game magazines warning about the penalties for copyright violation. The advertisements showed him front and center, with a picture of his copyright-violating device, a description of his punishment and a caption that read: "This ad was paid for by Yonatan Cohen as part of his restitution to warn others about the dangers and penalties associated with violating the copyrights laws".

In Europe too, Nintendo has taken both civil and criminal legal actions against the distribution of unauthorized software and hardware, with one of those cases also reaching the CJEU.[215] In 2017, for instance, the Italian Supreme Court confirmed two criminal sentences against the sellers of unauthorized equipment that enabled Nintendo consoles to run pirated games. In addition to fines of several thousand euros each, the sellers were sentenced to imprisonment for up to one year and eight months.[216]

2.2.8 – Derivative Works

The idea of a "derivative work" is critically important in the way that copyright is used in the game industry. A derivative work is a new work derived from an existing copyrighted work. The language of the US statute defines a derivative work as being "based upon one or more preexisting works, such as a translation, musical arrangement, dramatization, fictionalization, motion picture version, sound recording, art reproduction, abridgment, condensation, or any other form in which a work may be recast, transformed, or adapted" (United States Copyright Act, Sect.101).

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[214] *United States v. Breen*, Case No. 02-CR-40216 (archived), (N.D. Cal., Oakland, February 10, 2004). See Wikipedia, "Operation Buccaneer", *wikipedia.org*, July 10, 2021; and Thorsen, Tor, "Game pirate gets four years jail time", *gamespot.com*, February 12, 2004.
[215] Case C-355/12, *Nintendo Co. Ltd and Others v. PC Box Srl and 9Net Srl* (ECJ, January 23, 2014).
[216] Cases Nos 57858/2017 and 38204/2017 of the Italian Supreme Court.

What does it mean when you read that a company has acquired "the rights" to make a game based on a film, or *vice versa*? In the copyright sense, this often means that the game company has acquired the right to make a derivative game based on a film, or a studio or producer has purchased an option to acquire the right to make a film or television show based on a game. The movie *Sonic the Hedgehog* is a derivative work created from the *Sonic the Hedgehog* game series. On the other hand, *Mad Max* was first a film and then a derivative work was created, turning the copyrighted material in the film into a game and comic book series. In the past, games based on movies were often quickly-developed film tie-ins (*E.T. the Extra-Terrestrial* being the most infamous example). Whereas now, games based on film franchises can be integral parts of a cinematic universe, such as *Star Wars Jedi: Fallen Order*, which can create original characters that are then introduced in other works such as television series and comic books.

Now, it is easy to imagine that this process gets complex rather quickly. Consider *The Lord of the Rings*, a world described in a series of books by J. R. R. Tolkien. The entity that controls the copyright to this world has granted a copyright license to make derivative works for board games, computer games, films and replica weapons; all these products are derivative works that also have their own copyright. Any material in a derivative work that is not contained in the underlying work is copyrightable as a new work. Furthermore, this new material may even be licensable itself.

Continuing with *The Lord of the Rings* example, this offers a fascinating derivative works case study in the game industry. Starting in 2001, Electronic Arts developed game series, including the first *Battle for Middle-earth* game, based on a license from the Peter Jackson films. This meant that the games from Electronic Arts could only produce game content, or derivative work, that came from the Jackson films. In 2005, while creating the *Battle for Middle-earth* sequel and other *Rings* games, Electronic Arts acquired a license to produce a game based on the entire world of fiction as described in the Tolkien books. This license to make derivative works based on the books opened up a new territory for creativity. Here, Electronic Arts was licensing a subset of material from one derivative work and later went on to acquire a license for the entire base of material. In this instance, interactive media is not so different from traditional media. For example, Amazon's $465 million dollar *Lord of the Rings* series will not be able to use much of Tolkien's original plot because of license management with the Tolkien estate.[217]

Netflix's *Witcher* television series, on the other hand, is not meant to be derivative from the *Witcher* games (an adaptation of Andrzej Sapkowski's books from the 1990s), despite its star Henry Cavill being drawn to the project from the games. *The Witcher* saga was largely popularized due to the games by CD Projekt Red, but the showrunners of the television series made it clear that their product was only "a straight adaptation of the books". This means that the series cannot take anything from those elements that are unique to the games, one example being completely different designs for main character Geralt's wolf pendant in the television series and game. This is arguably easier said than done, considering

[217] Games Industry International, "EA Granted Rights to Develop the Lord of the Rings Games Based on J.R.R. Tolkien's Epic Literary Fiction", *gamesindustry.biz*, July 25, 2005; and Canales, Katie, "Amazon is spending a whopping $465 million on 'The Lord of the Rings' season 1: This will be the largest television series ever made", *businessinsider.com*, April 16, 2021.

the role that the games have had in shaping the overall tone and style of the *Witcher's* Continent and characters, and how iconic some of the game moments have become.[218]

Other good examples of complex chains of derivative works can be found in the *LEGO* franchises: the *LEGO Harry Potter* games are derivative works from the *LEGO Harry Potter* toys, which in turn are derivative works from the *Harry Potter* movies, which are derivative works from the *Harry Potter* books. The *LEGO Batman Movie Game* is a mobile game which is a derivative work from the film *The LEGO Batman Movie*, which, in turn, is a derivative work from the *LEGO Batman* toys, which are derivative works from the *Batman* comics. (Chapter 4 deals with the importance of obtaining rights from the correct party).

2.2.9 – The Public Domain

What happens to copyrighted works after the protection expires, and how does that affect game copyright specifically? The short answer is that a formerly protected work that loses its IP protection passes into the public domain. This is a particularly exciting idea because anyone, even game developers, can use material in the public domain to create new works. As a rule of thumb, the older a work is, the more likely it is to be in the public domain. Nevertheless, the fact that a character or work is in the public domain does not provide automatic protection because later works that do not meet public domain requirements and other factors can create arguably protectable elements. For example, Arthur Conan Doyle's estate frequently challenges adaptations of *Sherlock Holmes*, of which only works prior to 1926 are in the public domain at the time of writing. Most recently, the Doyle estate sued Netflix over its *Enola Holmes* project, which is based on a separate novel series by Nancy Springer, for Netflix's depiction of Sherlock which, it contended, was too emphatic, since the character only became "warmer" in Doyle's stories after 1926 when he "became capable of friendship [and] began to respect women."[219] In fact, a 2014 case established that Sherlock liking dogs was a protectable trait.[220]

The table below shows a greatly simplified set of rules for determining when a work passes into the public domain in the United States. Law professor Laura Gasaway has produced a much better chart, which is one of the most cited tables for determining the expiration of US copyright. The Gasaway chart and another one from Cornell University are referenced in the table below.

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[218] O'Connor, Alice, "If Netflix's *Witcher* isn't based on the games, why that shot of Geralt in the bath?", *rockpapershotgun.com*, October 31, 2019.
[219] *Conan Doyle Estate Ltd. v. Nancy Springer et al.,* 1:20-cv-00610, U.S. District Court for the District of New Mexico.
[220] *Klinger v. Conan Doyle Estate, Ltd.*, 761 F.3d 789 (7th Cir. 2014).

IS THE WORK IN THE PUBLIC DOMAIN?	
Work first published before 1926	Public domain
Work first published between 1926 and March 1989	Depends on whether the work was published with a notice of copyright registration and whether the registration was renewed
Work first published after March 1989	Under copyright for 70 years after the death of author, or if a work of corporate authorship, the shorter of 95 years from publication or 120 years from creation

In the EU, as mentioned above, copyright duration has been harmonized for all member states and normally lasts for 70 years after the death of the author, irrespective of the date on which the work was first published.[221]

Before making any final decision, it is prudent to check with an IP counsel before using works assumed to be in the public domain. In the United States, particular caution should be used in respect of works created outside the United States or between 1926 and 1989. There may also be special circumstances surrounding a particular work that limit its use in a game. A common example of such special circumstances is when public domain works have been used previously to create new works. As discussed above, these new works are derivative works. They have their own new IP protection for the new elements contained within them, but the underlying public domain works remain in the public domain.

The story of Robin Hood is an excellent example of a special public domain situation, because the story is so old it is practically a fairy tale. There may have been someone who performed similar feats in medieval England, but the myriad of stories does appear exaggerated. It is also true that there have been countless books and movies using the Robin Hood story. There have also been several video games based on Robin Hood, his merry men, the Sheriff of Nottingham and Maid Marian. The main point is that the underlying story and characters form part of the public domain, but when creating new stories using this inspiration, developers should be careful not to infringe on modern works that still have copyright protection. The license-hungry game developer should be encouraged by a secondary point, that many popular stories and characters are now available for free game development, including much of the great art and literature from the nineteenth century and earlier.

Another important example of the public domain comes in the form of myths, history and cultural lore. Anyone can use these as familiar settings to build games because they are so old, and their authorship is collective and forgotten.

[221] However, in certain circumstances, EU Member States could provide that, insofar as a once expired national copyright over a given work was revived by effect of the harmonization of the copyright duration by the EU, copyright over that work does not give rise to payments by persons who in good faith started to exploit the work at the time when it was in the public domain (recital (25), Term Directive).

Before the trademark dispute and subsequent cancellation of the Microsoft project *Mythica*, the game was going to use a place named Muspellheim. *Dark Age of Camelot* also uses the name Muspellheim. Since Muspellheim is a place from Norse mythology, both companies can use this name as a setting for their games. That story is not under copyright protection because the author or authors of those myths have been dead for centuries. This is similar to using "Mount Olympus" or "Hell" as a setting in a game. On the other hand, using "The Death Star" or "Tatooine" for game development names would be an entirely different case because these places, as story elements, are the IP of the *Star Wars* universe. These names were created recently by an author and are protected by copyright as story elements. Although they are such a pervasive part of our cultural consciousness and even more well-known than Muspellheim, they cannot be used in games without permission. Any use of these names in new and similar stories would contribute to a copyright infringement claim.

Historical events are also not subject to copyright, but the stories created out of them may be. An example is World War II, a fertile era for game development. No one can copyright the specific events of that or any historical period. The *Battlefield*, *Call of Duty* and *Hearts of Iron* series can all use tanks, weapons and uniforms that are historically accurate. Furthermore, they are not infringing each other's copyright because the games are merely representing historical facts.[222] That said, historical events also involve real people who may have proprietary rights separate from copyright. In 2014, *CMG v. Maximum Family Games* was filed in the United States alleging that the inclusion of General Patton in the *Legends of War* game violated his right of publicity. The case was settled in 2015 following the filing of a motion to dismiss by Maximum Family Games.

It is important to remember that copying a story inspired by historical facts may still result in copyright infringement, but merely copying the historical facts will not. For instance, a developer cannot make a game based on the movie *Saving Private Ryan* without the appropriate license. A developer can, however, make a game about Pearl Harbor or other WWII events as long as they are creating the game around the historical event and not the movie of the same name.

[222] Having said that no copyright infringement exists, trademark infringement has still been alleged in certain circumstances. In 2012, Electronic Arts sued Textron (the makers of Bell Helicopters) in the United States, seeking a declaratory judgment concerning its right to include Bell Helicopter trademarks in its game. The case settled in 2013 following the court's decision not to dismiss Textron's trademark claims. In May 2013, Electronic Arts publicly announced that it would no longer license any weaponry for use in its games; see Nayak, Malathi, "Video game maker drops gun makers, not their guns", *reuters.com*, May 7, 2013. In 2020, Activision won a legal battle against the manufacturers of the real-life Humvee military vehicles. According to the Court, the inclusion of Humvees in Activision's *Call of Duty* series made the games more realistic and was therefore allowed – the artistic goal of realism being a viable defense against trademark infringement. Similarly, when Pinkerton Consulting & Investigation company claimed that Take-Two Interactive and Rockstar Games were infringing its trademarks by featuring agents of the "Pinkerton Detective Agency", who also wore the related badge, within the game *Red Dead Redemption 2,* Take-Two Interactive and Rockstar Games filed a declaratory judgment in order to be declared not liable for trademark infringement based, *inter alia*, on the argument that references in the game were historical. Pinkerton later withdrew its claims against Take-Two and Rockstar, which in turn declared that they would not continue legal action against Pinkerton. Things may also get more complicated when parody – not realism – is the reason why a certain vehicle was included in the game, which is what had happened in a French case involving the *Grand Theft Auto* "Turismo" cars (see Section 2.3.11 on unfair competition).

2.2.10 – US Scènes à Faire Doctrine

The US *scènes à faire* doctrine is similar to public domain property. This doctrine recognizes that some expressions of ideas are so often used that they cannot be copyrighted by themselves. An example of this is the fairy tale beginning, "Once upon a time…". So many fairy tales begin that way that a fairy tale-based game could certainly begin that way, too.[223] Other *scènes à faire* doctrine examples would be generic characters or group of characters in a fantasy genre, such as wizards or dragons. These species and their general characteristics are not copyrightable, but specific depictions of these characters, such as Gandalf or Drizzt, would be.

Although *scènes à faire* is originally a French term, the same doctrine is not formally recognized in EU copyright law, although the requirements of originality for copyright works under EU law would most probably lead to a similar outcome.

2.2.11 – US Fair Use

The concept of "fair use" is commonly discussed and misunderstood in copyright law. As a general notion, fair use means that one party may use a portion of a copyrighted work for a limited purpose without asking permission from the copyright holders, in other words without paying for a license. This concept is stipulated in the US statute and requires four conditions to be considered, as per the table below.

As one might imagine, fair use can constitute a grey area at times. It is commonly brought up by parties opposing copyright infringement, but is not a perfect defense.

FOUR FACTORS IN FAIR USE	
1. The purpose and character of use	Educational uses and uses in parody are more often protected than strict commercial copying.
2. The nature of the copyrighted work	Using sections of a commercial work is more likely to result in a finding of infringement. Copying creative fictional works is more likely to result in a finding of infringement than copying factual compilations.
3. The amount and substantiality of the portion taken	Taking a large portion from a work is more likely to result in a finding of infringement than taking a small portion.
4. The effect of the use on the potential market	Demonstrably weakening the market for the copyrighted work is more likely to result in a finding of infringement.

[223] See the *Fort Apache* case discussing a Paul Newman film: *Walker v. Time Life Films, Inc.*, 784 F.2d 44 (2nd Cir.1986).

There are two common pitfalls relating to fair use. First, fair use is a US concept. Most other countries, especially in Europe, do not provide for such flexible provisions allowing copyrighted material to be used without a license.[224] This means that a game company hoping to incorporate some copyrighted material into a game as a "parody" or other traditionally shielded type of fair use may run into problems when selling its game in other countries. A small clip intended as a humorous interlude may lead the company into litigation or forgoing sales outside the United States. This concept may also extend to marketing and content, for example, on social media platforms that vary copyright claims procedure by country.

The second point to remember about fair use is that it is a defense (rather than an exception) to a claim of copyright infringement. This means that a copyright holder in the United States can certainly sue the company that included the clip for using a copyrighted work or a derivative of that work without a license. After the case is brought, the law grants the offending company the opportunity to argue the merits of fair use. This means that a company plainly operating within the traditional boundaries of fair use is still open to litigation and, therefore, open to the associated costs and bad publicity associated with a copyright litigation. In short, the decision to use copyrighted material in a game under the protection of fair use poses a risk and should be weighed with due care.

Recently, the concept of fair use in video games was put to the test when a company claiming to own copyright to tattoo designs of several famous National Basketball Association (NBA) players filed suit against 2K Games and its parent company, Take-Two Interactive, alleging that 2K Games infringed upon its copyrights in the NBA players' tattoo designs by reproducing them on player likenesses in *NBA 2K* games.[225] The court ultimately determined that 2K Games' reproduction of the NBA players' tattoos constituted fair use, and that beyond fair use: (a) 2K Games' use of the tattoos was so insubstantial that it constituted *de minimis* use of the designs, nonactionable for copyright infringement; and (b) the plaintiffs granted an implied, sub-licensable license to the NBA players in question when they inked the tattoos on their skin, knowing that the players were likely to appear in public, on television and in other forms of media. More recently, however, another US court in a very similar case involving tattoos on an athlete ruled against 2K Games motion for summary judgment seeking to dismiss the case on fair use, implied license and *de minimis* use in their WWE 2K wrestling game series.[226]

2.2.12 – EU Copyright Exceptions And Limitations

The EU counterpart to the US fair use doctrine is the existence of certain statutory exceptions and limitations to copyright in the national legislation of EU member states.

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[224] Hugenholtz, P. B. and Senftleben, Martin, "Fair Use in Europe: In Search of Flexibilities", *papers.ssrn.com*, November 15, 2011.
[225] *Solid Oak Sketches LLC v. 2K Games, Inc.*, 449 F. Supp. 3d 333 (S.D.N.Y 2020).
[226] This case involved tattoos that appeared on the professional wrestler Randy Orton in 2K Games' WWE 2K wrestling game series. *Alexander v. Take-Two Interactive Software, Inc.*, 489 F. Supp. 3d 812 (S.D. III. 2020).

Previously, there had been only one, rather technical, exception to copyright mandated by EU law for all member states, allowing for:

> *"[t]emporary acts of reproduction […], which are transient or incidental [and] an integral and essential part of a technological process and whose sole purpose is to enable: (a) a transmission in a network between third parties by an intermediary, or (b) a lawful use of a work or other subject matter to be made, and which have no independent economic significance."*[227]

However, this exception has little or no impact for developers; essentially, it only allows third-party service providers to make temporary copies of works insofar as that is necessary in order to carry out certain technical activities (such as browsing, caching and reproduction on Internet routers).

EU law also provides for a long list of other possible copyright exceptions and limitations that member states are free to implement in their national laws. While these exceptions and limitations are purely optional, the list is exhaustive and no other exception or limitation may be added to national laws.

In general terms, EU exceptions and limitations are quite narrow, as a number of specific conditions need to be met for an exception or limitation to apply. Moreover, EU exceptions and limitations can apply only insofar as they also satisfy the "three-step test". This test mandates that exceptions and limitations can apply only to certain special cases provided that they do not conflict with the normal exploitation of the copyrighted work and do not unreasonably prejudice the legitimate interests of the copyright owners.

The most relevant of the possible EU exceptions and limitations relate to:

- uses for the purposes of caricature, parody or pastiche (i.e., a style that imitates another style);
- uses of copyrighted works made to be located permanently in public places, such as monuments or sculptures (so-called "freedom of panorama");
- quotations for purposes of criticism or review;
- incidental inclusions of a copyrighted work in other materials;
- uses for the purpose of illustration for teaching or scientific research;
- non-commercial reproductions made by a natural person for private use;
- non-commercial reproductions made by public libraries, schools or museums;
- non-commercial uses for the benefit of persons with disabilities.
- These and other copyright exceptions and limitations have been adopted differently across Europe.[228]

[227] Information Society Directive (2001/29/EC), article 5(1). Note that the DSM Directive (2019/790) introduced more mandatory exceptions for text and data mining, cross-border and digital teaching and preservation of cultural heritage; the implementation deadline for EU member states was June 7, 2021.

[228] A useful website at *https://copyrightexceptions.eu* maps all the different "selections" of exceptions and limitations by the EU member states."

Similar to the US fair use doctrine, EU copyright exceptions and limitations affect video games in two ways. First, the copyright over a game cannot be enforced if a valid claim to any of these exceptions is made (for example, a parody of a video game may be possible even without the authorization of the owner of the copyright over the game). Second, a game can lawfully incorporate third-party copyright work insofar as it does so under any of these exceptions (for example, a game character may freely parody a film character). Before applying any of these exceptions and limitations in the EU context, it is recommended that game developers seek the help of a specialized legal expert to determine their correct application.

2.2.13 – Moral Rights

Moral rights are a concept that originated in the legal systems of France and Germany and spread from there, assisted in part by international treaties such as the Berne Convention. At the international level, moral rights are rights granted to the authors of creative works first so that they can be identified as the author of the work in certain circumstances, such as when copies are issued to the public, and second to enable them to object to derogatory treatment of the work that amounts to a distortion or mutilation or is otherwise prejudicial to the honor or reputation of the author. Moral rights are therefore essentially concerned with protecting the reputation of an author. Beyond these two moral rights, national legislations sometimes grant additional moral rights.[229]

There are some important caveats regarding moral rights. First, they are associated with the author and cannot be assigned, transferred (except to the author's heirs, upon his or her death), or sold (although, in contracts, the author will frequently try to secure their moral rights to the extent possible). Second, in some jurisdictions such as the United States and the United Kingdom, a moral right has to be publicly asserted in order to be enforceable; this is why the beginning of many non-US literary works includes wording stating that the moral rights of the author are asserted. Third, although this does not apply to some prominent jurisdictions such as France and Italy, in some countries the author can waive their moral rights. Sometimes the waiver needs to be specific, in other words to identify the work and the uses for which moral rights are waived. Consequently, whenever there is an assignment (which is a written transfer of the author's rights, obligations, and benefits to another party), sale or transfer of a copyright work, a well-drafted contract will include a waiving by the author of any corresponding moral rights. Lastly, in the United States, moral rights do not apply to computer programs (meaning, in practice, computer code, but not related works such as game artwork). For all these reasons, it is rare for moral rights to cause issues in game development.

2.2.14 – Copyright Ownership, Licenses And Chain of Title

The author of a work or in the case of a work for hire, the owner of a copyright, can transfer the copyright using an assignment agreement. Usually, the author

[229] For instance, the right of retraction and first publication in France or the right to object to false attribution, as a separate right, in the United Kingdom. This is quite common in Europe and Latin America.

or owner permanently assigns the copyright to another person or entity and the new rights holder will then have the right to prevent others from using the work in violation of copyright laws. An assignment agreement is different from a license, the latter being a temporary permission to use the work without risking violating the copyright. In *Prince v. Gearbox Software, LLC et al.*, composer Bobby Prince sued Gearbox, Apogee Software, and 3D Realms for unpaid royalties in connection with sixteen original songs that Prince composed for *Duke Nukem 3D*.[230] In this case the work, or the songs, were licensed by Apogee under an exclusive contract; the license was not transferred when Gearbox acquired the *Duke Nukem* property. The parties all settled, but it is important to follow the chain of title and be clear on what kind of transfer is being used and how is it limited.

2.2.15 – Common Questions About Copyright

Is mailing a sealed envelope proof of copyright?

Mailing a sealed envelope to a person with a copy of the company's newest game is not remotely the same as registering the copyright for the game. Sometimes called "the poor man's copyright," in the United States this procedure has no legal effect. At best, it may prove that the material was in a certain form on a certain date, but that evidence is open to challenge since an individual can mail an unsealed envelope to themselves and seal it later. In the EU, depending on the country concerned, a sealed envelope with an uncorrupted stamp from the post office may have some probative value. That said, actual copyright registration is easy and inexpensive, so there is little reason to resort to mailing a sealed envelope when mailing a form and payment to the Copyright Office is nearly as easy, or, outside the United States, there is an alternative national registration system available.

In the United States, is a copyright holder entitled to $150,000 in damages per instance of infringement?

The statutory damages clause for copyright infringement is often misinterpreted. A copyright holder is entitled to up to $150,000 in damages per instance of copyright infringement in the United States. This is for willful infringement of a registered copyrighted work. Furthermore, it is not per copy of the registered work, it is per instance of infringement. Making 10,000 copies of a particular game or film does not multiply the damages by 10,000. The game or film is one copyrighted work and that counts as one instance of infringement. The damage calculation may end up becoming more than $150,000 through other damage-calculation mechanisms such as calculating ill-gotten profits or lost sales, but it is not the result of multiplying the number of copied units by $150,000. The damages may also add up because most games actually contain many copyright works. The number of copies does not directly multiply the damages under the willful damages statutory section. The number of works, not the number of copies, is most significant. That said, as noted previously, statutory damages for copyright infringement are not typically available for countries outside the United States.

[230] *Prince v. Gearbox Software, LLC et al.*, 3:2019cv00380.

2.3 – Trademark

Trademarks focus on pushing information about the company out into the public. In fact, a successful trademark is one that allows consumers to recognize the company and its products or services instantly when they see the mark. Logos, images and catchphrases all qualify as trademarks and form part of a company's goodwill. The Xbox, PlayStation or Apple logos are immediately recognizable and communicate certain messages about the source and expected quality directly to consumers. Brand recognition and association with a particular company is the purpose of a trademark.

Trademarks are arguably the second most important type of IP protection for game companies after copyright since a good trademark can set a company and its games apart from others in the minds of consumers.

Based on the applicable legislation, the possibility of protecting a trademark may be derived simply from the use of a specific sign as a source indicator for a certain company's products and services. Alternatively, it may be subject to some kind of registration, which is the case for registration-based trademark systems such as that adopted by the EU (non-registered trademarks may exist – and coexist – with registered trademarks).

In the United States, the Lanham Act is the primary trademark legislation, which also governs false advertising and trademark dilution, as well as trademark infringement. It sets out the basic rules governing trademark registration, infringement standards and the penalties for infringement.

Trademark law in the EU has been harmonized for over 30 years. This harmonization has been achieved through two separate activities. First, national trademark laws have been unified through a series of EU legislative acts. Second, the European Union Trade Mark (EUTM) – an EU-wide trademark distinct from individual national trademarks – has been established as a further opportunity to integrate the internal market and remove free barriers to trade.[231] The latest legislative reform further strengthened the main principles of the EUTM system, while making it more efficient and consistent as a whole and adapting it to the digital era.[232]

The EUTM allows applicants to obtain a trademark valid in the entire territory of the EU with a single application. The EUTM is a single title and, as such, is registered, withdrawn, cancelled, renewed, assigned and so on in relation to the whole EU rather than to individual member states.[233] This mark can be a cost-effective way of establishing trademark rights over a broad array of countries, which, whenever a company has the product or resources to consider international protection of its trademark(s), should be considered and discussed with its IP attorney (in parallel with the use of the Madrid Protocol, discussed below).

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[231] The legislation establishing the rules applicable to the EUTM is Regulation (EU) 2017/1001 on the European Union trade mark (EUTMR).
[232] Directive (EU) 2015/2436 to approximate the laws of the member states relating to trademarks.
[233] These procedures are carried out through the European Union Intellectual Property Office (EUIPO).

2.3.1 – What Can Be Trademarked?

In principle, any sign that is capable of differentiating the products and services of one undertaking from those of others can serve and be protected as a trademark. However, when it comes to registering a trademark, the legislation of different countries may apply different requirements and limitations, for example by limiting protection for certain signs considered deceptive, immoral, scandalous,[234] offensive[235] and generally contrary to public policy and morality.[236]

The most common trademarks consist of a word, name, symbol, graphic or short phrase used in business to identify a specific company's products or services. More exotic trademarks can consist of shapes,[237] colors, sounds, animations, holograms, and, depending on the local trademark legislation,[238] even a smell, a tactile sensation or a taste. Most of these unusual trademarks, which are referred to as non-traditional trademarks, are rarely used due to the difficulties connected with their registration, whenever registration is a requirement, and their protection. However, in recent years the relevance of non-traditional trademarks, in particular that of shape and sound trademarks, has increased also in relation to the video game industry. In fact, publishers started exploring the possibility of registering some of their iconic sound as trademarks – as happened for Sony with the PlayStation robot sound ("play-sta-tion"), or for Nintendo, with Super Mario's coin sound.[239]

In addition, under the new EU trademark system, applicants can now submit multimedia trademarks that combine both audio and visual elements, represented in any appropriate form using generally available technology, as long as the representation is clear, precise, self-contained, easily accessible, intelligible, durable and objective. For developers and publishers, multimedia trademarks could potentially be relevant for the protection of: (i) animations representing brands, such as *Sonic the Hedgehog* running across the screen followed by the Sega logo; and (ii) gameplay mechanics and character animations, such as Scorpion's "Get over here!" move from *Mortal Kombat*, or the X-ray kill cam in the *Sniper Elite* series.[240] At this stage, however, it is too early to predict whether EU multimedia marks will turn out to be an effective instrument to prevent gameplay elements from being copied.

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[234] Sect. 2 of the Lanham Act, for example, provides that registration should be refused, *inter alia*, in relation to trademarks which "[consist] of or [comprise] immoral, deceptive, or scandalous matter."

[235] Importantly, however, in 2017 a US Supreme Court judgment invalidated the Lanham Act "disparagement clause", which prohibited registration of trademarks that may disparage or bring into contempt or disrepute persons, institutions, beliefs, or national symbols. The Court held that such a provision violated the First Amendment to the US Constitution's Free Speech Clause. See *Matal v. Tam*, 137 S. Ct.1744 (2017).

[236] For instance, article 7(1)(f) of the EUTMR provides that registration should be refused in relation to trade marks which are contrary to public policy or to accepted principles of morality.

[237] Shape trademarks are important to consider when clearing a video game content's intellectual property rights. In fact, as shape trademarks have become increasingly popular in recent years, numerous signature objects of certain brands have been registered as trademarks (such as popular guns, vehicles or trucks).

[238] Some trademark offices might, for example, require "as a condition of registration, that signs be visually perceptible" (TRIPS Agreement, Art.15).

[239] Ten Doeschate, Bart, "Mario's coin: sound trademarks in the EU", *lexology.com*, April 13, 2016.

[240] This is an application before EUIPO to register a 25-second video clip depicting the "kill cam" mechanic from the *Sniper Elite* series published by Rebellion, a video game company based in the United Kingdom. The application was filed for Class 9 (software), Class 28 (games) and Class 41 (entertainment, education). Lobov, Kostyantyn, "How multimedia trade marks could kill cloned games", *gamesindustry.biz*, February 19, 2018.

2.3.2 – Is It Necessary To Register A Trademark?

In the United States, in order to identify a trademark for a game company, the company only has to use a superscript TM after the mark, like this – "mark™".

Simply placing the ™ designation after a word puts the world on notice of "common law" trademark rights. Common law trademark rights are derived from the use of the mark in commerce. Through business use, trademarks become associated with a company and perhaps also with a particular product or service within the company. Common law rights are also controlled by state law; the mark is protected only in the area where it is in use, not throughout the United States. The position is the same in other common law countries, such as Canada, the United Kingdom, India and Australia and, in practice, in many other countries too.

The EU, on the other hand, has a registration-based trademark system. This means that a trademark generally needs to be registered with an EUTM in order to ensure that it will be protected throughout the EU or within a specific member state. In addition, the trademark owner is required to use their registered trademark within five years of the date of registration, otherwise the registration could be revoked.[241]

Unregistered trademarks may also be protected in the EU, but the law is not harmonized at the European level. Unregistered trademarks can be relied upon to oppose or invalidate the registration of an EUTM,[242] and, based on member states' national regulation, might enjoy some protection if the sign meets the applicable requirements (which normally require a certain level of recognition among consumers). This is the case, for instance, in Germany, Ireland, Italy and Sweden. The protection granted to an unregistered trademark will usually be limited to the area where the trademark is used in commerce and, thus, recognized.

Not registering a trademark, or not registering in all regions which are relevant for the marketing of a particular good or service, could be risky to the extent that someone else might legitimately register the same trademark or a similar one. As a result, your potential use of the same trademark would be strongly limited in relation to territories, goods or services not currently covered by your use. Even where those territories were already covered by your use, opposing a (fraudulent) registration of your trademark by a third party may turn out to be a burdensome and expensive process.[243]

2.3.3 – Picking A Good Trademark

A trademark can be considered strong whenever it is distinctive in relation to the goods or services to which it relates. As a general rule, the less a trademark suggests the purpose, kind, quality, quantity, origin and value of the goods and services with which it is associated, the more it is distinctive in the eye of a

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[241] EUIPO, "Route to registration", *euipo.europa.eu*.
[242] Art. 8(4) of EUTMR provides that whenever certain conditions are met, the proprietor of a non-registered trademark or of another sign used in the course of trade can successfully oppose an EUTM trademark registration.
[243] This might give raise to trademark disputes, as the one between American indie development studio Playsaurus and Chinese company Shenzhen Lingyou Technology Co., Ltd. in relation to the trademark *Clicker Heroes*.

customer. Mark strength is an indicator of the strength of available protection and, also, contributes to the overall IP value.

In the United States, trademarks are divided into five categories based on the level of distinctiveness,[244] which reflect the relative strength of the mark. The five categories of trademark strength are fanciful, arbitrary, suggestive, descriptive and generic (see the table below).

JUDGING TRADEMARK STRENGTH		
Mark category	**Description**	**Example**
Fanciful	Words that have no meaning beyond that given by the company	Xbox
Arbitrary	Words previously unassociated with a type source	Apple (for computers)
Suggestive	Words that suggest something about the source	Electronic Arts
Descriptive	Words that merely describe the source	Computerland
Generic	Generic descriptor; cannot be a trademark	Video game

Fanciful marks are the strongest marks. They have no meaning other than the meaning a company associates with them. Examples of fanciful marks include Xbox, Bioware, NVIDIA, *Tetris* and Eidos.

Arbitrary marks are also strong, but less so than fanciful marks. They are words that are not associated with the particular product until the company associates them. An example of an arbitrary mark is Apple for computers, Android for the operating system, or id for a development studio.

Suggestive marks can be a natural word that suggests the product it represents but does not directly describe it. These are the weakest marks for which companies can normally obtain protection. Examples of suggestive marks are Electronic Arts for a maker of video games, PlayStation for a console game platform, *Space Invaders* for a game featuring invaders from space, or *Centipede* for a game featuring a centipede.

Descriptive marks are extremely weak marks because they are devoid of any distinctive character. They are essentially useless and cannot be registered unless a company has used them so much that they have acquired something called “secondary meaning” (US) or “distinctive character” (EU). Secondary meaning can only be acquired through extensive marketing and public exposure.

[244] These categories were established for the first time in *Abercrombie & Fitch Co. v. Hunting World, Inc.*, 537 F.2d 4 (2d Cir.1976).

Examples of descriptive marks include *Vision Center* for a store that specializes in glasses, or *Computerland* for a computer store.

Generic marks are things like video card, controller or video game. The term generic is the polar opposite of trademark and a generic term can never be converted to a trademark in the United States or virtually anywhere else. Furthermore, in the United States, even unique trademarks may become generic and unprotectable if there is ubiquitous use, a phenomenon known as genericide (think Frisbee, Escalator or Laundromat). Thus, brands will often fight actions that genericize a trademark such as when Google fought against adding "google" to the dictionary as a verb. The EU equivalent refers to signs that cannot constitute a trademark due to inherently lacking the ability to distinguish the goods or services of one company from those of another. The classification scheme above is not applied worldwide. For instance, the European Union Intellectual Property Office (EUIPO) and member states' local offices assess the level of distinctiveness for each trademark as normal, low, absent or enhanced.

In general, trademarks that would be considered 'fanciful' or 'arbitrary' in the United States are considered to have a normal level of distinctiveness in the EU. Those that would be considered suggestive in the United States are considered in the EU to have a low level of distinctiveness and so to be laudatory, (i.e., trademarks that express praise in relation to some characteristics of the goods or services concerned). Purely 'descriptive' or 'generic' trademarks are considered non-distinctive and therefore, as a rule, cannot be registered in the EU.

Lastly, a good trademark should not conflict with earlier trademarks. In fact, whenever a trademark is identical or similar to another and relates to goods or services identical or confusingly similar to those of another previous trademark, it will be difficult to protect and, most importantly, to register whenever the relevant system is registration-based, because the owner of the earlier mark is entitled to oppose its registration.[245]

2.3.4 – Examples Of Trademarks

It should be obvious that it would be wiser not name your next game and development company *Game* by Game Development Company; those terms are too generic to become trademarks at all.

The strongest trademarks are words that have no meaning other than that which the company generates for to them, such as Xbox, Sonyor Nintendo. In other words, the more imaginary the trademark is, the stronger it is. Examples of great trademarks outside the game industry include Google, Rolex and Exxon. When naming a new company or product, it is worth making the effort to create a highly distinctive mark (one that would be categorized as fanciful or arbitrary according to the US classification). The increased strength legally afforded to creative marks is a fascinating example of how IP law respects and promotes creativity.

Microsoft has learned some lessons the hard way in the game context, on two occasions. The first was just before the launch of the first Xbox console. The trademark Xbox was, at that time, in use by another software company. Worse,

[245] For instance, in the EU, a trademark that conflicts with an earlier trademark(s) will be refused registration based on relative grounds for refusal.

the competing company was a publicly traded company easily identifiable through a standard trademark search.[246] Clearly, this issue should have been addressed much earlier in the launch cycle. The case was eventually settled out of court and probably cost Microsoft a substantial amount of money.

The second trademark lesson for Microsoft came in 2003 with the planned massively multiplayer online role-playing game (MMORPG) *Mythica*. One of the most popular games in the genre, *Dark Age of Camelot*, is made by Mythic Entertainment. This potential trademark conflict was so obvious it did not really require a search and could have been uncovered simply by asking almost anyone familiar with the genre. In response to the clear *Mythica*/Mythic conflict, Mythic initiated a case against Microsoft for trademark infringement.[247] Around the time of the case, Mythic Entertainment's CEO Mark Jacobs is famously quoted as telling a Microsoft lead designer at E3 that Mythic was going to call its next game "Microsofta". Whether causally related or not, Microsoft cancelled the whole *Mythica* project after the dispute arose. Microsoft settled the suit with Mythic, agreeing not to use the term "Mythica" and to drop its US applications to register "Mythica" as a trademark. As part of the settlement, Microsoft also assigned Mythic the rights to international trademark applications and registrations for "Mythica" as well as the associated domain names.

Similarly, in 2019 heavy metal band Iron Maiden sued game company 3D Realms over the title of a game in development under the name "Ion Maiden". Iron Maiden had registered their trademark also for computer games, and a number of Iron Maiden video games had been released over the years.[248] At the time of writing, the case is still ongoing, but in the meanwhile 3D Realms have thought it best to change the name of their game to *Ion Fury*.[249]

Beyond a developer's or publisher's own trademark registration costs, care should also be exercised in the use of other company's trademarks in games. As with many other forms of IP, developers and publishers run the risk of costly trademark infringement suits if they choose to include third-party trademarks in their game without a license. One such example of this concept in action is Activision's victory in *AM General v. Activision*.[250] In that case, AM General (manufacturer and owner of the IP for Humvee military vehicles) sued Activision for its close copying of the Humvee military vehicle in several *Call of Duty* games and its inclusion of Humvee trademarks in the game. Applying the *Rogers* test (discussed in subsection 2.5 on rights of publicity, below), the court found that AM General failed to show that Activision's games and promotional efforts explicitly misled consumers into thinking that AM General endorsed *Call of Duty* or Activision, granting Activision its motion for summary judgment and upholding Activision's use of Humvees in *Call of Duty*. All that being said, the litigation to reach that conclusion between the parties lasted the better part of three years and underscores both the costliness and fact-specific inquiry required for suits involving unlicensed trademark use in games.

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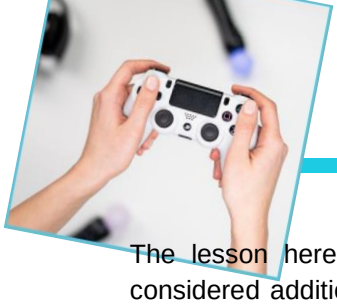
[246] Smith, Tony, "Microsoft buys Xbox name off true owner", *The Register*, June 18, 2001.
[247] Bishop, Todd, "Microsoft ends development of 'Mythica' Game", *seattlepi.com*, February 13, 2004.
[248] The band's complaint mentioned *Ed Hunter* (1999), *Flight 666* (2009), *Final Frontier* (2010), and *Legacy of the Beast* (2015). See Witcoff, Banner, "Case Update: Iron Maiden Holdings Ltd. v. 3D Realms Entertainment ApS", *lexology.com*, January 2, 2020.
[249] Matena, Daniel and Mamakos, George, "Ion Maiden Becomes Ion Fury, Launches August 15 on PC with a Big Box Edition!", *gamasutra.com,* July 11, 2019.
[250] *AM General LLC v. Activision Blizzard, Inc.*, 450 F. Supp. 3d 467 (S.D.N.Y. 2020).



The lesson here is that trademark searches and clearance should not be considered additional or frivolous costs for a game company. On the contrary, these searches are an essential part of the game development process and mistakes could cost game companies literally millions of dollars and potentially result in the failure of entire projects.

2.3.5 – Term Of Protection

Trademarks can be immortal. If the mark is used continuously in commerce and the relevant fees are paid, it can last forever. There are some marks in the United States, like Coca-Cola, Levi Strauss & Co, Prudential and Heinz, for example, which have been used for more than 100 years. The distinctive red triangle logo of the Bass brewery, registered in 1876, is the oldest registered trademark in the United Kingdom and remains in force today. One of the oldest registered trademarks in the world is the Czech trademark “PILSNER BIER” (1859).[251]

On the other hand, a trademark can just as easily be abandoned through non-use. The legal presumption of invalidity is established after three years of non-use, regardless of whether it concerns a registered mark or common law (unregistered) trademark rights.

2.3.6 – Registration Process And Cost In The United States

In the United States, a trademark may also be registered with the federal government for wider and stronger protection. Unlike patents, trademarks are relatively quick and cheap to register. The registration process has some complexities, however, and is therefore usually done with the assistance of a trademark attorney. The process should begin with a trademark search that examines US and perhaps international sources to ascertain whether other companies are using the mark and, if so, whether it is being used in a related field. After the company has the results of this search, they can decide to move forward with the federal registration process or reconsider the mark. As routine as this initial search process is, sometimes it fails in spectacular ways – even for well established companies.

After the trademark search, the federal registration process with the United States Patent and Trademark Office (USPTO) begins. This process usually takes less than a year and costs approximately $3,000, including the initial trademark search. After the mark has been registered at the federal level, the registration and litigations surrounding it are controlled by federal law. The registration is valid throughout the entire United States.

The fees for maintaining a trademark registration[252] are currently lower than patent maintenance fees and can vary based on how many classes of goods and/or services are covered by the trademark registration. The USPTO groups similar goods or services into 45 different classes, as do many international trademark offices. A class can be thought of as a grouping of similar goods or

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[251] Lech, Mikolaj, “The oldest registered trademarks in the world”, *znakitowarowe-blog.pl.*

[252] Declarations must be filed periodically with the USPTO under Sects. 8 and 15 of the Lanham Act (United States Code, Title 15, Sect.1058) in order to maintain a trademark registration. Technically, this is not a renewal.

services; for example, downloadable content may be classed as a good under Class 9, and streaming content (temporary use of non-downloadable interactive games) may be a service under Class 41. At the time of writing, the cost for maintaining a trademark in one class and filing the appropriate Declaration of Use is $525.[253]

As of August 2019, the USTPO requires all foreign trademark registrations[254] in the US to be filed by an attorney licensed to practice law in the US. This requirement includes USTPO office action responses and renewals. In contrast, at the time of writing, US citizens, permanent residents and applicants filing through the Madrid Protocol are not required to work with an attorney in order to file with the USTPO.

2.3.7 – Registration Process And Cost In The EU

The registration procedure for an EUTM is straightforward and swift. As with a USPTO registration, the pre-filing phase should ideally involve a knockout search aimed at finding identical and/or similar trademarks, then the application should be filed with the EUIPO. The entire process lasts for approximately 5 months, or less in the case of a fast-track registration.[255]

The fees for registering and renewing an EUTM for one class are, at the time of writing, either €850 or €1,000 depending on whether or not the application/renewal is made online.[256] Additional classes cost significantly less (currently, €50 for the second and €150 for the third and all subsequent classes).

Besides the possibility of applying for an EUTM, you can always apply for a national trademark in one or more of the EU member states. In this case, while the requirements for national registration are, as mentioned, highly harmonized by EU law, the duration of the registration process and the related costs will depend on the local trademark office involved.

2.3.8 – Madrid System For The International Registration Of Marks

The Madrid System is the primary international system for facilitating the registration of trademarks in multiple jurisdictions around the world. The Madrid System is a centrally administered system, managed by WIPO, which allows the applicant to obtain a bundle of trademark registrations in separate jurisdictions with a single application. It differs from the EU trademark system in that it does not provide a single, uniform right, but rather permits applicants to centrally file, register and maintain trademarks in many countries around the world instead of having to seek protection and manage trademarks separately in relation to each individual country of interest.

In order to file an application with the Madrid System, the applicant is required to have already registered in one local IP office, or at least to have completed the trademark application filing. The same local IP office also receives the Madrid

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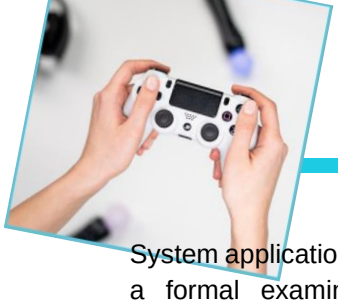
[253] USPTO has online forms that can be used for filing purposes. See USPTO, “Apply online”, *uspto.gov*. Beginning on January 2, 2021, a number of trademark fees increased in the United States. See USPTO, “Summary of FY 2021 Final Trademark Fee Rule”, *uspto.gov.*

[254] The USTPO considers an applicant to be foreign if the business or individual has a permanent legal residence or a principal place of business outside the US.

[255] A fast-track registration procedure is available when fees are paid upfront and the goods and services concerned selected from a database of terms already accepted by the EUIPO.

[256] EUIPO, “Fees payable directly to the EUIPO”, *euipo.europa.eu.*



System application, which it certifies and forwards to WIPO. WIPO then conducts a formal examination of the application, while the relevant substantive examination is carried out by the various designated IP offices. These then communicate the decision to WIPO, which in turn notifies the applicant.[257] Contrary to the EU system, under the Madrid System each designated country applies its own registrability requirements, so it may still be necessary for an international trademark applicant to intervene at the local level after filing the application.

2.3.9 – Protecting Trademarks In The United States

All trademarks should be noted with the appropriate symbols. Use the symbol ™ to indicate whether the mark is being used in business. Once the registration is successful, the applicant can use the ® symbol following the mark, as an indication that the mark has been registered with the USPTO or another national trademark office. Conversely, under the EU system there are no legal requirements with regard to the use of symbols, nor will their use have any substantial value in demonstrating that you are taking steps to ensure protection of your trademark.

The effect of the registration is that the trademark becomes an item of personal property. It confers exclusive rights on the owner not only against the use of identical but, also, confusingly similar marks. In addition, under EU trademark law, marks that have gained reputation are also protected against unauthorized use that takes advantage of, or is detrimental to, the distinctive character or reputation of the mark. As such, trademarks are a powerful element in the IP strategy of any game developer or publisher.

Policing trademark is similar to policing other types of IP. One important difference is that an unauthorized use of a trademark used by others can damage not only the legitimate owner, but also the value of the trademark itself. For instance, if the trademark is associated with lesser products or services, its value in the eyes of the public will be diminished (“tarnished”). If this unauthorized use becomes rampant, the mark also runs the risk of “dilution”, eventually losing all value and becoming generic. This has happened in the United States to trademarks that were so often misused that they became household words, such as aspirin and thermos. Both were trademarks at one time but died a death from misuse and over-popularity.

Being proactive in protecting your trademark is essential in order to secure your trademark value. Even in a registration-based system, registering a trademark may not be enough to protect your trademark fully – enforcing activity may also be necessary. A lack of enforcement can lead to trademark dilution (in the sense specified above) and weaken your trademark, once consumers grow used to marks too similar to yours. In the game industry, terms such as “battle royale”, “metroidvania”, “roguelike”, or “soul-like” originate from the genre-defining works *Battle Royale, Metroid*, *Castlevania, Rogue* and *Dark Souls,* but are commonly used as generic terms to describe categories of games that may well come from

[257] WIPO, “How the Madrid System Works”, *wipo.int.*

different sources than the original works. In the long run, this may make it harder for the owners of the original works to claim exclusive rights to such terms.

Zynga games also provide a good example of proactive enforcement. Many Zynga games and projects names end in "-ville": *YoVille, FrontierVille, RewardVille, FishVille, CastleVille, ChefVille, PetVille, CityVille* and, last but not least, the popular *FarmVille* series. This is called a "family of marks". Zynga reacted vigorously to other companies using the same suffix for their games, knowing that this was not good for the "-ville" trademarks. Zynga sent cease and desist letters to the developers of three unrelated games called *BlingVille, PyramidVille* and *Dungeonville,* which then led to litigation.[258] The *BlingVille* and *PyramidVille* cases were eventually settled and both developers had to change the name of their games.[259] Likewise, registration of *Quackville* (in the United States) and *Toonsville*, *Scaryville, Chrom Ville* and *Wine Ville* (in the EU) as trademarks for games was refused after Zynga opposed those marks (but not that of *Zodiakville* in the EU).

Monitoring possible infringing activities, also through specialized professionals and agencies[260] and taking action whenever a possible infringement is identified, for instance by sending cease and desist letters, will allow you to maintain and consolidate the scope of your registered right. Moreover, being mindful of similar registered or unregistered marks is valuable in order to refrain from infringing third-party rights, for instance by offering your goods or services in a new territory where the mark is not registered and/or by extending your commercial offer to new goods or services.

You should also be mindful of the fact that the scope of your registered trademark is limited to the classes for which you requested and were allowed registration. The possibility of enforcing your rights for different classes, in the EU, will depend mostly on the reputation of your trademark, as mentioned. In practice, reputation is mainly linked to how well-known and popular your trademark is in the mind of the public. In addition, it can also be achieved through proactive enforcement and protection of your trademark rights to safeguard their exclusivity.

In case of disputes over the use of two potentially conflicting trademarks, the parties to the dispute often end up signing a particular type of settlement called a "coexistence agreement". A trademark coexistence agreement typically defines the different categories of products and services for which the conflicting trademarks can respectively be used and the specific ways in which they can be used, in order to avoid market confusion and prevent future disagreements between the parties.

2.3.10 – Penalties For Infringement

The penalties for trademark infringement can be harsh and are similar to those for copyright infringement. Courts generally issue injunction orders to prohibit further use of the infringing trademark. Sometimes, monetary penalties are also

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[258] Zand, Joel, "Sacré bleu! Lawsuits over Zynga's Trademark Claims to 'Ville' Names", *lawblog.justia.com*, January 3, 2012.
[259] Wu, Stephen, "Blingville v. Zynga Settled", *3dinternetlaw.com*, September 11, 2012; and Weber, Rachel, "Zynga settles Kobojo lawsuit", *gamesindustry.biz*, October 19, 2012.
[260] There are law firms and companies that specialize in searching for infringing uses of trademarks. These companies can perform searches on a regular schedule and send your game development company reports on potential infringers. As with most types of IP, one of the early steps in policing the IP is sending a "cease and desist" letter. Later steps can include litigation over the trademark.

available if the injunction is violated. Additional remedies include the recall/removal of the infringing items from the channels of commerce and their destruction. Monetary damages based on loss of profits or ill-gotten gains are also possible. Similar to copyright, personal liability through the corporate shield is also possible in the United States. The specific damage calculation for each case is dependent on the circumstances surrounding the infringement.

It is important to keep in mind that the registration of a mark in one country does not mean that it is enforceable in another country; it merely means that should a foreign business with a similar trademark attempt to bring its product into the country where the mark is registered, you could then enforce your rights.

Although trademark law is respected in most countries, the realities of enforcing a trademark may vary significantly from one state to another.

2.3.11 – Unfair Competition

In the event that a trademark infringement claim is not available or is weak based on the applicable law and related requirements, some countries might provide different instruments allowing for additional protection against trademark counterfeiting and product imitations.

For instance, unfair competition in its multiple declinations (as partially harmonized by international treaties),[261] generally constitutes a claim that the plaintiff could assert, possibly in combination with a trademark infringement claim, in order to cover more legal ground.

In the United States, unfair competition is a useful claim whenever you wish to protect a trademark used in commerce but not registered. In this case, the plaintiff will have to provide evidence of the likelihood of confusion between its mark and that of the defendant and of the validity of its mark. In particular, the plaintiff must establish prior rights over any rights the defendant may have.[262]

In the EU, unfair competition is not specifically harmonized, and might not be a viable option and/or have the same requirement in all EU states. It is however fairly used, for instance, in Germany, France, and Italy. In the United Kingdom, the common action of “passing off” may protect an unregistered trademark with a reputation and goodwill in the marketplace that is being used by someone else in the same or similar market without permission.

In Germany and Italy, an unfair competition claim may be brought, even where the requirement for a trademark infringement claim is not met, as long as the plaintiff is able to prove that the conduct of the defendant at issue has resulted in a likelihood of confusion between the products/services and/or trademarks of the plaintiff on the one hand and those of the defendant on the other – provided that the two are competitors.[263] In order to establish likelihood of confusion, the plaintiff must prove that their goods or services enjoyed a certain recognition

[261] Art.10bis of the Paris Convention for the Protection of Industrial Property, in particular, provides for a list of acts considered to constitute unfair competition, such as misleading indications and false discrediting allegations.
[262] Bryner, William M., “U.S. Trademark and Unfair Competition Litigation, Trademark Administration” in Garrison, Sean and Donovan, Mary A., eds. Trademark Administration, New York: International Trademark Association (INTA), 2018, p. 22.
[263] Bolte, Meissner, “Intellectual Property & Antitrust in Germany”, *lexology.com,* December 11, 2018.

among consumers. In practical terms, the situation is not dissimilar in France, where to bring a successful unfair competition claim the plaintiff is more generally required to prove that the defendant is a competitor who committed a wrongful act that harmed the plaintiff.

A recent case of unfair competition in games, under French law, involved two "hyper casual" mobile games: *Woodturning 3D* and *Wood Shop*. The Paris Judicial Court held that *Woodturning 3D* was not original enough to enjoy copyright protection. Nonetheless, it also found that the marketing of *Wood Shop* constituted unfair competition because *Wood Shop* was an intentional clone of *Woodturning 3D* and consumers could confuse the two game apps.[264]

Another interesting French case involved game publisher Take-Two and sports car manufacturer Ferrari. Take-Two's *Grand Theft Auto: San Andreas* and *Grand Theft Auto IV* both featured in-game sports cars called "Turismo", produced by a fictional in-game Italian manufacturer named "Grotti". The Grand Theft Auto games also featured in-game logos of the car manufacturer, depicting a prancing hare (in *Grand Theft Auto: San Andreas*) and a sitting horse (in *Grand Theft Auto IV*). Ferrari claimed that the Turismo cars reproduced two real-life Ferrari models (the *Ferrari 360 Modena* and the *Ferrari F40*) and that the in-game logos were also confusingly similar to the real-life Ferrari prancing horse logo. This led Ferrari to start litigation based on a number of grounds, including unfair competition. The Court of Paris first upheld Ferrari's unfair competition claims, holding that, for players, virtually driving a Turismo was just like virtually driving a Ferrari. Because of this, Turismos were not considered a parody of Ferraris but virtual substitutes for them. This decision was then overturned by the Paris Court of Appeal, ruling out any unfair competition on part of Take-Two.[265] According to the appellate judges, Turismos and their manufacturer's logos were merely generic references to sports cars as a category and their designs were sufficiently different from those of the Ferraris. Furthermore, sports cars commonly feature prancing or galloping horses and other powerful animals in their logos, whereas the Turismo's prancing hare and sitting horse would be perceived as (generic) parodies of those powerful symbols. Lastly, many sports car manufacturers are famously Italian. For all of the above reasons, the Court concluded that players would not confuse or associate Turismos with Ferraris.

2.3.12 – Common Questions About Trademarks

Do I Have To Use A Trademark In Commerce?

Actual use is always better for bolstering trademark rights, but the *de facto* consequence connected with the use – or, rather, the non-use – of a trademark will mostly depend on the country in which you operate. For instance, in the United States, it is possible to establish such rights for a short time merely by demonstrating intent to use. In 1988, trademark law changed when this intent-to-use provision was added. Prior to this addition, a mark needed to be used in commerce. Since the amendment, it has been possible merely to apply for federal

[264] France: Paris Judicial Court, Decision No. RG 20/03352 of September 4, 2020.
[265] France: Paris Court of Appeal, Ruling No. 013/2016 of January 26, 2016.

registration with the stipulation that there is a bona fide intent to use the mark in commerce within a certain period.[266]

However, certain trademark systems also require that the trademark is in fact used in commerce. For instance, as mentioned, trademarks in the EU (both EUTMs and national trademarks) should be put to genuine use in the relevant territory in the five years following their registration; failing such use, the trademark may be revoked. In the United States, non-use for three years constitutes *prima facie* evidence that the mark has been abandoned, regardless of whether or not a trademark is registered.

Lastly, as discussed above, the genuine use of a trademark in commerce might ensure further protection for the trademark, especially with regard to common law, unregistered trademarks and unfair competition matters. In the case of a US registered trademark, after five years of consecutive use the mark holder can apply for incontestability, meaning that the validity of the mark can only be challenged on limited grounds.

Can I Let Fans Use My Trademark Without A Formal License?

This is common practice in the game industry for both copyrighted material and trademarks. Game companies often create fan community packages that include material and conditions for its use. The allowed uses are case specific, and it is often not economically feasible to attack every infringement that occurs. Game companies also recognize the advertising value in game-related communities. In short, make sure that fan sites know the uses with which your game company is comfortable. Be as clear as possible about the rules and stress that appropriate attribution is important.

For example, a fan website kit may include appropriate legal attribution for a trademark. The notice may say something similar to "*Title* is a trademark of GameCompany" or "*Title* is a registered trademark of GameCompany". This situation becomes more complicated if there is a substantial commercial component to the website, or if the website is spreading misinformation that is harmful to your game sales. In the case of a commercial component, the website may be making money using your game company's trademarks and perhaps its copyrighted material. As indicated above, the appropriate action, if any, is dependent on the individual circumstances. A negotiated license and/or a "cease and desist" letter may be in order to stop unwarranted uses.

Can I Trademark My Game Title?

Here, the answer is "Yes." In practice, it is harder to register a US trademark that will be used for one property only. In the United States, films, books and other creative products usually need some type of product extension such as merchandising, a series or a sequel. However, despite the unspoken rule that applies to most other goods and services, the USPTO has issued a special

[266] USPTO, "Trademark application – intent-to-use (ITU) basis", *uspto.gov.*

exception for video games which states that game titles may seek trademark protection.[267]

In the EU, there is no formal impediment to the registration and protection of a video game title (or any other work title), provided of course the trademark meets the distinctiveness threshold and the other legal requirements.

In this regard, it is interesting to note that a German court has found that the distinctiveness threshold should be lower in relation to titles falling into certain video game market segments, as consumers are used to a low level of distinctiveness and thus are prone to perceive as trademark also titles that would otherwise be considered descriptive. The market segment at issue was that of video game simulators; in the specific case concerned, *Farming simulator 2013* was considered to have a sufficient degree of distinctiveness. [268]

Having said that, while the United States and the EU might be favorable to trademarking a game title, a developer or publisher may still meet with significant restrictions or difficulties in obtaining similar protection in foreign jurisdictions.

2.4 – Patents

The patent system in the United States is descended from the English Statute of Monopolies of 1623, which sought to overturn earlier royal monopoly grants but preserved inventor's rights for 14 years with grants of "letters patent" for "new … manufacture".[269] More recently, in the United States, patents go back to the Constitution. Under Article I, Section 8, the Constitution grants Congress the power to "promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries." Patent law has been evolving continuously ever since, sometimes significantly.[270]

In Europe, national laws have been harmonized both by EU and non-EU measures, resulting in a somewhat fragmented legal system that derives its substantive laws from a variety of overlapping legal sources. Traditionally, patents were issued by each member state individually. Now, the EU is moving towards a unified patent system and participating member states are currently working under the assumption that it will become effective and operational sometime in 2022.[271] In the meantime, an applicant can obtain a bundle of patents from the European Patent Office (EPO) in the designated European countries under the European Patent Convention.

Although extremely important for some hardware, software, development tools and other middleware companies, patents are not used as frequently in the video game context because the speed of development and the period of use often renders the patent process too costly and lengthy to be practical. This situation

[267] USPTO, "What Does Not Constitute a Single Creative Work", *Trademark Manual of Examining Procedure (TMEP)*, Washington, D.C. Dept. of Commerce, Patent and Trademark Office, 1974, Sect.1202.08(b). Interestingly, coloring books allow a user to trademark titles for a single version as well.
[268] Germany: Cologne Higher Regional Court, Ruling No. 6 U 54/14 of November 28, 2014.
[269] Wikipedia, "History of United States patent law", *wikipedia.org*.
[270] The America Invents Act of 2011 was the first change to the patent system since 1952. Wikipedia, "Leahy-Smith America Invents Act", *wikipedia.org*.
[271] EPO, "When will the Unitary Patent system start?", *epo.org*.

may change as the industry matures, but for the time being, patents are not often utilized throughout the majority of the game industry.

Patents are perhaps the most complex form of IP protection. It is important to understand the details about this form of IP if you plan to use it in your business.

2.4.1 – What Can Be Patented?

In the United States, the Patent Act defines potentially patentable subject matter as any "new and useful process, machine, manufacture, or composition of matter".[272] Examples include machines, pharmaceuticals, medical equipment, video cards or a better mousetrap. Patents do not usually protect games themselves because they do not meet the statutory criteria. Yet there are a growing number of game-related patents in the areas of hardware, digital distribution, networking and inventive gameplay. A recent example of a US game patent is the aforementioned Warner Bros patent, entitled "Nemesis characters, nemesis forts, social vendettas and followers in computer games",[273] of the Nemesis system gameplay mechanic originally seen in the *Middle-earth: Shadow of Mordor* game. The Nemesis system is a machine-learning algorithm whereby non-playable characters remember the player's interactions with them in the virtual world. In 2015, the USPTO issued Patent No. 5,718,632, entitled "Recording medium, method of loading games program code means, and games machine", which covers mini-games executed independently while main games are being loaded.

The position is similar in Europe and internationally, with one vital caveat for games: it is often much harder outside the United States to patent software-related inventions. For example, the European Patent Convention excludes computer programs "as such" from patentable subject matter, although this exception does not apply to computer programs with technical character.[274] Another point to be aware of is that some countries allow applications for lesser patents known as either "utility models,"[275] "lesser patents," or "innovation patents", which do not exist in the United States. With utility models, so-called "minor inventions" can be protected through a system similar to the patent system. Like a patent, a utility model also provides an exclusive right, which allows the right holder to prevent others from commercially using the protected invention without authorization, for a limited period. In comparison with patents, utility model systems generally require compliance with less stringent

[272] United States Code, Title 35, Sect.101.
[273] US Patent No.10,926,179, filed on March 25, 2016.
[274] The prohibition derives from a provision of the Convention that "programs for computers" are excluded from patentability to the extent that a patent application relates to a computer program "as such" (Art. 52(3)). This ambiguous phrase has been variously interpreted over time, although at the time of writing the trend seems to be toward loosening up the European hostility to software patents. For example, software patenting has been permitted on the basis that it has a technical effect on hardware, or even that the software concerned permits other software to work significantly better.
[275] Not to be confused with US utility patents.

requirements, have simpler and therefore quicker[276] procedures and offer a shorter term of protection.[277]

In the United States, *Alice Corp v. CLA Bank International* is a Supreme Court case that has substantially limited what can be patented.[278] While certain game patents are still being allowed, anything that might be labeled as a software or business method patent has been much tougher to get through the USPTO and the courts. The case centers on the notion that an "abstract idea" implemented by a computer is not patentable. That, of course, sets up a real head-scratching legal problem both inside and outside the game industry.

2.4.2 – What Rights Are Conferred By Patents?

A common misconception is that a patent grants the right to make an invention, but this is not true. Similar to other forms of IP, patents grant a negative right, that is, a right that prevents others from doing something. In other words, a patent confers the right to prevent other people from making, using, selling or importing an invention in the protected territory. The patent owner is under no obligation to ever actually construct the patented invention but can prevent others from practicing the invention within a specific territory and for a limited period.

2.4.3 – Term Of Protection

Patents have a limited lifespan. A layperson might think that a patent expiration date would be printed right on the front of a patent. Unfortunately, nothing could be further from the truth. Currently, patents are valid for 20 years from the time that they are filed if the patent holder pays the required maintenance fees and has not withdrawn the patent or the patent has not been invalidated in court proceedings.[279] Before June 1995, this calculation was not so simple in the United States. These older US patents are valid for 17 years from the patent issue date or 20 years from filing, whichever is longer.[280] Just to make the calculation more complicated, it is not unusual for patents to be shortened or extended for some time through a variety of mechanisms. It is possible to estimate a patent term by looking at the basic date on the face of a patent, but a full review of the patent's history and related documents is necessary to find the exact expiration date.

2.4.4 – Process And Cost In The United States

Of all types of IP registration, the patent process is the longest and most complicated. The process generally takes from two to four years. It starts with the patent applicant preparing a patent application, including all relevant figures. The process also entails regular correspondence with the patent office and complying with or writing rebuttals to patent office arguments. Although it is possible to go

[276] In Germany, for example, there is no substantive examination of a utility model application before grant. A utility model can be obtained more rapidly but the risk of a subsequent invalidation is greater than for a patent. See German Patent and Trade Mark Office (DPMA), "Utility Model Protection", *dpma.de*, DPMA, October 20, 2020.
[277] WIPO, "Utility models", *wipo.int.*
[278] *Alice Corporation Pty Ltd. v. CLS Bank International*, 573 U.S. 208, 134 S. Ct. 2347 (2014).
[279] This lifespan is longer than that of a design patent, which lasts 14 years.
[280] Boyd, Gregory S., "NES– Expired Patents Do Not Mean Expired Protection", *gamasutra.com,* November 11, 2005.

through this process without a patent attorney, it is strongly recommended not to do so.

A patent consists of two main sections. The first section is called the specification and is the narrative description that makes up most of the written material in a patent. This section includes the background of the invention and sets out the state of the technology leading up to the invention. There is also a detailed description of the invention, with figures and examples. In theory, a person reading this section can learn everything there is to know about how to make and use the invention. Remember that a patent is a deal with the government: in exchange for sharing complete knowledge of the invention with the world, the patent holder is granted a limited monopoly on that invention.

The second main section is the patent claims. These claims are numbered sentences found at the end of a patent. There has to be at least one claim, but there is no absolute upper limit on the number of claims; however, in the United States, every patent claim over 20 costs an additional amount of money, so large numbers of claims are economically discouraged. In general, an average patent has from three to 15 claims. The patent claims is the most important section of the patent because it defines the scope of protection by describing exactly what the patent protects. In fact, material in the specification that is not included in the claims is not protected and is therefore given away to the public. Be very careful that the patent claims adequately and completely describe your invention and that the description supports the claims.

The cost of filing a patent application varies based on several factors. These factors include the complexity of the technology, the number of other patents in the field and the amount of material that your company can provide the patent attorney. If the technology is complicated, there are many patents in the field and you call your patent attorney with an idea written down on an index card, the cost is going to increase. The total cost of an application can range from $15,000 to $30,000 including the cost of filing and shepherding an application thorough the patent office. The range also depends on the number of mailings called “office actions” from the patent office and the time spent preparing answers to them.

Beware of companies that offer to “file” a patent application for $2,000 or some other very low figure. Such companies are hiding costs in at least two areas. The first is that USPTO fees are usually not included. Second, the low estimate is usually only for “filing” the patent application and does not include the cost of answering office actions and doing the other work necessary to obtain the patent. This is similar to stating that skydiving costs $200, but that the parachute is extra.

The good news is that patent costs tend to be spread out over the whole period of the application. There will be costs to prepare and file the application but paying for the office action work is not necessary until many months later when the patent application has been acted on by the patent office. It is also possible, but unlikely, that an application will go straight through to become an issued patent.

There are also ongoing costs for patents in addition to filing costs. In order to keep a patent enforceable during its term, maintenance fees must be paid to the USPTO. These maintenance fees are due at 3.5, 7.5, and 11.5 years after issuance. The fees change often; the best source of information in this regard

may be your IP attorney or the USPTO itself.[281] If the fees are not paid, the patents will expire and it takes a substantial effort to revive them, if possible at all. The difficulty reviving the patent is dependent on the length of time since the fees were due and the circumstances surrounding the failure to pay the fees.[282] Make certain that your company plans for this and has someone designated to monitor that the necessary payments are made.

2.4.5 – Process And Cost Outside The United States

Outside of the US, you can expect a similarly long, complex, and expensive process compared with other forms of IP protection. As pointed out above, the costs of filing a patent application may vary. Internationally, the fee structure of the national/regional patent office needs to be considered, especially when you seek to protect your invention in several countries. Regional patent offices, such as the EPO (which will be explained in more detail below), exist which facilitate the process of receiving patent protection in various countries. Where you seek to protect your invention in various countries worldwide, then the Parent Cooperation Treaty (PCT) route which is administered by WIPO may be the appropriate option. Similar to the Madrid System mentioned above in relation to trademarks, only a single "international" application in one language at one office needs to be filed instead of applying for patent protection in each country's patent office separately. This allows you to seek protection in each of the currently 153 contracting PCT states. Importantly, the PCT does not provide for a single international patent but facilitates filing for patents in various countries. The procedure is divided in an international and national stage. After filing the international application an International Searching Authority provides an opinion of the patentability of the invention. In case the application is not withdrawn, the application is published by WIPO after 18 months.

Additionally, the so-called Paris Priority facilitates the filing for patents in various countries. It stems from the Paris Convention from 1883 and resolved the issue when inventors sought to file for patent protection in various countries. The issue was that a patent application filed in one country could be deemed to be novelty-destroying in relation to the patent application regarding the same invention in another country. Simultaneous applications at different offices which would have dealt with this issue were not feasible for inventors due to different filing and translation requirements. The Paris Priority alleviated this issue. Any person who applies for a patent in one of the Paris Convention Signatory States can file for an identical application in another signatory state without the first application being novelty-destroying for these later applications. This priority is limited to 12 months and has the effect that the first application is considered the effective date for determining novelty for subsequent applications within this period.

You should also be aware that the process itself can have very important differences compared with the US. For example, Europe traditionally uses a "first to file" approach to patents (the first applicant for the patent is the person who gets it by default, not the person who invented the patentable invention first). The US has only recently adopted a type of "first to file" in March 2013 as its standard

[281] USPTO, "Maintain your patent", *uspto.gov.*
[282] USPTO, "2590 Acceptance of Delayed Payment of Maintenance Fee in Expired Patent to Reinstate Patent [R-10.2019]", *uspto.gov.*

under the America Invents Act, so the differences are hopefully becoming smaller, but we will likely never achieve complete harmonization.[283]

2.4.6 – Protecting Patents

If another company is violating your patent rights, the first step in policing this type of IP is to put the other company on notice by sending them the patent and a letter about the potential infringement.[284] Hopefully, the parties can work out some suitable licensing settlement, but this is sometimes not the case. If the parties cannot come to an agreement, litigation may be in order. If there is a need for immediate action, you should also consider preliminary injunction proceedings, where possible. In general, if you fear that a product infringes your patent, it is often worth including an expert in patent law (a lawyer specialized in patent litigation or a patent attorney) from the beginning. A good action and risk analysis at an early stage often avoids unnecessary and much higher costs later on.

2.4.7 – Patent Litigation And Penalties For Infringing Patents

Generally speaking, patent litigation itself should be the last option. Even the winner of the litigation often incurs substantial costs in time, money and other resources. Patent litigation is complicated and ultra-niche. It is not surprising that it is expensive; costs often run well past $2 million in legal fees. There is also no doubt that this process will become substantially more expensive in the future. Importantly, patent litigation costs differ from country to country – for example, a patent litigation in the United States is much more expensive than in Germany.

Winning a patent litigation normally results in three remedies. First, the patent holder can win an injunction that stops the losing party from practicing the patented invention. Second, the infringing company may be forced to pay damages for past infringement and, potentially, a royalty on units sold going forward. Third, the patent holder can claim the destruction of the infringing products.

2.4.8 – US Patent Pending And Provisional Patent Applications

The use of a “patent pending” notice is only appropriate when an application or provisional application has been filed with the USPTO or another national patent office. The marking is not mandatory but can be important when proving notice and calculating potential damage for patent infringement. Some people also argue that the notice adds value to the product in the eyes of investors and consumers and expresses a certain level of business sophistication.

In the United States, provisional patent applications are often an attractive option for small or mid-sized game companies with a patentable invention. These applications cost less than pursuing a standard patent application and preserve

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[283] Wikipedia, “Leahy-Smith America Invents Act”, *en.wikipedia.org*.

[284] A formal warning letter of alleged infringement of an IP right may entail risk in some countries: if the unjustified warned party suffers damage, for example, due to a sales stop, damages can be claimed from the warning party. See Germany: Federal Court of Justice, Decision No. I ZR 187/16 of January 11, 2018. In these jurisdictions, it is worth getting legal advice beforehand.

the priority date for the invention. These provisional applications resemble complete patent applications except that they are not examined at the USPTO without further action on behalf of the inventor. The inventor has one year from filing a provisional application to file a standard patent application based on the provisional one. If successful, the applicant will be able to use the date of the provisional application as the date of invention. Finally, the expiration date of the patent is still counted from the date on which the full application is filed so that the company does not pay any time-related penalty for filing the provisional application.[285]

It is common for an early-stage game company to be cash poor, but they may have a patentable invention or several such inventions that are potentially worth a great deal. This is particularly true of middleware companies. The company may fear its competition stealing the invention, but still wants to market the product and raise money. This is potentially a great position from which to file a provisional patent application. After the company files the application, it has three issues covered. First, the invention is on file with the USPTO and the invention priority date is set. The company can market the invention without fear of losing it due to a statutory bar or a competitor copying. Second, the company has spent a fraction of the full cost of a patent application. Lastly, the company can point to the pending application for both product sales and as a valuable addition to the company for capital acquisition.

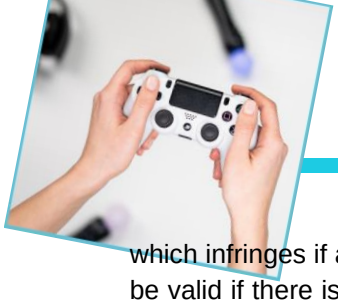
2.4.9 – Patent Invalidity

Patent invalidity is the process of determining the viability of the claims in a patent or seeking to invalidate or cancel one or more of the claims covered by the patent. There are two circumstances in which patent invalidity is particularly important in the game industry. The first instance is when a game company is trying to get a patent issued through the patent office, such as the USPTO. The second instance is when a game company is being sued by a patent holder for infringement. In the first instance, the game company will want to show that its patent application represents a valid invention. In the second instance, the game company will try to prove that the patent holder's patent does not represent a valid invention. This area of patent law is enormously complex and the ideas contained in the sections below should be considered as minimal summaries.

2.4.10 – Anticipation And Obviousness

There are many mechanisms that lead to patents being declared invalid. Two of the most often discussed mechanisms are called anticipation, or lack of novelty, and obviousness, or lack of inventive step. Anticipation (lack of novelty) is found when one document in the prior art meets every element of a patent claim. Although the definition of the term "prior art" is not uniform at the international level, in many countries it refers to any information made available to the public anywhere in the world by written or oral disclosure before the filing/priority date. As indicated above, patent claims are the numbered paragraphs located – in many countries – at the end of a patent document, that define the scope that the patent aims to protect. Each claim has subsections, indented as individual steps, called elements. An easy way to think about anticipation is using this idea: that

[285] USPTO, "Provisional Application for Patent", *uspto.gov.*



which infringes if after would anticipate if before. In other words, a patent cannot be valid if there is something found in the prior art that would have infringed the patent. This means that there must be something in the prior art that met each and every portion of the claim being invalidated.

The second common way that patents are declared invalid is through obviousness, or lack of inventive step. With obviousness/lack of inventive step, every patent claim element does not have to be met by just one invention or publication. Instead, all the prior art can be blended together with another knowledge that was present before the filing date (priority date) of the patent application concerned. The standard here is what a person of ordinary skill in the relevant scientific discipline (“person skilled in the art”) would know and do with the information available to them. A simplified way to look at this involves three steps. First, were all of the pieces of an invention present? Second, was there a reason to put those pieces together? Third, could a person of ordinary skill put those pieces together to make the patented invention? If these steps are all met, the patent is invalid for obviousness.

2.4.11 – Timing A Patent Filing

Before the revision of US patent laws in 2013, people were allowed a year to use or sell their inventions before they had to file a patent application and there was no disadvantage for doing so. As of 2021, this grace period still exists, but the United States has changed from a first-to-invent to a first-to-file jurisdiction. Game developers that wish to file for a patent must be wary of using that grace period because they could lose the “race to the patent office” while they are biding their time.

As mentioned above, there are other ways for patents to be found invalid beyond those discussed in this chapter. Since patents are territorial rights, the reasons of invalidation and the invalidation procedures vary from one country to another. These reasons include keeping information from the patent office, affirmatively lying to the patent office, and a variety of technical issues. As always, the best advice beyond understanding this simple summary is to consult your patent attorney and/or the patent office in the country/region of interest, as well as the more specialized sections of this text.

2.4.12 – Reasons To File A Patent Application

People usually consider enforcement, litigation and licensing as the only reasons for filing a patent application, but there are many others. First, patents and patent applications are a symbol of sophistication for your company. Companies often demand some concrete proof of IP before agreeing to protect it in contract negotiations and licensing. Patents grant your game company that concrete proof and gravitas. Second, patents and patent applications change the valuation of your company. Investors consider these as substantial assets, especially when they are referenced in license agreements. On average, a company with patents will be valued more highly than a company without patents, all else being equal. Third, patents and patent applications can increase pricing on your products. Software and hardware that is patented or patent pending has a higher value in the marketplace because, by definition, it is not available elsewhere. Fourth, a

patent application creates an intellectual moat and prior art "bomb" for those that file later. Even if your application is never approved, its publication by the USPTO alone ensures that no one can come after you and patent the same invention. Fifth, patents can be used defensively as they can provide potential patent counterclaims if a patent case is ever brought against your game company. When two companies with substantial patent portfolios are involved in a litigation, the defendant often has grounds for counterclaims based on its portfolio, which raise the stakes of litigating with a game company that has patents. Lastly, patents can be used for direct enforcement and licensing, but this is a long, complex and expensive proposition. In fact, it is usually a last resort and very few patents are ever involved in a litigation. The items at the start of this paragraph are far more common uses for patents.

2.4.13 – The European Patent System

The European patent system is somewhat more complex than the US system. Generally speaking, in Europe it is possible to file a patent both at the national and at the European level. National patent filing is done with a national patent office and leads to a patent having effect only within the boundaries of the relevant national territory.

Patent filing at the European level is done with the European Patent Office (EPO) in Munich, Germany. The EPO also has a branch in The Hague and sub-offices in Berlin and Vienna. The EPO is not an institution of the EU but an organ of the European Patent Organisation, an intergovernmental organization created in 1977 through the European Patent Convention, which today has 38 Contracting States (including all of the EU member states).[286]

A European patent does not automatically have effect across all Contracting States. After the grant, the European patent is a "bundle" of individual national patents of the designated Contracting States.[287] When filing a European patent, therefore, it is necessary to designate the Contracting States that the European patent is meant to cover. Moreover, in many Contracting States the patent must be validated in order to retain its protective effect and be enforceable against infringers. Some Contracting States require a translation of the patent specification, or at least of the claims, if the patent has not been granted in one of their official languages.[288]

If the applicant is not a resident or does not have their principal place of business in one of the Contracting States, they must be represented by a European patent attorney throughout the procedure before the EPO except for the initial filing of the patent application.[289] It is always advisable to seek professional representation before any patent office, whether the EPO or a national patent office, even when not required by the law.

It normally takes from three to five years for a European patent to be granted. According to the EPO, the average cost for obtaining a European patent is

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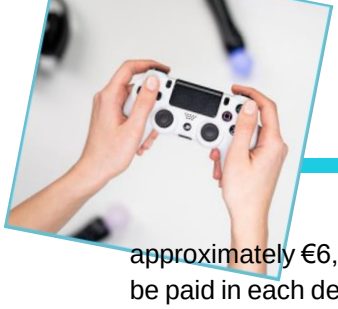
[286] See EPO, "Legal foundations", *epo.org.* See also EPO, "Member states of the European Patent Organisation", *epo.org.*
[287] See EPO, "European patents and the grant procedure", document, Munich: EPO, 2016, p. 32. Available at *http://documents.epo.org/projects/babylon/eponet.nsf/0/7BFD01F37A47BA47C1257FED004EF089/$File/European_patents_and_the_grant_procedure_2016_en_6.7.pdf.*
[288] *Ibid.,* p.17.
[289] European Patent Convention, Art.133(2).



approximately €6,000, not including patent attorney fees. Renewal fees must also be paid in each designated state in which the European patent has been validated in order to maintain the European patent in those States. Costs for a European patent are therefore likely to increase depending on the number of designated States. As a rule of thumb, it is usually cheaper to file a European patent than to file individual national applications when three or more States are designated.

The fact that a European patent is in reality nothing more than a bundle of national rights can create significant practical problems for patentees. It is not possible to enforce a European patent before a single court. The infringement of a European patent needs to be examined under the conditions of each national patent law. If – according to the national laws – a European patent is infringed across Europe and the patentee wishes to obtain damages for all States concerned, they will have to go to a different court for every single State in which the infringement is taking place, according to different national legislations and procedures.

In order to remedy this situation, a unitary patent system has been in development for more than a decade. Once in force, the system will allow companies and individuals to obtain a truly single patent that is enforceable before a single centralized Unified Patent Court.

2.4.14 – Video Game Patents In Europe

In general, patents in Europe have a similar structure to US patents in that they consist of a description of the invention, claims, drawings and an abstract, and grant their owners comparable rights for 20 years from the date of filing. Utility models are also available in some European countries. As mentioned, these are essentially similar to regular patents, but protect minor innovations for a shorter time while being easier and quicker to obtain.

As is the case in the United States, both eligibility and patentability are subject to a strict set of requirements. The patent must relate to an invention that is novel, “inventive” (that is, non-obvious) and susceptible of industrial application. In addition, the patent must describe the invention in a manner sufficiently clear and complete that the invention can be carried out by the person having ordinary skill in the art; for video game patents, that would typically be an engineer or a game programmer.

In Europe there are explicit exclusions from patentable subject matter, such as schemes, rules, games, plants and animal varieties, inventions against public order or morality, whereas in the United States there are no prescribed exclusions, but abstract ideas, natural phenomena and laws of nature are excluded by case law.

Additionally, European law has traditionally differed from US law when it comes to software patents. Under the European Patent Convention, computer programs cannot be patented “as such”, but only if they are implemented in a way as to create a further “technical effect”.[290] The exact meaning of these rules has been the subject of long-standing debates.

[290] According to EPO guidelines, for instance, a computer program designed based on specific

The European Patent Convention also excludes from patentability schemes, rules and methods for playing games, if claimed "as such", no matter how original they are. The exclusion applies not only to rules for traditional games such as card or board games, but also to game rules underlying video games. For video games, this excludes the patentability of elements that govern how the game proceeds, both of its own accord (for example, evolving characters and storylines) and in interaction with the player (for example, tapping along with the game soundtrack to make your character dance if rhythms match).[291]

In short, the only way to obtain a patent in relation to a video game is to have the game rules implemented in such a way as to produce a "technical effect", going beyond those already inherent in the game rules and their implementation via a computer program. Rules that engage players and keep them interested, or give rise to a balanced and rewarding gameplay, are considered to have merely psychological effects, not technical effects, and are therefore non-patentable as such.

This is quite a complex area of patent law, and it is not always easy to understand whether such a technical effect exists. To cite practical examples, in Case No. T 2321/12, the EPO refused a Nintendo European patent application over a dungeon game because the only novel matter that the patent described involved game rules, in particular a set of rules according to which the playable character had to arrive at a specific "connection point" such as a portal or the dungeon entrance in order to move from the ground space to the dungeon space, or *vice versa*.[292] Similarly, in Case No. T 2127/09 the EPO refused a Bandai European patent application over a Tetris-like game: the game rules described in the patent were excluded from patentability as such, and their technical implementation was deemed not inventive.[293] In Case No. T 0188/11, the mechanics of a Nintendo kart racing game were also found to be unpatentable in Europe: Nintendo's patent application described a video game mechanic in which players could influence the driving of the kart in different ways depending on the weight of the in-game driver and passenger characters. According to the EPO, attributing weight to a virtual character and having the kart respond in different ways according to their weight was merely a game rule and, as such, excluded from patentability.[294]

Conversely, in Case No. T 0012/08 the EPO found that Nintendo could patent a specific *Pokémon* game mechanic as implemented by a computer program. Nintendo's patent application related to a computer program to make the probability of a Pokémon appearing during the game time-dependent, which was achieved by having a software program interacting with a clock, and which the EPO considered to be an inventive "further technical effect".[295] Similarly, in Case No. T 0928/03 the EPO granted Konami a patent over the implementation of a specific soccer game mechanic. Konami's invention consisted in a method

technical considerations of the internal functioning of the computer on which it is to be run may produce a further technical effect. The same is true for a computer program controlling the internal functioning or operation of a computer, such as processor load balancing or memory allocation. See EPO, "Guidelines for Examination" Part G, Chap. II, 3.6.1, *epo.org*, EPO, March 2021.

[291] EPO, "Guidelines for Examination in the European Patent Office", *epo.org*

[292] EPO Boards of Appeal Decision of April 21, 2016 in respect of Case No. T 2321/12 – 3.2.04, *epo.org.*

[293] EPO Boards of Appeal Decision of May 12, 2011 in respect of Case No. T 2127/09 – 3.2.04, *epo.org.*

[294] EPO Boards of Appeal Decision of May 3, 2013 in respect of Case No. T 0188/11 – 3.2.04, *epo.org.*

[295] EPO Boards of Appeal Decision of February 6, 2009 in respect of Case No. T 0012/08 – 3.2.04, *epo.org.*

allowing a gamer to understand which in-game soccer player the currently controlled in-game soccer player would pass the ball to next; this was done by highlighting the soccer player that would receive the ball with a guide mark as long as the player was on screen, and by using an enlarged guide mark on the edge of the display to indicate the direction in which the ball would be passed when the soccer player was off-screen.[296] To summarize, it is easier to obtain a patent whenever hardware, such as Nintendo's Wiimote, is also involved: in Case No. T 1504/17, for instance, the EPO granted Nintendo a patent concerned with the use of a controller's movement sensor to determine how in-game objects are selected and moved to other areas of the screen. The EPO expressly noted that the inventive feature of the patent was in fact "not a game aspect, such as a game rule, or specific to a particular role-playing game but a technical way of controlling an object in a game space".[297]

One final aspect worth emphasizing is that not all patents are necessarily valid, even when granted by the EPO or any other national patent office. It is entirely possible that a patent granted by the relevant patent office may later be found to be invalid because it related to a non-inventive product or process, or to a computer program or game "as such" and, therefore, cannot be enforced against anybody. If you receive a claim for patent infringement, it is strongly recommended to discuss the validity of the patent at hand as well as all other circumstances of the case with a professional well-versed in patent law. If a patent holder knows that their patent is invalid but still claims that the patent is infringed, in certain jurisdictions they could even be liable for damages in respect of the alleged infringer.

2.4.15 – Common Questions About Patents

What Can Our Company Put "Patent Pending" On?

"Patent pending" can only be written on a product can if an actual patent application or provisional patent application has been filed with the national patent office. Putting this marking on a product that does not meet this criterion could result in a liability.

While the mark of "patent pending" does not directly grant patent rights to the user, it serves to put potential future infringers on notice. Some companies hold the common misconception that they should always put "patent pending" on any invention. Yet, patent pending is not like a trademark and does not grant the common law rights that the symbol ™ does in the United States. Also, if the patent is not granted, it is not proper to keep this marking on the unpatented item. As a final consideration, in the United States, placing patent pending on a product when there is no patent application is a violation of Title 35, Section 292 of the United States Code. There are financial penalties for marking products incorrectly.

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[296] EPO Boards of Appeal Decision of June 2, 2006 in respect of Case No. T 0928/03 – 3.5.01, *epo.org.*
[297] EPO Boards of Appeal Decision of August 17, 2006 in respect of Case No. T 1504/17 – 3.2.04, *epo.org.*

Patent Agents And Patent Attorneys In The United States: What Is The Difference?

As you can see from all the information presented in this chapter, patent law is a complex area of law. It may not be surprising to learn that most attorneys practicing patent law have additional qualifications and specialized degrees. In the United Kingdom, becoming a patent attorney is a very different legal educational process from other legal professionals. In the United States, law school is the same for all attorneys and all practicing attorneys are required to take a state bar to practice law, but patent law is the only area of practice that requires lawyers to take a further examination in order to become a "registered patent attorney". This examination covers patent law and, in particular, the rules governing patent applications. The test is administered by the USPTO and may be taken by attorneys and non-attorneys. One requirement for this examination is a college-level scientific or technical education. The exam is difficult and, in some years, only about 50% of students pass. An attorney who passes this exam is a "patent attorney". A non-attorney who passes the exam is a "patent agent". Patent agents can aid in writing patent applications and other matters before the USPTO, but their capacity is more limited than that of registered patent attorneys.[298]

2.5 – Rights of Publicity

Publicity rights, also known as rights of publicity, personality rights or image rights, are sometimes considered IP rights because they are intangible exclusive rights. Furthermore, these rights are considered in any creative endeavor that may use someone's image. In general terms, publicity rights are a set of rights that allow a person to control the commercial distribution of their own name, image, likeness, voice or other identifiable representation of personality. Developers and publishers should be aware that this can include the use of a distinctive voice, nickname, catch-phrase or even tools of trade of a particular individual.[299] This is the right that allows a celebrity to be paid to endorse a certain product or company and simultaneously allows that celebrity to prevent a business from faking their endorsement.

On the other hand, unlike the core IP rights, there is no international treaty specifically relating to publicity rights. Because of this, the way in which these rights are handled differs widely from country to country and, in the United States, from state to state.

Publicity rights exist for several policy reasons. These include the idea that the right to one's identity is among the most fundamental human rights. It is also closely tied to the right of privacy, protecting a person from unwanted commercial

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[298] For further information on the European patent attorney system, see EPO, "Conditions for registration and enrolment", *epo.org.* A patent attorney is distinct from a lawyer specializing in patent law; in some countries, patent attorneys may not represent clients in courts dealing with patent infringement.

[299] In 1974, for example, a court found that tobacco company Winston's use of doctored photographs of race car driver Lothar Motschenbacher's car infringed his rights even though his facial features were not visible. *Motschenbacher v. R. J. Reynolds Tobacco Co.*, 498 F.2d 821 (9th Cir.1974).

exposure. Furthermore, there is an argument that rights of publicity prevent fraud and unfair business practices that could derive from a fake endorsement.

Publicity rights are important in the game context because using a person's likeness in a game, or to advertise a game, usually requires their permission. The same is true for using a person's voice or other recognizable characteristic.

2.5.1 – Rights Of Publicity In The United States

The approach to rights of publicity is not harmonized in the United States and varies by state. Indeed, publicity rights are not regulated at the federal level but are governed by state law.[300]

The state with jurisdiction is the state in which the person concerned currently lives. Publicity rights may originate from state law statutes[301] or from case law,

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[300] Importantly, there are state law statutes in many states responsible for the bulk of game development in the United States, including California, Massachusetts, New York, Texas and Washington.

[301] *California:* Cal. Civil Code, Sects 3344-3344.1 (prohibits the unauthorized commercial use of name, voice, signature, photograph or likeness. Allows the rights of a deceased personality to continue for 70 years after the death of the personality).
Florida: Fla. Stat., Sect. 540.08 (prohibits the unauthorized publication or use for commercial or advertising purposes of the name or likeness of any person which continues for 40 years after their death).
Illinois: Ill. Rev. Stat., Ch. 765, Sect.1075/1 *et seq*. (an individual has the right to control whether and how to use their identity for commercial purposes; this right continues for 50 years after death).
Indiana: Ind. Code, Sects 32-36 (prohibits the unauthorized "commercial use" of a personality's name, voice, signature, photograph, image, likeness, distinctive appearance, gestures, or mannerisms. Several exceptions are listed, such as literary works, musical compositions and fine art. This right continues for 100 years after their death).
Kentucky: Ky. Rev. Stat., Sect. 391.170 (prohibits the unauthorized commercial use of the name or likeness of a "person who is a public figure" until 50 years after their death).
Massachusetts: Mass. Gen. Laws Ann., Ch. 214, Sect. 3A (prohibits the unauthorized use of name, portrait, or picture of a person for advertising or trade purposes).
Nebraska: Neb. Rev. Stat., Sects 20-202 (prohibits the exploitation of a natural person's name, picture, portrait, or personality for advertising or commercial purposes, as an invasion of privacy).
Nevada: Nev. Rev. Stat., Sects 597.770-597.810 (prohibits the unauthorized commercial use of any person's name, voice, signature, photograph or likeness during life and continuing for 50 years after death).
New York: N.Y. Civil Rights Law. Sects 50 and 51 (prohibits the unauthorized use for advertising or trade purposes, of the name, portrait, or picture of any living person).
Ohio: Ohio Rev. Code Ann., Sect. 2741.01 *et seq*. (prohibits the unauthorized use of "any aspect of an individual's persona" for commercial purposes during life and for 60 years after death).
Oklahoma: Okla. Stat., Title 12, Sects 1448 and 1449 (prohibits the unauthorized use of another's name, voice, signature, photograph, or likeness, in any manner, on or in products, merchandise, or goods for the purposes of advertising or selling. This right continues for 100 years after death).
Pennsylvania: Pa. Cons. Stat., Title 42, Sect. 8316. (prohibits the unauthorized use of name or likeness).
Rhode Island: R.I. Gen. Laws, Sect 9-1-28, 9-1-28.1(a)(2) (prohibits unauthorized use of any person's name, portrait, or picture for advertising or trade purposes).
Tennessee: Tenn. Code Ann., Sects 47-25-1102, -1103, -1104, -1105, -1106 and -1107 (prohibits the unauthorized use of an individual's name, photograph, or likeness in any medium for the purposes of advertising, fund raising, or solicitation of donations or purchases. The right continues for 10 years after death).
Texas: Tex. Property Code Ann., Sect. 26.001 *et seq*. (prohibits the unauthorized use of a deceased individual's name, voice, signature, photograph, or likeness in any manner, including commercial and advertising uses for 50 years after death. This law does not apply to the rights of living individuals).
Utah: Utah Code Ann., Sect. 45-3-1 *et seq*. (prohibits unauthorized commercial use of an individual's personal identity in a way that expresses or implies approval or endorsement of a product or subject matter).
Virginia: Va. Code, Sect. 8.01-40 (prohibits the unauthorized use of a person's name, portrait, or picture for advertising or trade purposes until 20 years after their death).
Washington: Wash. Rev. Code, Sect. 63.60.010 *et seq*. (provides every individual or personality with

without a specific statute.[302] Moreover, some states allow publicity rights to pass to a person's estate so that they may be protected for a period even after death (see the table below).[303] While some states have no post-mortem right of publicity and most others limit it to a certain number of years, one state, Tennessee, the home of Elvis, has a perpetual right of publicity.

STATES THAT RECOGNIZE THE RIGHT OF PUBLICITY FOR DECEASED PERSONS			
California	Kentucky	Ohio	Utah
Connecticut	Michigan	Oklahoma	Virginia
Florida	Nebraska	Pennsylvania	Washington
Georgia	Nevada	South Carolina	
Illinois	New Jersey	Tennessee	
Indiana	New York	Texas	

Failure to obtain permission from the person or their estate when required could result in a court granting an injunction to halt the sales of the game and/or awarding damages to the person whose image was used without consent.

Moreover, such damages are likely to be punitive in addition to the court-derived fair market value for licensing the person's right of publicity. A developer or publisher could also be required to remove the infringing use of the person's likeness, image or other attribute and, if this is not a viable option (for example because the product is marketed and distributed in digital form and a game patch removing the character cannot be issued), to recall all copies of the product. Finally, a game-maker could be left in the unenviable position of being forced to obtain a license from the aggrieved or litigious individual.

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a property right in the use of their name, voice, signature, photograph, or likeness. The protections for an *Individual*, that is, a natural person, continue until 10 years after their death, while the right of a *Personality*, that is, any individual whose "publicity" has a commercial value, continues for 75 years after their death).
Wisconsin: Wis. Stat., Sect. 895.50(2)(b) (prohibits the unauthorized use for advertising or trade purposes of the name, portrait, or picture of any living person).

[302] The following states have common law Publicity Rights: Alabama, Arizona, Connecticut, Georgia, Hawaii, Michigan, Minnesota, Missouri, New Hampshire, New Jersey, South Carolina and West Virginia.

[303] In November 2020, New York State enacted legislation establishing a limited post mortem right. The law protects people for 40 years after their death, provided that their rights of publicity had commercial value upon or because of their death; these rights include their name, voice, signature, photograph, or likeness and are limited to lawful residents of New York who died within 180 days from when the law became effective. Significantly, it will not apply retroactively to celebrities and athletes such as Marilyn Monroe and Jackie Robinson. The legislation also allows for descendants to control and protect the likeness and image rights of the deceased. See United States: The New York State Senate, "Senate Bill S5959-D", 2019-2020 Legislative Session*, nysenate.gov.*

While the right of publicity can afford broad protection against unauthorized use, it is not without its limitations, including the First Amendment rights of a developer or publisher.[304] The application of the First Amendment will depend on the type of use of the personality attributes within the video game. It may allow the use of an individual's name, likeness and other protectable characteristics when not solely intended to attract attention "to a work that is not related to the identified person" or for "appropriating an individual's commercial value as a model rather than as part of a news or other communicative use".[305] In *Rogers v. Grimaldi,*[306] the Court of Appeals in New York created a two-step test to examine first whether the product at issue is wholly unrelated to any underlying work incorporated therein and second whether the use of the individual's name is merely a disguised commercial advertisement. The test aims to determine whether the unauthorized use of an image or trademark in a product, such as a video game, may produce a misleading impression that the depiction demonstrated an endorsement. The "transformative use"[307] defense is also used to balance the right of publicity against First Amendment protections in a video game and goes a step further than the *Rogers* test. It hinges on a determination of whether the purpose of the game merely exploits the identity of a party for monetary purposes or whether the video game contributes distinctive and expressive content. While this may seem complex, in fact it comes down to whether the person's image or other personal attribute has been sufficiently "transformed" in the game. If the creator can demonstrate their creative input, this should defeat a right of publicity claim and warrant the First Amendment protection.

Even with the *Rogers* test and the transformative use analysis, right of publicity suits have flourished in the video game industry for the past decade. Various celebrities and influencers have alleged that their rights of publicity have been infringed in games, as in the case of *Kirby v. Sega of America Inc.,*[308] *No Doubt v. Activision Publishing, Inc.*[309] and *Gravano v. Take-Two Interactive Software, Inc*.[310] Many in the video game industry believed that the Supreme Court's decision in *Brown v. Entertainment Merchants Association* in 2011, declaring that video games are protected by the First Amendment, would end such claims. [311]

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[304] The First Amendment is part of the US Constitution and guarantees freedoms including freedom of speech, press, and religion, and the right of assembly.

[305] Restatement (Third) of Unfair Competition Sect. 47, Comment c, (1995).

[306] *Rogers v. Grimaldi*, 875 F.2d 994 (2nd Cir.1989).

[307] *Comedy III Prods. Inc. v. Gary Saderup, Inc.*, 25 Cal. 4th 387, 407 106 Cal. Rptr. 2d 126, 141, 21 P.3d 797, 809 (2001).

[308] *Kirby v. Sega of America, Inc.*, 144 Cal.App.4th 47, 50 Cal.Rptr.3d 607, 81 U.S.P.Q.2d (BNA) 1172 (2006). Kierin Kirby, a singer for the musical group, Deee-Lite, claimed that use of her likeness and catch-phrase in a video game violated her right of publicity. The court held that Sega's decision to set the game in space and make the character a space-reporter, instead of a musician, was sufficiently transformative to avoid any liability.

[309] *No Doubt v. Activision Publishing, Inc.*, 192 Cal.App.4th 1018, 122 Cal. Rptr. 3d 397 (Cal. Ct. App. 2011). The musical group No Doubt sued the publisher of *Band Hero*, alleging right of publicity violations arising from the use of avatars representing the band in the game. The court held that Activision's use was not transformative as the avatars were performing the same activity by which No Doubt achieved its fame.

[310] *Gravano v Take-Two Interactive Software, Inc.*, 142 AD3d 776, 37 N.Y.S.3d 20 [1st Dept 2016], *affd* 31 NY3d 988 [2018]. In another case, the band The Romantics also sued Activision in 2008, alleging that the game *Guitar Hero* violated their rights, but the case was ultimately dismissed.

[311] *Brown v. Entertainment Merchants Association*, 564 US 786 (2011). The Supreme Court strongly held that video games qualify for First Amendment protection and that the "basic principles of freedom of speech … do not vary" with the creation of a new and different communication medium. Specifically, the Court stated that "[l]ike the protected books, plays, and movies that preceded them, video games

Initially, the opposite was true, specifically in the context of sports games.[312] In *Keller v. Electronic Arts Inc.* and *Hart v. Electronic Arts, Inc.*, which dealt with the depiction of former National Collegiate Athletic Association (NCAA) college football players in games,[313] the courts refused to find for the video game company on First Amendment grounds. The cases settled after the courts opined that neither game was sufficiently transformative to avoid a right of publicity suit.[314] In *Champion v. Take-Two Interactive Software, Inc*., basketball player Phillip "Hot Sauce" Champion sued the developer of the *NBA 2K18* game over the use of his likeness and of the nickname "Hot Sizzles". The suit was dismissed in 2019 because the image and name of the in-game character did not sufficiently resemble those of the real-life player.[315]

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communicate ideas – and even social messages – through many familiar literary devices (such as characters, dialogue, plot and music) and through features distinctive to the medium (such as the player's interaction with the virtual world). That suffices to confer First Amendment protection."

[312] In *Brown v. Electronic Arts, Inc.*, 724 F.3d 1235 (9th Cir. 2013), former football great Jim Brown filed a suit against Electronic Arts based on unauthorized video game use of his image and player statistics. In granting Electronic Arts's motion to dismiss, the court opined that Electronic Arts's use was protected by the First Amendment.

[313] The NCAA is recognized as the most significant organization regulating intercollegiate athletic competition in the United States. Formed in 1905 primarily in response to concern about the increased violence in college football, the NCAA has grown to include 1,098 colleges and universities and 102 conferences. The NCAA determines playing rules, sets eligibility requirements, regulates recruiting of students, and establishes the requirements for and the number of scholarships that may be offered covering 24 sports. NCAA, "What is the NCAA", *ncaa.org*.

Throughout its history, the NCAA has prohibited college athletes from exploiting their name, image and likeness ("NIL") while in school, justifying it in the name of amateurism. Once a college athlete receives compensation, they are no longer eligible to participate in college sports and are considered professional athletes. As a result, under the various past licensing deals involving college video games, the players' NIL were never licensed, and student- athletes received no compensation. Sports video games eventually imposed a unique issue as the artwork became more detailed with advancements in technology, some players felt that their likeness and image were being used even though they were not named. They would later argue successfully in court that other elements such as their look, distinguishing features or style of play combined with licensed rights, including team names, jerseys, numbers and statistics, indirectly identified them and therefore violated their rights of publicity. In 2021, the playing field began to shift dramatically against a backdrop of state legislation allowing athletes to profit from the exploitation of their NIL, followed by a unanimous Supreme Court decision against the NCAA restrictions on educational related perks. National Conference of State Legislatures, "Student-Athlete Compensation", *ncsl.org*, October 20, 2021; NCAA v. Alston, 141 S. Ct. 2141 (2021). Shortly thereafter, the NCAA, decided to allow college athletes the right to license their NIL rights under certain circumstances. How will these changes potentially affect the sports video game industry in the US? In the past, game developers could only sign deals with retired college athletes to use their NIL on the packaging or marketing campaigns because of the NCAA restrictions; rights to use a school's team colors, name, jerseys, and other indicia were obtained separately through a license with the school, primarily through licensing agents (i.e., CLC). None of these deals permitted the use of a player's NIL. Under the new NCAA rules and various state legislation, college athletes can now negotiate deals and receive compensation to be on the cover, in marketing materials, social media, appear at events, and in the game. However, the agreement with the athlete requires separate permission to use the school's indicia in marketing materials. While signing a student might be very lucrative for a handful of students, it will be a lot more challenging for individual players to appear in a game. Most likely, until the players can be represented as a group, whether through the school, the conference they play in, or a new organization representing the players similar perhaps to a labor union, it will be challenging to negotiate, sign and administer individual agreements. Perhaps games may only have certain players, or be limited by the number of teams. Furthermore, compensation issues may arise: would some players receive more money, or would the money be equally distributed? No matter how such issues are resolved, expect changes in college athletics, which video games may have helped bring about.

[314] *Keller v. Electronic Arts Inc.*, 724 F.3d 1268 (9th Cir. 2013); *Hart v. Electronic Arts, Inc.*, 717 F.3d 141, 154 (3rd Cir. 2013). In *Hart*, the court held that "[i]f a product is being sold that predominantly exploits the commercial value of an individual's identity, that product should be held to violate the right of publicity and not be protected by the First Amendment, even if there is some 'expressive' content in it that might qualify as 'speech' in other circumstances. If, on the other hand, the predominant purpose of the product is to make an expressive comment on or about a celebrity, the expressive value could be given greater weight."

[315] *Champion v. Take-Two Interactive Software, Inc*., 64 Misc.3d 530, 100 N.Y.S.3d 838 (SupCt. New York County 2019).

Several right of publicity litigations have also been brought by or on behalf of historically famous or infamous individuals, including John Dillinger,[316] General George S. Patton[317] and Manuel Noriega, with varying degrees of success. In *Noriega v. Activision Blizzard, Inc.*, Panamanian dictator Manuel Noriega brought a suit against Activision for the depiction of his likeness in *Call of Duty: Black Ops II*. Activision filed a motion to strike under California's anti-SLAPP statute, claiming that the game's inclusion of Noriega's likeness was a valid exercise of its constitutional right to freedom of speech. The court held against Noriega, and granted Activision's motion because it satisfied both the *Rogers* test and transformative use test.[318] With all this in mind, developers and publishers should also be aware that fame is not necessarily a requirement for bringing a right of publicity suit.[319]

More recently, a new approach to litigation has emerged where the right of publicity claim is supported by other causes of action such as copyright and trademark infringement, although the general thrust of the courts has been to afford broad First Amendment protections to games, stopping short of ruling conclusively on right of publicity grounds. In recent litigations, various plaintiffs brought lawsuits against developer and publisher Epic Games for allegedly copying famous dance moves to make purchasable dance emotes in Epic Games' *Fortnite*.[320] Between the two cases, plaintiffs brought claims based on trademark, copyright and right of publicity infringement; the collective rulings in the cases illustrate the application of *Hart v. Electronic Arts, Inc.* in practice. In one case, *Pellegrino v. Epic Games*, the court applied *Hart's* transformative use test to conclude that Epic Games' depiction of the plaintiff's signature moves (a couple of short dance steps falling short of a full choreographed dance routine) was sufficiently transformative to provide Epic Games' dance animation a stronger claim to First Amendment protection than the plaintiff's interest in their right of publicity. While the *Pellegrino* court's ruling did determine that *Fortnite* was entitled to strong First Amendment protections, the suit was still pending at the time of writing, the court having allowed the plaintiff's false endorsement claim

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[316] In 2011, a court granted a motion to dismiss in *Dillinger LLC v. Electronic Arts Inc.* finding that the use by Electronic Arts of Dillinger's name in a game was protected by the First Amendment and that Dillinger had no right of publicity protections since he had died prior to the statute becoming effective. *Dillinger, LLC v. Electronic Arts, Inc.*, 795 F. Supp. 2d 829 (S.D. Ind. 2011).

[317] As previously indicated, the claims in *CMG v. Maximum Family Games* involving the inclusion of General Patton in the game *Legends of War: Patton* were settled in 2015 following the filing of a motion to dismiss.

[318] *Noriega v. Activision Blizzard Inc.,* Cal. Super. Ct., BC551747 was dismissed in 2014. The Court found that Activision Blizzard's First Amendment rights trumped any right of publicity protections Noriega might be due. It also found that Noriega was so infamous that his reputation could not conceivably have been damaged by his inclusion in the game. Lastly, considering the game as a whole, it deemed Noriega's limited use to be sufficiently transformative.

[319] In 2005, *Topheavy Studios, Inc. v. Doe*, No. 03-05-00022-CV, 2005 Tex. App. LEXIS 6462 (Tex. App. August 11, 2005) was filed, relating to the publication of a video game containing images of an underage plaintiff exposing her breasts, taken at a trivia contest on South Padre Island. The case resulted in a temporary restraining order being issued barring the further production of copies of the game. In 2015, relatively unknown Italian surgeon Sergio Canavero recognized himself in a surgeon character of Konami's *Metal Gear Solid V: The Phantom Pain* trailer and filed a complaint with the local police. Whether the likeness is coincidental or not, what makes the case interesting is that Canavero was a real-life surgeon who studied and wrote on real-life phantom pains, which, as the name suggests, were a central theme in *Metal Gear Solid V: The Phantom Pain*s. How the case developed remains unknown. See Galliani, Gabriel, "Could The Metal Gear Solid Lookalike Doctor Really Sue Konami?", *kotaku.com*, April 29, 2015.

[320] *Pellegrino v. Epic Games, Inc.*, 451 F. Supp. 3d 373 (E.D. Pa. 2020), and *Brantley v. Epic Games, Inc.*, 463 F. Supp. 616 (D. Md 2020). In Pellegrino, the court dismissed the claims involving rights of publicity, privacy and trademark.

to survive a motion to dismiss. The second case, *Brantley v. Epic Games*, cited heavily from *Pellegrino* in reaching a similar conclusion to dismiss the plaintiff's suit. In each case, the court also noted that while there is an interest in the right of publicity, short dance moves are generally not copyrightable subject matter, although the Copyright Act preempts right of publicity claims as choreography and dance fall within its ambit. Moreover, it noted that it is generally difficult to attach trademark significance to such moves.

2.5.2 – Rights Of Publicity In Other Countries

Publicity rights as described above are unique to the United States. Other countries around the world have developed publicity rights that arise, on the whole, from the same fundamental policy reasons, namely, the human right to protect one's name and image coupled with the economic right to control its commercial exploitation, although the implementation of those policy reasons in law varies around the world.

For example, in countries such as the Australia, Canada and the United Kingdom, publicity rights have been created by case law,[321] drawing on the rights of privacy and of passing off – or, in other words, by fusing together an individual's right not to have their person broadcast in public together with their right to avoid having their person associated with a product without authorization. However, these rights are not nearly as robust or as detailed as the US system, reflecting, perhaps, the reluctance of these countries to enshrine a formal or detailed publicity rights system. In other countries, including France,[322] Germany[323] and the People's Republic of China,[324] publicity rights are part of statutory law although, again, the degree of protection varies considerably.

2.5.3 – Image Rights In Europe

Unlike copyright, trademarks and patents under the European Patent Convention which are highly harmonized in the EU, rights of publicity or, more often, "image rights", are regulated not by EU law but at the national level. The lack of harmonization in Europe is evident in the term of protection. In some countries, such as Germany, the term extends beyond the person's death, while in others, such as Spain, its patrimonial aspect means it ends once the individual passes away.

Image rights differ conceptually across Europe and from the US right of publicity, which is of a mainly economic nature, while image rights in Europe are mainly, although not exclusively, understood at a personal level. Thus, image rights in Europe generally have both personal and patrimonial aspects, allowing any person to control any use or misappropriation of their representation, appearance, voice or name.

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[321] *Pacific Dunlop Limited v. Paul Hogan and Ors* [1989], FCA 185 (the "Crocodile Dundee" case) in Australia or *Robyn Rihanna Fenty v. Arcadia* [2013] EWHC 2310 (Ch) (the "Rihanna t-shirts" case) in the United Kingdom.

[322] Art. 9 of the French Civil Code and Art. 226-1 of the French Criminal Code together enshrine the right to "respect of private life" and impose penalties on persons infringing it.

[323] In Germany, the doctrine of publicity rights is known as the "*Allgemeines Persönlichkeitsrecht*" and is derived from the German Constitution, the German Civil Code and court decisions.

[324] Art. 99 of the General Principles of Civil Law of the People's Republic of China.

While limited exception might be provided on a country basis, in general terms any developer who wants to use a person's likeness will need their authorization. In fact, even in those countries where freedom of speech is constitutionally protected, the test could be stricter than in the United States whenever the image is not strictly for informational purposes, and particularly if the image is reproduced in video games. Therefore, before including third persons' names or appearances in a video game, developers should seek a license from the persons depicted unless the use of the name is merely descriptive, such as in a quiz game with questions that includes the name of sporting figures or celebrities, or falls under one of the applicable exceptions, of which examples are provided below.

United Kingdom

The United Kingdom does not have any law specifically regulating image rights.[325] However, it provides for the possibility of a common law action for passing off whenever the reproduction constitutes false endorsement. Accordingly, in a recent case involving the reproduction on t-shirts of a picture of pop-star Rihanna, UK courts took the view that the use of the image amounted to passing off because a substantial portion of consumers would consider that Rihanna had endorsed it.[326]

As far as we know, there is no specific UK case law relating to in-game image rights violations. In a case relating to the video game *Mind Candy*, which featured the Lady Gaga-inspired character "Lady Goo Goo", Lady Gaga, not being able to rely any piece of legislation protecting image rights, sued the video game publisher for trademark infringement – as "Lady Gaga" is also a registered trademark.[327]

Germany

Unlike the United Kingdom, Germany explicitly recognizes image rights as both a privacy and a property right, protected from birth until 10 years after the death of the relevant individual. As a general rule, the reproduction of an image is subject to the consent of the individual depicted; however, German law provides for some exceptions specifically connected with photography but that can be also extended to video games. In relation to photographic works, images depicting a certain individual may be distributed or published without the relevant consent, whenever: (i) they reflect the sphere of contemporary history; (ii) the person has been portrayed only incidentally as a part of a picture of a landscape or any other physical location; (iii) the picture shows a gathering taking place in public; or, more generally, (iv) the artistic freedom of the photographer prevails over the personality right of the depicted person, because the photographer is reporting on facts capable of contributing to debate of general interest.[328] However, this exception applies mostly in relation to images used as part of newsworthy information and would not necessarily apply when the use of the image

[325] Fenty & Ors v. Arcadia Group Brands Ltd (t/a Topshop) & Another [2013] EWHC 2310 (Ch).
[326] Ibid.
[327] Ate My Heart Inc. v. Mind Candy Ltd [2011] EWHC 2741 (Ch).
[328] Sect. 23 of the German Act on the Protection of Copyright in Works of Art and Photographs - Kunsturhebergesetz (KUG).

appropriates commercial value, such as when a celebrity's features are exploited for purposes of merchandising or advertising.[329]

When the image is used for commercial purposes, according to German case law the scope of freedom of speech of the person exploiting the image should be further limited. Following this reasoning, a German court awarded television presenter Günther Jauch, whose image was reproduced on the cover of a magazine, a reasonable license fee.[330]

France

Image rights are protected in France under both civil law, on the grounds of the right to privacy, and criminal law. According to French civil law, image rights are infringed whenever clearly identifiable features of a person's likeness or personality are used without that person's authorization or, if an authorization was in fact given, whenever its limits are exceeded. Similar to the United States and Germany, France also has a "newsworthy" exception. Additionally, France also provides a general and quite broad parody exception which in principle should apply also to commercial uses of a person's image, provided that the use does not maliciously harm that person's reputation.[331]

Parody intent was invoked as a defense by the developer of a French political game called *Jean-Marie, jeu national multimédia: FN 92*. The developer tried to justify their in-game use of the image of Mr. Fodé Sylla, president of French anti-racism association *SOS Racisme*, whom the game presented as an enemy of France. Furthermore, in consideration of the political scope of the game, such use was found to be maliciously harmful to Mr. Sylla and therefore to violate his image rights.[332]

Collective management of image rights is also a source of litigation in France. In the early 2000s, the French Football Federation claimed that Konami had reproduced the names and images of French soccer players without their consent in various versions of the game "International SuperStar Soccer". However, Konami argued successfully that it had valid authorization to do so from the International Federation of Professional Footballers (FIFPRO), the relevant authority managing the soccer players' collective image rights.[333]

Italy

Italy does not have laws specifically protecting image rights in the modern sense of the word; image rights in Italy are mainly a judicial creation, whose legitimacy is nonetheless rooted in the Italian Civil Code and the Copyright Law. [334]

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[329] Lauber-Rönsberg, Anne, "The Commercial Exploitation of Personality Features in Germany from the Personality Rights and Trademark Perspectives", *The Trademark Reporter*, Vol.107 (2017), pp. 803-847.
[330] Germany: Cologne Higher Regional Court, Ruling No.15 U 133/13, ZUM-RD 521 (2015) of March 6, 2014.
[331] Jacques, Sabine, *The Parody Exception in Copyright Law*, Oxford University Press, 2019.
[332] See France: Cour de Cassation, Civil Chamber 1, No. 96-15.610 of July 16, 1998; and Dimita, Gaetano, Rizzi, Andrea, and Serao, Nicoletta, "Image rights, creativity and videogames", *Journal of Intellectual Property Law & Practice* 15(3) (2020), pp.185-192.
[333] France: *Konami Corporation (Japan) v. Football France Promotion SA*, Tribunal de grand instance de Paris (Paris District Court), 3rd ch. 3rd sect., May 18, 2004.
[334] Martuccelli, Silvio, "The Right of Publicity under Italian Civil Law", *Loyola of Los Angeles Entertainment Law Review* Vol.18 No. 3(6) (1998), pp 543-563.

Italian law also provides for exceptions to the general rule that the reproduction of a person's image requires that person's authorization. For instance, the unauthorized use of someone's image may be considered justified whenever it refers to a public figure or a celebrity or whenever the image is exploited for a cultural purpose. However, the viability of this exception for uses that have a commercial purpose has been debated and is ruled out by courts more often than not. Italian courts take a very protective view of image rights, which are furthermore interpreted in a broad sense as evidenced by the relevant case law.

For instance, in a dispute involving popular Italian singer Lucio Dalla, a court found that Mr. Dalla's image rights were violated by an advertisement that only showed two of the most distinctive features of his persona: a woolen cap and a pair of round glasses.[335]

More recently, a court found that the use of Audrey Hepburn's likeness in an advertisement recalling the well-known movie *Breakfast at Tiffany's* violated Ms. Hepburn's image rights (post-mortem) and awarded damages to her heirs. In that case, the advertisement in question was not even reproducing an actual picture of Ms. Hepburn but only a model impersonating Holly Golightly, the character played by Ms. Hepburn in the movie.[336]

2.5.4 – Negotiating The Right Of Publicity

Considering the unharmonized legal framework surrounding publicity rights and the subsequent uncertainties, it is standard practice in the video game industry to license image rights globally whenever a real person is used in a game.

When negotiating for a right of publicity, the most critical license terms are: the rights granted (i.e., the way the likeness will be used); services to be provided, if applicable; exclusivity; territory; the term of the license; and whether or not the likeness will be used in advertising. Moreover, the subject of the license will likely ask for certain terms including review and approval rights over actual in-game or advertising uses. Recent business strategies suggest that worldwide rights and a perpetual license are preferable, but the cost of obtaining these will reflect their broad nature. Another consideration is whether the game developer will require the services of the person to create voice-over or record motion capture, for which fees are often charged in addition to the mere likeness license.

Potential licensees should also be aware that in the United States most celebrities and actors are members of the Screen Actors Guild - American Federation of Television and Radio Artists (SAG-AFTRA).[337] Guilds have additional requirements above and beyond contracted payments to the celebrity. Most critically, they require recurring payment for the use of the celebrities concerned and payments into the guild's pension and health fund.

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[335] Italy: *Dalla v. Autvox*, Pretura di Roma (Rome District Court), April 18, 1984, Foro It.1984, I, 2030.
[336] Italy: Dotti and Ferrer v. Caleffi s.p.a., Tribunale di Milano (Court of Milan), Decision No. 766 of January 21, 2015.
[337] See Section 5.4 regarding SAG-AFTRA.

2.6 – Trade Secret

Trade secret can be thought of as the oldest and most established form of IP. Even two million years ago, *Homo habilis* could keep his competitive advantage for a new stone tool, the use and construction of that tool, by treating it as a "trade secret". The mechanism then, as now, was merely to keep that information secret. The processes have grown more complex since then, but the basic idea is the same.

In general, to qualify as a trade secret, the information must be commercially valuable because it is secret, be known only to a limited group of persons and be subject to reasonable steps taken by the rightful holder of the information to keep it secret, including the use of confidentiality agreements for business partners and employees.[338] A trade secret is the only form of IP that is not disclosed publicly; patents, copyrights and trademarks all rely on some form of public disclosure. International treaties such as the Paris Convention for the Protection of Industrial Property and the TRIPS Agreement provide foundations for the protection of undisclosed information, although the means of their implementation vary widely, and set out the principle that the appropriation of trade secrets without permission is an act of unfair competition.

In the United States, trade secret law was until recently available only at the state level in the form of the US Uniform Trade Secrets Act, resulting in a patchwork of different standards and no federal jurisdiction for claims. States could choose to adopt the Uniform Trade Secrets Act, a model law, to establish remedies for misappropriation of trade secrets. Notably, New York and North Carolina are the only major video game-producing states that have not adopted the Act; unfortunately, many prominent game-makers are located in these states.[339] The federal Defend Trade Secrets Act of 2016 incorporates similar laws to the Uniform Trade Secrets Act. As with trademark law, the federal trade secret law does not pre-empt but coexists with state law. The Defend Trade Secrets Act authorizes a trade secret owner to file a civil action in a federal district court seeking relief for trade secret misappropriation in relation to products or services used in interstate or foreign commerce.[340]

The legal landscape is not dissimilar in the EU. Prior to the implementation of the 2016 EU Trade Secrets Directive,[341] trade secret was not a harmonized exclusive right in the EU but, rather, a remedy based on different legal principles such as unfair competition, general principles of tort law, contract law or breach of confidence. The Directive aims to address this fragmentation by introducing a unified approach across the EU. It defines a "trade secret" and creates a minimum level of protection. It sets out what would be considered a lawful acquisition, use

[338] WIPO, "Trade Secrets", *wipo.int.*
[339] References to all US states' Uniform Trade Secrets Act or adjacent laws are set out in Beck Reed Riden, "Trade Secrets Acts Compared to the UTSA", *faircompetitionlaw.com*, August 8, 2018. California (Cal. Civ. Code, Sect. 3426), Washington (Wash. Rev. Code Ann., Sects 19.108.010 - 19.108.940), Texas (Tex. Civ. Prac. & Rem Code Ann., Sects 134A.001 - 134A.008), and Massachusetts (MA S.2418, 189th Gen. Ct. (Ma. 2016)) are the other major video game-producing states besides New York and North Carolina.
[340] American Bar Association, "Explaining the Defend Trade Secrets Act", *americanbar.org,* September 20, 2016.
[341] Directive (EU) 2016/943 on the protection of undisclosed know-how and business information (trade secrets) against their unlawful acquisition, use and disclosure.

and disclosure of a trade secret, and what would be considered unlawful. It also clarifies the remedies available to trade secret holders.

Under the terms of the definition contained in Article 2 of the EU Trade Secrets Directive, information is considered a trade secret if:

> *"(a) it is secret in the sense that it is not, as a body or in the precise configuration and assembly of its components, generally known among or readily accessible to persons within the circles that normally deal with the kind of information in question; (b) it has commercial value because it is secret; and (c) it has been subject to reasonable steps under the circumstances, by the person lawfully in control of the information, to keep it secret".*

A comparable definition can be found in Section 1(4) of the Uniform Trade Secrets Act, which defines a trade secret as follows:

> *" 'Trade secret' means information, including a formula, pattern, compilation, program device, method, technique, or process, that: (i) derives independent economic value, actual or potential, from not being generally known to, and not being readily ascertainable by proper means by, other persons who can obtain economic value from its disclosure or use, and (ii) is the subject of efforts that are reasonable under the circumstances to maintain its secrecy."*[342]

Both definitions are constructed in a way that captures all kinds of information, extending beyond classic trade secrets such as construction drawings or recipes and including information such as known product defects or company code of conduct violations. Furthermore, it is evident that in order to qualify as a trade secret, certain steps must be taken to ensure the confidentiality of the information.

2.6.1 – What Can Be A Trade Secret?

Any information that is objectively confidential (such as information known only to a limited group of people) and has an economic value for a company can be protected as a trade secret, including formulas, business strategies, data compilations, devices, process, algorithms and/or customer lists. The most well-known example of a trade secret is the formula for Coca-Cola. The formula is known only to a select few individuals in the company and has been kept confidential for more than a century by strict confidentiality measures. Although many public descriptions exist, none have been verified. Other examples of trade secrets may include notes on game development, business contacts, license terms and other internal business items that are valuable to game development but not protected by other IP rights.

As already emphasized above with regard to the Defend Trade Secrets Act and the EU Trade Secrets Directive, the most significant aspect of trade secret

[342] The definition of a trade secret under the Defend Trade Secrets Act is identical although the security efforts standard is broader and includes any "reasonable measures".

protection is the "reasonable steps/efforts" requirement. A company must show that it has actively taken steps to identify and protect its trade secrets.[343]

The main advantage of trade secret regime is that unlawfully obtaining trade secrets is actionable without the need to show that the trade secrets have been either used or disclosed by the lawful owner. In addition, they have no registration cost and can be protected relatively quickly.

2.6.2 – What Rights Are Conferred By Trade Secrets?

Trade secret holders have the right to prevent others from accessing, using or disclosing their trade secret without permission. In the EU, the Trade Secrets Directive provides protection and civil remedies for the unlawful acquisition, use or disclosure of trade secrets. Criminal penalties available at the national level are not affected. The measures, procedures and remedies put in place by way of civil redress include injunction, compensation, damages and account of profit.

Speaking in terms of the Uniform Trade Secrets Act, a company has the right to prevent others from "misappropriating" a trade secret. Section 1(2) of the Act describes misappropriation in this way:

> *" 'Misappropriation' means: (i) acquisition of a trade secret of another by a person who knows or has reason to know that the trade secret was acquired by improper means; or (ii) disclosure or use of a trade secret of another without express or implied consent by a person who (A) used improper means to acquire knowledge of the trade secret; or (B) at the time of disclosure or use knew or had reason to know that his knowledge of the trade secret was (I) derived from or through a person who has utilized improper means to acquire it; (II) acquired under circumstances giving rise to a duty to maintain its secrecy or limit its use; or (III) derived from or through a person who owed a duty to the person seeking relief to maintain its secrecy or limit its use; or (C) before a material change of his position, knew or had reason to know that it was a trade secret and that knowledge of it had been acquired by accident or mistake."*

Unlike the Uniform Trade Secrets Act, the federal law (Defend Trade Secrets Act) requires ownership of the trade secret as an essential element of the claim. A company has to establish "rightful legal or equitable title to, or license in" the information alleged to be a trade secret. If a company fails to successfully establish that another party accessed or used their trade secret without permission, they can usually rely on: (i) a claim for a breach of a confidentiality agreement; or (ii) an employment contract that obliges the parties to not misuse any confidential information that they may come across in the course of employment or similar interaction with the company.

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[343] In the EU, the case law at the national level further clarifies that this refers to taking "adequate and reasonable" actions to avoid disclosure that should be implemented both externally and internally (Spain: Civil Judgment No. 441/2016, Provincial Court of Madrid, Section 28, Rec 11/2015 of December 19, 2016). A national court in the EU has also confirmed that the owner of the trade secret is not required to successfully keep the confidential information secret, meaning that a trade secret is protected even if the steps to keep it secret, despite being "reasonable", turn out to be insufficient *(*Austria: Austrian Supreme Court Decision No 4 Ob 165/16t of October 25, 2016).

2.6.3 – Examples Of Trade Secrets

Every kind of information can be a trade secret. It is essential to have in place protection measures qualifying as “reasonable efforts”/ ”reasonable steps” to keep the information confidential and show that the information has a certain value for the company. Further, it should be kept in mind that a trade secret does not protect against reverse engineering. Therefore, trade secret is most suitable to protect information that can be kept confidential and cannot be worked out from reviewing publicly available products, processes or literature or where publication of information is meant to remain private. As an example, mailing-list data for subscribers of a massively multiplayer online game (MMO) could be considered as a type of trade secret. The users concerned have subscribed to Company A’s MMO for years and have each paid hundreds of dollars to the publisher. If an employee steals the MMO contact list, they can have easy access to people interested in playing an MMO and willing to pay for it in the long term. This information could be enormously valuable to a competitor.

Development tools could also be trade secrets. Consider a development tool that may intelligently populate a 3D level with environmental objects by pulling the objects from a specified directory. This software could be written in-house for one development project but easily modified to work with other projects, saving programmers and level designers many hours of work by laying down a ‘skeleton level’ which is a basic outline structure that can be added to and changed. This tool is certainly also covered by copyright, but if never sold, published or patented it could also be a trade secret. As with Coca-Cola, some elements of the tool could remain trade secrets even if the tool itself were sold. An employee taking the code for this design tool to a competitor would be stealing a trade secret.

Contact information of publishers/developers/middleware providers and details about licensing and publishing agreements can also be a trade secret. In fact, license agreements and other contract secrets are one of the most common trade secrets in the game industry. Often both parties do not want details of deals leaked to the public. This class of secrets covers obvious clauses such as how much is paid and when. It also covers less obvious but equally important information, such as which employees are “key employees’” for fulfilling a development agreement.

2.6.4 – Term Of Protection

Trade secrets last as long as the owner of the information prevents it from becoming common knowledge. Like trademarks, trade secrets are potentially immortal. The only limitation is the time for which the information can be kept secret.

2.6.5 – Process And Cost

Unlike patents and trademarks, no formalities such as registration are required to obtain trade secret protection. However, while no registration or maintenance fees are required, trade secret protection is not without costs. By definition, trade secrets must be subject to reasonable protection measures, including practical, contractual and legal measures; a company that is unable to show sufficient

evidence that it has taken reasonable steps to enforce its trade secret will not be protected from misappropriate use.

2.6.6 – Protecting Trade Secrets

Practical protection measures include maintaining a database containing details of all trade secrets, controlled access on a need-to-know basis, passwords and encryption to restrict electronic access and so on. All such information security measures should be aligned with an internal trade secret policy on which employees should receive regular training. Common protections include recording trade secrets and having employees sign documents stating that they understand that certain information is a trade secret and that the information has special restrictions on dissemination. Controlled access is an important part of a trade secret. If the trade secrets are electronic files, it would be appropriate to allow only certain people to access those files, consider encryption for those files and place special protections on modifying or copying them.

In addition, contractual protection measures need to be implemented, in particular with employees and business partners. All employees and third parties should sign a non-disclosure agreement. Protection of trade secrets not only includes not telling anyone the information unless they need to know it, but can also include other internal security measures. Measures such as restricted access to the information internally, passwords, encryption, locked cabinets and non-disclosure documents all help protect the company's trade secrets.

Lastly, a strategy needs to be put in place in case protected information is compromised in any way or a compromise may be imminent. First, your company should do whatever is necessary to stop the leaked information. This may include further restricting access, changing passwords and perhaps moving databases. It may also include sending ISP and/or webmaster notices if the trade secret information is being hosted online. The company also usually places the offender on notice that he or she is distributing a trade secret. This notice, similar to other such webmaster/ISP notices, will demand that the offender "cease and desist" from distributing the secret.

All evidence relating to the unauthorized access, opportunity and usage and the steps taken to mitigate the impact should be kept, as this will form the basis of your claim for trade secret misappropriation.

Similar to copyright and other types of IP enforcement, each of these steps should be taken in concert with your attorney.

2.6.7 – Penalties For Infringement

Virtually every country has a sanctions system for misuse of trade secrets or confidential information. In the United States, for example, remedies available under the Defend Trade Secrets Act include an injunction to preserve evidence and prevent trade secret disclosure, damages and reasonable attorney's fees. Damages can be measured in three ways. First, they may be measured as a loss of profit by the party that originally held the secret. Second, they may be measured as profit by a party that used or disclosed the misappropriated trade secret. Third, if appropriate, the measurement could be a reasonable royalty

payment for the trade secret.[344] Unlike the Uniform Trade Secrets Act, the Defend Trade Secrets Act allows a trade secret owner to seek an *ex parte* seizure order (as an alternative to a temporary restraining order, which does not involve law enforcement personnel) to prevent dissemination of the trade secret.

In the EU, penalties for the unlawful acquisition, use or disclosure of trade secrets ranges from civil to criminal remedies. The Trade Secrets Directive harmonizes civil remedies, while making it possible for member states to provide for additional criminal sanctions, such as for the violation of manufacturing trade secrets. Under the civil remedies available, a trade secret holder may apply to the court for: (i) an injunction, which may be directed to prevent the infringer from using the information or require them to recall or destroy the infringing goods; (ii) compensation, which would be awarded to the trade secret holder based on the amount of royalties or fees that the infringer would normally have to pay to use the information; (iii) damages, which may cover any reasonable and foreseeable economic loss caused by the trade secret infringement; or (iv) an account of profits, which allocates the profits generated by the infringer's use of the protected information to the trade secret holder.

2.6.8 – Common Questions About Trade Secrets

Can Trade Secret Status Help Me Protect My IP From Reverse Engineering?

In general, reverse engineering is allowed both under the US and EU legal regime under copyright law exceptions and limitations.[345] A lawful acquisition, use and disclosure of trade secrets through reverse engineering takes place when, for example, hardware or software is observed, studied or tested and ultimately re-created without accessing a blueprint, source code or other related information. This process, while in no way easy, has been accomplished for some relatively secure gaming systems and software. However, trade secret status can protect game developers from reverse engineering since the difficulty of reverse engineering is sometimes well beyond the realm of human capability and is only possible if some protected information is leaked to the public. Trade secret status can help protect against such leaks and potentially cut off reverse engineering attempts before they become feasible.

At What Stage Should A Game Company Use Trade Secrets?

The best advice for a gaming company embarking on any new project is to maintain some planned secrecy at every stage. You should think carefully about what information may qualify as trade secret and the best way of protecting it. If applied correctly, trade secret protection can be a cost-efficient way of contributing to a robust IP strategy. Try to keep key in-game calculations, customer lists, community information and key business contacts a secret confidential, make sure that you put in place reasonable protection measures (including non-disclosure agreements, access control, IT tools) and that you can

[344] Uniform Trade Secrets Act, Sect. 3(a) and the United States Code, Title 18, Sect.1836(b)(3)(B). However, damages under the Uniform Trade Secrets Act may vary from state to state.
[345] For example, with regard to computer programs (EU Directive 2009/24/EC).

provide evidence of these measures. That should help to prevent your game ideas and business know-how from being stolen or reproduced and give you the possibility to prosecute any trade secret misappropriation if necessary. The major reason why game companies lose information that they consider a trade secret is the cost and trust issues associated with obtaining and maintaining such “secrets”. Quite often, a small game company will be founded by a group of friends, who feel that such measures would be unnecessary because of the high level of trust between them. Although this may be the case, they are necessary to obtain trade secret protection. Even without any voluntary betrayal of trust inside the company, there may be other possible ways of obtaining the confidential information, such as hacking, people accessing the premises, friends from company members obtaining access to the information in the apartment of the respective company member and so on. Without reasonable protection measures in place, you will not be able to claim infringement of a trade secret. Therefore, it is always better to ensure the protection of valuable resources with the proper measures before there are any problems. As a rule of thumb: the more valuable the information, the better your protection measures should be in order to be considered reasonable.

2.7 – IP Strategy 101

The bottom line is that your IP is the lifeblood of your company. Here are some tips for how best to protect your IP in day-to-day business.

Have A Relationship With Experienced IP Counsel

At the risk of sounding repetitive, this cannot be said enough. Ideally, you should find an attorney with game industry experience. This relationship forms the foundation for educating the development team about IP rights surrounding the game project and building protections for those rights. This person can help developers of any size protect their IP by drafting and reviewing documents and offering advice. Having this relationship ensures that the developer has taken the appropriate steps in advance of pitching the game. This relationship also ensures the best possible case-by-case advice while interacting with publishers or investors.

Protect IP In Advance

Use trademarks properly, including by using the appropriate symbol in the United States (™ or ®) when trademarks are used in documents. Keep trade secrets, especially when pitching a game, and understand that sharing those secrets can jeopardize their protection. Publishers and other parties understand that developers cannot give away the farm – it is expected that some delicate information will be proprietary. Developers can always describe processes in general without going into detail. For copyright protection and date confirmation, developers should always write critical game design ideas out in detail and save concept art and early screen shots. Before pitching ideas to publishers and investors, discuss patent registration possibilities with your attorney. Lastly, and most importantly, keep good records to document the earliest possible ownership, development and use of the idea for all types of IP.

Protecting IP: Pitching A Game To Publishers And Investors

Understand that publishers and investors want to limit their legal exposure and that many “standard” non-disclosure agreements are essentially one-sided documents to protect the other party rather than you or your business. The development team should have its own or a mutual non-disclosure agreement and ask if the publisher or investor would consider signing it. This negotiation can take some time and should be undertaken before the pitch day. It is impolite and unprofessional to wait until the last minute to produce this document. Advice of IP counsel in this area is critical in drafting a non-disclosure agreement to protect the developer’s interests and deciphering the other party’s non-disclosure agreement.[346]

The Process Is Complex, But Results Are Achievable

Since the process of protecting IP is often so complex and attorneys are a necessary part of that process, why should a game developer even bother? First, a knowledgeable game developer can ask good questions when dealing with IP advisors, saving everyone time and money. Second, a game developer familiar with IP may recognize the early warning signs of IP infringement in game development, before money is wasted on creating an infringing character, story line or feature. In addition, much of IP protection requires planning and structure within the development company. An educated consumer of IP advice is best situated to understand that advice and to implement structures within the company that protect IP. Most importantly, all of the contracts and licenses surrounding games deal with IP, from work-for-hire contracts for employees to publishing deals, royalty structures and movie rights. Even though the developer is working with attorneys, the developer makes the final decisions and should know that the ultimate responsibility for protecting and selling the game rests with him or her. Given everything discussed in this chapter, that burden requires an understanding of this extremely important topic.

Strategies For Small Companies And Individual Developers

Small companies and individual developers should concentrate on low-cost options to protect their IP. These companies do not usually have the staff or the resources necessary for an elaborate IP strategy and most will not even have a single employee tasked solely with developing and implementing such a strategy.

The low-cost options for IP protection in the United States include simple copyright registration for commercially available products. The plan may also include federal registration of the company’s one or two most important marks to receive the ® designation, or the use of ™ to achieve common law protection at the very least. European-based businesses may want to start by registering an EU trademark. The company’s most important mark is usually its name or name/logo combination. Trade secret processes are also relatively inexpensive and easy to put in place for a small company.

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[346] See Chapter 11 regarding non-disclosure agreements.

Small companies and individuals may regard international trademark protection as too expensive. In the digital distribution era, however, it is highly recommended for a game company's trademark registrations to cover at least some of the relevant key markets as soon as practical. These businesses will also be less interested in patent protection unless it is involved in the core business model, such as hardware development.

Strategies For Large Developers And Publishers

Larger developers and publishers should implement the same measures as small companies but should also expand IP protection to include more resource-intensive steps. These steps include registering the trademark of all major titles released by the company internationally or in the main jurisdictions of interest. A developer or publisher may also want to file for a federal registration of the trademark to cover other categories of goods, especially if they intend to sell game-branded merchandise or otherwise enter into merchandise licensing agreements. Such steps may also include international registration and policing of the company's most important trademarks. Additionally, as indicated above, a company may want to retain one of the third-party trademark monitoring companies to conduct checks for any infringing marks on an ongoing basis. Large publishers and developers should also consider filing separate US copyright applications for music and other protectable components associated with game titles.[347]

An upgraded IP program may include building a patent portfolio, especially in the United States. Some game companies pay bonuses to employees in the company who submit patentable ideas and help complete the patent process. After a company has developed and/or purchased a patent portfolio, larger companies should consider monetizing this portfolio by seeking out licensing partners. These patents can be used as friendly negotiating tools with partners to add value to negotiated transactions, or can be used offensively to force competitors into paying licensing fees or designing their product around the patented invention.

Patents, although a purely offensive instrument in legal terms, also have a certain perceived defensive value. This value comes from the fact that litigants often find companies with large patent portfolios to be "menacing." A company with a large patent portfolio is usually indicative that it has significant legal resources and sophistication. Of course, there is also the idea that such a company may file a counterclaim for patent infringement in any litigation against it.

2.8 – Three Important Points

Before concluding the chapter, all the different forms of IP and some of the important details are summarized in the table below.

[347] Larger projects often have more protectable IP and large developers have the resources to spread the protection around. More registrations often result in more potential claims if there is a theft down the road. So, a large developer with multiple filings can litigate several registrations and several different types of IP in one case and has more granular coverage if just one element is taken (such as just taking the music from a game).

DIFFERENT FORMS OF IP				
IP – Important Details	**Patents**	**Trademark**	**Trade Secret**	**Copyright**
Term	20 years	Immortal	Immortal	70–120 years
Cost	High	Medium	Medium	Low
Ease of obtaining	Tough	Medium	Medium	Easy
Use	Rare	Often	Often	Often
Registration?	Yes	Recommend-ed	No	Recommend-ed where available
Coverage	Medium	Narrow	Large	Large

Even the largest game development and publishing companies can make trivial errors in IP protection that cost significant money or, worse, the rights to a whole game. Such errors can sometimes be avoided with an introductory understanding of IP and a relationship with a competent, experienced attorney. Failing to take these steps is the metaphorical equivalent of leaving the city gates open and letting the Visigoths rush in.

Game developers can take three steps to avoid potentially disastrous IP pitfalls. First, they should obtain a basic understanding of IP protection and what it means to them, especially in the areas most important to the creation of games.

As a second step, developers should have an attorney with broad experience in IP, especially trademark and copyright. This attorney, who may or may not be the same attorney used for other business issues, can help set up the most efficient and protective internal structures to protect IP. As discussed throughout this chapter, an attorney can also aid in negotiating the myriad of game contracts that are literally filled with IP-related language.

Third, developers should ensure that their employees and contractors sign appropriate agreements assigning all the IP they produce to the company. These three steps are necessary to build solid legal defenses around valuable game property. It is not an understatement to say that the life and future of your game depends on them.

CHAPTER 3

PUBLISHING A VIDEO GAME

3.1 – The Role Of The Publisher

The publisher has historically played a role similar to that of a movie studio, whereby they finance, develop, distribute, license, and market a product to consumers. Publishers finance games of third-party developers in return for distribution rights and possibly ownership. They distribute finished games including often on their own distribution platforms,[348] and they finance the development of games internally.[349] While the role of the publisher is changing - mostly attributed to digital distribution which has opened the door for self-publishing - publishers still play a significant role in distributing games throughout the world on all the major platforms and distribution channels.

One significant and unchanging aspect of the role of major publishers is their importance in distributing games for retail. This process involves a lot more steps and money than digital distribution to make a product available to consumers. Although retail sales have fallen over the past few years, they still make up an important stream of revenue. As a result, a developer seeking to distribute a retail version may seek a relationship with a publisher who has more expertise, resources, and established relationships with parties involved in distributing and marketing products to consumers, including retailers, manufacturers, and media outlets.

A publisher may also provide worldwide services in connection with a digital release of a game, as they could have: (i) greater influence with distributors and platform holders; (ii) brand recognition, which helps attracts consumers to their network of games; (iii) financing to help support the release of a game, downloadable content, continuing services, and porting to additional platforms; (iv) marketing expertise; (v) extensive data and analytics; and (vi) a social media presence. All of the above could be beneficial to a developer.[350]

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[348] The most prominent publisher-owned digital platforms excluding those owned by the major console manufacturers include EA's Origin, Ubisoft's Connect (formerly known as Uplay) Epic's Game Store, Blizzard Entertainment's Battle.net, Tencent's WeGame, and Wargaming Game Center.

[349] Many publishers have their own internal development teams which are sometimes separate entities. In addition, publishers have acquired third-party development studios along with their employees and IP. All rights to the games are owned by the publisher unless the game includes licensed property. Many of the major publishers are relying more on in-house developed games, although they are developing fewer. Most of these games are associated with continual services which extend the life cycle of a game by offering new ongoing content such as in-game purchases on an ongoing basis.

[350] According to Game Developers Conference 2020 State of the Game Industry report, more than 25% of developers are working with publishers with 19% paying advances. The 2020 survey was based on responses from nearly 4,000 industry people, although the report did not specify the countries of the participants. Game Developers Conference, "2020 State of the Game Industry Report". You can download the report at *http://reg.gdconf.com/gdc-state-of-game-industry-2020*.

For many developers, taking on the responsibility to launch a game successfully is a tremendous burden on a company's resources, especially its time and money. Therefore, developers need to balance the benefits and drawbacks of dealing with a publisher before determining how they want their game to be distributed. This is assuming that a publisher and distributor will even be interested in working together, a factor that is particularly relevant to AAA publishers, who have become more focused on exploiting their own IP. However, this has also created opportunities for smaller publishers to enter the market and provide services for developers. In this regard, there are many similarities with the film industry, where smaller distributors compete with the major film distribution studios. This is mainly true in the mobile space where most AAA publishers have been slow to enter the market, thereby creating an opportunity for new publishers focusing solely on this platform. Another possible similarity to the film industry is that we may eventually see some of the AAA publishers like the major studios establish separate divisions focusing solely on smaller independent projects.

Agreements between the publisher and developer vary depending on the role played by the publisher. The most common scenarios are as follows:

1. The publisher hires a development team to develop a game based on a new concept or established franchise[351] and owns the copyright to the game.
2. The publisher has licensed rights to a property from a licensor and may pay a royalty to the developer creating the game.
3. The publisher pays for the development of a game based on a concept created by a third-party developer and pays royalties based on revenue earned, but does not own the copyright.
4. The publisher acts only as a distributor of a finished game, typically receiving a fee for its services overseeing the distribution and manufacturing of the game.[352]
5. The publisher agrees to publish a developer's mobile game, exposing the game to the publisher's network of users in exchange for a percentage fee based on revenue earned from the game.
6. The publisher hires a developer to port a game to a specific platform typically involving just a development fee without any royalty payments.

In each situation, the publisher will also typically provide the money for the manufacturing (not relevant for digital), distribution, and marketing of the game.

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[351] This is rare as most publishers have either internal teams or have worked for a long time with 3rd parties on successful franchises. However, a publisher may want to develop a game for a number of platforms and may not have the internal resources to do so and as a result hires a third-party developer.

[352] There are also situations in which the publisher may assist in some of the financing for a game to help finish the product. In return, the publisher might receive a higher distribution fee and/or additional rights. The timing of seeking financial help from a publisher should be considered by a developer since publishers, depending on the amount of financing requested, may want to be involved in some development issues and oversee the marketing. For example, if a developer has already started a marketing campaign, that may pose an issue if a publisher wants to go in a different direction. According to the 2020 Game Developers Conference State of the Game Industry survey, funding for games came from the following sources ranked by the highest percentage: (1) company's existing funds; (2) personal funds; (3) external publisher; (4) government funds; (5) venture capital; (6) other; (7) angel investors; (8) video game platform holders (e.g., Apple Arcade, Xbox Game Pass); (9) crowdfunding; and (10) Alpha funding (e.g., Steam Early Access).

In addition, the publisher will: (i) serve as the party that enters into agreements and manages relationships with the first-party console manufacturers[353] and/or mobile app stores, ensuring that a game satisfies the requirements of the hardware owners including delivery, submissions, testing, and payment; (ii) create and implement a marketing and sales plan including overseeing the implementation of user acquisitions; (iii) secure deals with sub-distributors, if necessary; and (iv) form relationships and work with third parties that might be involved in the distribution and marketing of a game.

As illustrated above, there are many different scenarios between the publisher and developer, all of which will affect the agreement. The type of relationship and roles played by the parties, the bargaining power, the budget of the project, monies advanced by the publisher if applicable, and the responsibilities undertaken by each party will all play an important role in the negotiations. No two agreements will be alike, but most will incorporate similar terms and conditions such as ownership and rights, revenue splits, recoupment costs, oversight involving the development and exploitation of the game and various legal issues. However, those terms and conditions will be applied differently depending on the deal. For example, all agreements should have representations and warranties, but some deals will have more than others; some will be absolute, some will have limitations and others will have a combination of both. Furthermore, if the developer is delivering a completed game and owns the IP, they should have more influence in the publisher's decisions related to the marketing and sale of the game as well as the expenses incurred, especially if those expenses are recoupable. The following sections will highlight many of the major issues that appear in publisher-developer agreements.

Prior to considering a business relationship, both the developer and publisher will discuss a number of issues to see if the parties are able to come to an agreement and whether they would work well together. The extent to which the issues are addressed will depend on each party's commitment to the other party. If the publisher is financing production, then it will most likely conduct greater due diligence on the capabilities of the developer.

3.1.1 – The Developer's Concerns When Considering A Publisher

As more companies enter the publishing business to fill the gap created by the influx of independent developers, it is important for the developer to conduct their due diligence in determining whether a particular publisher is the right fit for the developer. For the developer, the most significant questions to ask are:

- What games has the publisher distributed and how well did they do? Have there been any situations in which the publisher did not release a completed game? If yes, why?
- Does the publisher have the capabilities to distribute and market the type of game under discussion between the parties (e.g., action, shooter, sports) throughout the world, as well as the proper resources and expertise to market, distribute, and exploit the game? How well versed is the publisher in engaging with online communities?

[353] Unless a developer is also a publisher then the developer must enter into an agreement with a publisher that has a license agreement with a console manufacturer in order to have their games distributed at retail.

- What type of relationships does the publisher have in countries which might require working with local publishers, such as China?[354] Does the publisher use sub-distributors?
- Were other developers satisfied with the services performed by the publisher for their games and how easy or difficult was the publisher to work with regarding the development of a game?
- What type of milestone approval process is employed by the publisher?
- Does the publisher have the financial resources to make payments when owed and to exploit the game including providing ongoing financial support for new content?
- What type of relationship does the publisher have with console hardware manufacturers, retailers, digital distributors, and mobile marketplaces such as Apple and Google?
- What services will the publisher provide in the development of the game, such as assisting in the development, testing, localization, submissions, ratings, and, if applicable, securing third-party licenses such as trademarks, talent, and music?
- If ancillary rights (e.g., merchandising) are granted to the publisher, does the publisher have the capabilities to exploit these rights and would they need to work with a third-party licensing agent?[355]
- Are there other games that will be released by the publisher at the same time as that of the developer, and will this affect the release of the developer's game?

3.1.2 – The Publisher's Concerns When Considering A Developer

Before considering whether to enter into an agreement with a developer, the publisher should also do its own investigation into whether a deal would be in its interest.[356] While certain concerns will vary depending on the platforms on which a game is intended to be released, some of the major issues that the publisher should address with the developer include:[357]

- How successful were previous games created by the developer?
- How successful has the developer been in delivering games on time and within budget?
- Is the developer currently working on other games that might interfere with the game being considered by the publisher? This can involve

[354] In China, laws require that a publisher be local and therefore any company that wants to distribute in China must work with a Chinese company. See Pilarowski, Greg et al., "Legal Primer: Regulation of China's Digital Game Industry", Pillar Legal China Regulation Watch, January 6, 2021.
[355] See Section 4.5.1 for information on licensing agents.
[356] There are also advantages for the publisher in working with third-party developers including (i) expertise in certain categories of games as well as technology; (ii) possible reduction in costs for development and sharing of risks; (iii) forming new relationships for potential long-term partnerships; and (iv) new IP to distribute.
[357] The publisher may also want to (i) interview other publishers that are either working with and/or have previously worked with the developer; and (ii) conduct an on-site inspection to review the developer's facilities.

obligations to fix bugs or to provide additional content for previous games.

- What is the developer's financial situation? Unless the publisher is only acting as a distributor, it may want to consider the possibility of auditing the financial records of the developer.
- What is the experience and reputation of the people that would work on the game for the different platforms?
- Have the people working on the game successfully worked together on other games? And if they did work together, was it for the same platform they will be working on with the publisher?
- Is the developer licensed to work on first-party hardware?
- What is the business model the developer plans to implement, and how will the game make money and retain customers?
- While it may be a difficult question to answer, both parties should consider whether they can work together in the long term to ensure continuing game development with ongoing content, as well as potential new projects.[358]

All of the above factors will be important in determining whether the parties will enter into a relationship and also how much the publisher believes in the profitability of the game.[359] If a publisher does not believe the game will sell, then there will be no interest even if the publisher can acquire distribution rights to the game without paying the developer an advance. For the publisher, costs incurred and time spent on distributing a game would be better dedicated to other games, if they determine that doing so would lead to greater profitability. However, it is rare, but possible, that a publisher will take a greater risk to form a business relationship even if their P & L shows a loss.

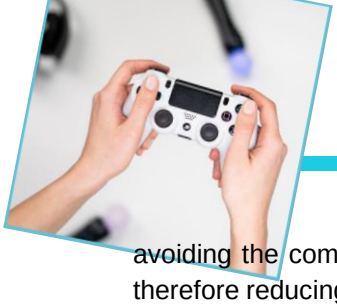
3.1.3 – Going Independent

For certain developers, entering into a relationship with a publisher can provide several benefits. Nonetheless, a number of factors have progressively emerged during the last decade, allowing developers to publish on their own. These include (i) the advent of digital distribution; (ii) the proliferation of gaming platforms and the rise of mobile gaming; (iii) new opportunities to source funding; (iv) availability of software tools to help develop games, whether provided by the platform or third parties, such as Unity Technologies and Epic Games; and (iv) companies that can provide specific services covering marketing and payment.

The growth and consumer acceptance of digital distribution, whether on mobile devices, PCs or consoles, has allowed developers to go 'digital only', thus

[358] If the publisher is going to financially commit to a developer's game, then they will most likely want to benefit from that investment with an opportunity to further the relationship. Firstly, a publisher may want a stake in the developer's company. Secondly, if a game is successful, then a publisher will want to have the right to be involved in subsequent games based on the IP, and potentially to be involved in additional projects, and will therefore seek a right of first negotiation. See Section 3.2.4.

[359] A publisher often creates a document outlining the potential profitability of a game, referred to as the 'Profit and Loss Analysis' (P&L). Despite the difficulty of predicting the success of a potential game, especially a first-time release, and despite the fact that more games are free to play, the P&L details how much money the publisher expects to receive based on different sales scenarios, and how much they anticipate spending on exploiting the game. This allows them to determine whether they believe the game will be profitable and therefore worth supporting.



avoiding the complexities involved in the distribution of physical products (and therefore reducing the need for the publisher's expertise and organization, which is particularly valuable in respect of the distribution of physical products across multiple territories).[360] The proliferation of gaming platforms and the rise of mobile gaming now makes it possible to develop games with significantly lower budgets than the budgets needed to develop AAA titles, which are continually increasing.

The traditional role of the publisher is changing and, to an extent, has already changed. Such changes, which have affected the current video game ecosystem, have also blurred the former distinction between publishers and developers. For instance, Epic Games or CD Project Red were largely regarded as traditional developers until a few years ago. Now, they have evolved into a new, hybrid category of players. Their core functions are still creativity and game development, with the corporate culture that one would expect from a developer, but they have also expanded the scope of their mission to cover at least some of the functions carried out by a 'traditional' publisher.

This is more obvious in connection with the market for digital-only games. This is partly due to the success of some of their most recent games (Epic's *Fortnite* and CD Project Red's *The Witcher*), which has made them cash-rich (and therefore potentially capable of investing in or acquiring other studios or third-party titles). It is also (perhaps more significantly) due to the fact that they own or control digital distribution platforms (Epic Games Store and gog.com), which have come to play a pivotal role in connection with the publishing and distribution of video games in general, and all the more so in connection with the distribution of a game in digital-only format.

3.2 – The Publishing Agreement

3.2.1 – Introduction: The Long-Form Agreement

For developers that enter into a publisher agreement ('the Agreement'),[361] this document will set forth the business and legal relationship between the two parties involved in the exploitation and the possible financing of a game. The Agreement will establish the rights, obligations, and responsibilities of each party involving potential financing, royalties, game development including ongoing downloadable content, testing, localization, delivery schedules, distribution, approvals, marketing, manufacturing, maintaining relationships with the platform holders and digital distributors, representations and warranties, and indemnification. The Agreement will vary depending on the potential role of the publisher and whether the publisher will be a source of financing or just a distributor of the developer's game.

In situations where the developer self-finances the game, they may not have the necessary expertise and money to distribute and market the game, nor the

[360] See Chapters 8 and 9 covering digital and mobile distribution and the increase in independent developers in the space.

[361] For the purposes of this chapter, the use of a publishing agreement will cover two situations: (i) the publisher is involved in the development and distribution of a game; or (ii) the publisher acts only as a distributor.

necessary business relationships to release a game on the various platforms and in certain territories. In particular, if a game is going to be distributed as a traditional box product, it becomes even more challenging when having to deal with a multitude of worldwide distributors and retailers as well as replicator and logistical service providers. Consequently, developers may seek a publisher to distribute their game.

Although in distribution deals a developer usually does not receive funding for development, they may nonetheless be able to obtain an advance and/or guarantee from a publisher for the rights to distribute the game, especially if the game is highly sought after by publishers. This approach is very similar to a movie business model whereby film companies distribute completed independent films and typically pay advances for rights and in return collect a distribution fee and recoup the costs agreed upon.

In some situations, developers may enter into agreements with different publishers to distribute their games on different platforms and in different territories because a publisher may have access to a market, as well as a greater understanding of a particular market or platform. In addition, the initial financial reward may be greater in dealing with more than one publisher. For example, a developer may enter into a deal with one publisher for European distribution and with another publisher for North American distribution. This type of situation usually involves a retail release of the game.[362]

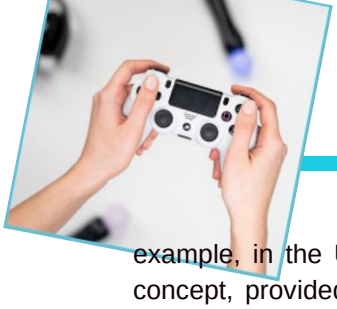
In some instances prior to the parties entering into a Long Form Agreement, the parties first may enter into a binding deal memo, sometimes referred to as a term sheet. This document addresses the major business and legal terms of the relationship between the developer and publisher without going into as much detail as a long-form agreement with the understanding that the long-form agreement will later supplement the terms of the deal memo and address all other issues between the parties. The objective of the deal memo is to lock in a deal and for development to start quickly to avoid possibly waiting for a long-form agreement to be drafted, negotiated and signed.[363]

3.2.2 – Ownership Issues

The most important section in the Agreement, aside from the financial considerations and the delivery schedule, is that which covers ownership and the rights granted for the exploitation of the game.

In situations where the publisher hires a developer to create a game based on a publisher's original concept or licensed property, the publisher, and not the developer, owns the IP rights to the game subject to the rights of a licensor, if applicable.[364] This is almost always achieved through express contractual agreements between the publisher and the developer in a publishing agreement. However, sometimes it can also be achieved through operation of law. For

[362] In this situation, the publisher pays the developer an agreed-upon recoupable advance. Advances vary, but some reach into the millions of dollars. *The Witcher 3* retail versions of the game for example were licensed by the developer to different publishers in the major markets while they held onto the digital rights at the same time. CD Projekt, "NAMCO BANDAI to distribute The Witcher 3 in Western Europe", *cdprojekt.com*, October 28, 2013.
[363] See Section 11.4 for a discussion on deal memos.
[364] By owning all rights to the game, the publisher, usually without any limitations, also has the right to exploit any of the elements contained in the game (e.g., characters or story lines) by any and all means including derivative works which would include but not be limited to sequels, merchandising and films.



example, in the United States, such work would fall under the 'work-for-hire' concept, provided the relationship between the two parties falls within the prerequisites of Section 101 of the Copyright Act.[365] That said, not all countries recognize 'work for hire', and in countries such as France and Germany, the 'author' and owner of the work is the natural person or persons who created it.[366] Nonetheless, either as a result of contract or of law, the publisher will usually have the perpetual right to exploit the game and any elements in the game throughout the world by any and all means, with few restrictions.[367] However, in some continental European countries, the author will retain moral rights which, generally speaking, cannot be assigned.[368]

In other agreements in which the publisher finances a majority of the game, but the underlying concept to the game originated from the developer, the two parties would need to negotiate the ownership rights and, if the developer maintains ownership rights,[369] then the parties would need to go into specific detail about the rights and obligations of each party, including but not limited to: the platforms for which the game will be developed, the term, the territory, the financials, and the rights to other games based on the IP (i.e., sequels), and possible merchandising rights.

Whether the publisher obtains ownership of the game based on the developer's IP or a grant of rights will depend primarily on the bargaining positions of the parties, the consideration being paid to the developer, and what rights the parties may want to ultimately secure in an agreement. If the publisher is funding the entire development, then the publisher will most likely insist on owning the property, but if other publishers are also interested in the game, or the developer has an established reputation, then the developer may be able to maintain ownership as part of their bargaining position. For some developers, owning the IP may not be as significant as other issues in an agreement, and therefore they may be willing to assign their rights to a publisher in exchange for other key

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[365] Work can qualify as 'work for hire' in two situations. The first is when the work is carried out within the employee's scope of employment. For example, when an engineer creates code during their employment, the code is then owned by the employer. The second situation is when a work is created by an independent contractor and three conditions are met: (i) the work has been specially ordered or commissioned (e.g., the independent contractor is paid to create something new); (ii) the work must fall within one of the nine categories outlined in the Copyright Act which include: a contribution to a collective work, contribution to a motion picture or other audiovisual work, a translation, a test, answer material for a test, an atlas, an instructional text, a compilation or supplementary material; and (iii) prior to the start of any work, the parties expressly agree in writing signed by both parties that the work shall be considered a work made for hire. Myers, Gary, "*Concise Hornbooks: Principles of Intellectual Property Law*", 3rd edition, West Academy Publishing, 2017, pp. 61-68. Works involving video games for purpose of the Copyright Act fall under audiovisual works or literary works. If an employer fails to enter into an agreement prior to work commencing, then the hiring company must include language in the agreement that the work will be assigned, or at the very least, licensed to the employer. However, these alternatives could have their drawbacks, including the right to reclaim a copyright involving assignments under United States copyright laws.

[366] Although different from the US model, other countries such as Japan, India, and the United Kingdom follow a work-for-hire model and vest initial copyright ownership in an employer-employee relationship with the employer. Cohen, Julie E. et al., *Copyright In A Global Information Economy*, 2nd edition, Aspen Publishers, 2006, p.126.

[367] This would include the right to exploit the characters and story, as well as derivative works such as sequels to the game, merchandising, books and films.

[368] The principle of 'moral rights' is also relevant in relation to games which have originated or have links with European individuals. See Section 2.2.13 on moral rights.

[369] Additional issues would also need to be addressed regarding ownership involving any new content created by the publisher, whether for the game or for marketing materials. If the publisher provides materials to localize the game, would the developer own those materials? If the publisher creates a marketing campaign, could the developer own it? This would all need to be negotiated between the parties, but the developer could have a good argument for ownership rights, especially if the expenses to pay for the content were recoupable by the publisher.

points in an agreement.[370] However, a developer should take into consideration that a successful game can help build a franchise, which can be challenging to achieve with future games. Even if the developer transfers their ownership rights, they should still negotiate the right to be involved in the exploitation of future games and ancillary rights. This can be achieved actively by developing sequels or passively by simply collecting royalties on the exploitation of the IP without engaging in any other work.

In any event, even if the publisher owns the copyright to the game based on the developer's original IP, the developer will want to at least maintain ownership or obtain the unlimited perpetual license with the right to create derivatives to the pre-existing source code, tools, and engine they developed, since they may want to use these materials for additional games to help reduce their future costs.[371] In some situations, the publisher will agree to allow the developer to maintain ownership of these materials provided that the developer agrees to a holdback period whereby they consent to not working directly or indirectly on a similar game for another publisher which may incorporate the developer's code for an agreed-upon period of time (e.g., one year from the release of the game). This prevents a situation whereby the developer may create a similar type of game, which could eventually compete against the publisher's game created by the same developer.[372]

In deals involving only the distribution of a game, the developer would maintain ownership of all rights associated with the game and grant a limited right to the publisher to distribute the game.

3.2.3 – Rights Granted

In the event that the publisher owns the copyright to the game, they will have the exclusive right to exploit the game throughout the world in perpetuity. Otherwise, if the publisher is only distributing the game and the developer controls the copyright to the game, the agreement will state the publisher's distribution rights which may be limited by platform, territory, and term. There is no set formula on which rights the developer will grant, and like many other terms in the agreement, they will vary depending on a number of factors, including which party provides the financing[373] and game concept.

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[370] See comments about IP ownership and negotiations involving developer's code and tools. Boyd, S. Gregory et al., *Everything You Need to Know About Legal and Business Issues In the Game Industry*, CRC Press, 2019, pp. 70-72.

[371] In the agreement, the parties should list the developer's specific pre-existing tools and technology as well as any third-party licensed software and tools. If there are pre-existing tools and technology then the publisher will need to license those rights from the developer to use in the game. At the same time, if all of the developer's IP is acquired by the publisher including the source code then the publisher will have to license the code back to the developer for use not only in developing the game but also in any future projects the developer may work on using the code and tools.

[372] If any type of restriction is to be imposed on the developer, the parties would need to discuss a number of issues, including: (i) is the holdback limited to a type of genre or platform? (ii) how long is the restriction (e.g., one year from the release of the game)? and (iii) what type of limitation is imposed upon the developer (e.g., the developer cannot release a similar game one year from the release of the game, or the developer cannot work on a similar game until one year after the release of the game)? If any restriction is tied to the release of a game the developer must insist on an outside date to cover situations where the publisher fails to release the game without any fault on the part of the developer. All of these issues would be subject to negotiations, but the developer should try to limit the restrictions as much as possible.

[373] It might be advantageous for a developer to work with one **p**ublisher under one worldwide business and marketing plan. Publishers will seek the broadest rights possible so they can recoup their investment, especially if they are providing any type of advance and/or guarantee. For certain games

As part of the rights section, the parties will spell out the name of the game or games that will be subject to the agreement as well as the different platforms[374] on which the publisher will be permitted to distribute the game, whether on an exclusive or non-exclusive basis.[375] This section will also discuss the form of distribution permitted by the publisher. Generally, the publisher has the right to distribute games by any and all means, and this broad language includes the right to distribute by way of traditional box games for retail, digital downloads including mobile, and possibly even platforms and distribution means that have yet to be developed and may become relevant depending on the length of the term.[376]

3.2.4 – Additional Rights Issues: Right Of First Negotiation And Last Refusal On Future Games

Whether or not the game will be successful is difficult to predict and will depend on a number of factors. However, if the initial release of a game is successful, both parties will want to guarantee their involvement in future releases (i.e., sequels).[377] The most common way in which the parties may negotiate rights to work on future titles is what is usually referred to as the right of first negotiation. This right provides a mechanism for an agreed period of time for the parties to work together on future projects.

Publishers that do not own the copyright to the game will try to make sure that they benefit from their contribution and will request that if the developer creates a new game based on the original distributed game, such as a derivative work,

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such as AAA titles, the bargaining power lies mostly with the publisher, since there are few parties that can provide the financing and other resources needed to support these types of titles. In addition, with fewer major publishers, there are fewer alternatives for developers to work with on these games. However, as more games are introduced to the market, a number of distribution companies have entered into the business to work with independent developers including publishers specializing in one area, such as mobile. While not as big as the major publishers, some have grown to become billion-dollar companies and can provide some financial assistance in exchange for distribution rights.

[374] If the developer is responsible for developing the game on multiple platforms, the publisher may request parity in features and quality among the various platforms, subject to technical limitations from the hardware.

[375] Depending on the length of the agreement, a game may do well on one platform and as a result, the developer or publisher may decide that the game should then be developed for or ported to other platforms that were not originally contemplated for the initial launch of the game. Furthermore, a publisher may also want to obtain rights for all platforms no matter what platforms the developer has delivered the game for since the publisher may want to restrict other companies from distributing the same game on different platforms. If a game is successful, the publisher may argue that their investment helped sales of the game and therefore other publishers should not be allowed to benefit from the original success of the publisher's actions. In some situations, if the publisher distributes a game on a non-exclusive basis, they may seek to add language which guarantees some form of price parity subject to any laws. The developer may not want to give up rights for other platforms since the publisher may not have the necessary expertise to distribute on certain platforms. For example, a publisher specializing in console and PC distribution may not have sufficient capabilities or the relationships to distribute games via the mobile market, although if permitted, they could sublicense the rights.

[376] In some situations, units of a game may be sold with other games, which are known as a bundle. In this situation, the royalty is usually a proportional percentage based on the number of titles included in the bundle. For example, if two different titles are sold together for one price, then a royalty of 50% of the revenue received would be allocated to each title. Usually, a developer in a distribution arrangement with a publisher will request that any potential bundling deal must first be approved by the developer, especially if one game has greater value (i.e., greater previous sales) than other games included in the bundle.

[377] While publishers may elect to distribute a sequel, many games are also providing downloadable content and other live services extending the shelf life of a game. It is also possible for the parties to include multiple titles in a deal involving different IPs. Each property may be treated slightly differently, such as financials, marketing commitments, termination rights, etc. In most situations, the publisher will want to recoup their financial obligations from all games.

then the publisher would have the first opportunity to obtain distribution rights to these future games provided that the publisher is not in breach of the Agreement. In this situation, the publisher would usually request a right of first negotiation, which provides the publisher with the first opportunity to negotiate exclusively with the developer on rights for such derivative works during an agreed-upon time frame. During this exclusive window, which varies for each deal but usually ranges from 30 to 60 days, the parties would discuss the business terms regarding the rights to exploit a derivative work. If the parties are unable to conclude a deal, then the developer has the right to negotiate the distribution of the game with any other party. It is also possible that the developer, though initially unsuccessful in securing future rights to their derivative work, could decide to still enter into an agreement with the publisher if they are unable to find another deal, or could even decide to distribute on their own.

In addition to the right of first negotiation, some agreements may even allow the publisher to have the right of last refusal, which also may be referred to as a right to match. In this situation, the publisher will have the opportunity to match any offer that the developer may accept from another publisher. If the original publisher matches the offer, then the publisher would then have the right to distribute the derivative works, assuming that the parties come to an agreement.

Neither the right of first negotiation nor last refusal is automatic, and the parties will need to negotiate these points. In the event that the developer agrees to a right of first negotiation and last refusal, then it might be to the benefit of both parties to establish minimum requirements that would trigger either of these rights. Usually, this includes a minimum threshold in which worldwide revenue (the preferred choice with games earning revenue from various forms of exploitation) or game sales must be met in order to trigger a right of first negotiation and last refusal. To illustrate, if the developer receives royalties exceeding $1 million, then the publisher will have the right of first negotiation and maybe also last refusal; although the developer might negotiate that this threshold can only apply after a certain period from the game's release (e.g., six months). In addition, the parties may want to consider some of the minimum business terms that would be pre-negotiated in the agreement if the right of first negotiation was to go into effect. One example is whether or not the developer should receive higher royalties with the increased value in the property.

Furthermore, in order for the right of first negotiation to be triggered, there might be other factors that the developer may want to consider, including the working relationship between the two parties. If the working relationship is strained, a developer might be willing to take less money from another publisher knowing that a stronger relationship with another publisher may be more beneficial in the long run than greater initial payments from the original publisher. It is important for the parties to agree on what issues need to be matched in the event of a right of last refusal. For example, it should be established whether the sole concern is about revenues such as advances, guarantees, and royalties (as if often the case), or whether there are other issues that must be matched, such as marketing and sales commitments.

Developers need to be careful when including the right of last refusal since this could severely hinder the efforts of the developer in negotiating deals with other publishers. In most situations, a developer would not want to allow a publisher to match a deal, since other publishers may be reluctant to discuss a deal because

they know that any deal they offer could be matched, and therefore they are unwilling to make a commitment.

In the event that the publisher owns the copyright to a game and elects to create derivative works, the developer should try to negotiate a right of first negotiation to secure an opportunity to develop any subsequent games. This is especially true if the game is based on an original game concept created by the developer. Furthermore, even if the developer does not work on the game, and depending on their bargaining power, they might try to negotiate some form of compensation for the use of their original IP[378] and maybe even have some form of approval rights.

With the right of first negotiation, the developer has the initial opportunity to negotiate a development deal with the publisher, provided that the developer is capable of making the derivative games for the selected platforms within the budget planned by the publisher.

3.2.5 – Territory

This section of the agreement provides information on the countries in which the publisher has the right to distribute the game(s). If the publisher owns the copyright to the game, then they have the right to exploit it by any and all means throughout the world. However, if the publisher only acquires the rights to distribute a game, then these issues will need to be negotiated between the parties. Most games today are distributed worldwide, although more challenges may exist for a particular platform such as retail (e.g., a publisher may not have distribution capabilities in certain countries), thereby limiting the territorial rights to a publisher. A developer needs to confirm that if there are any underlying rights in the game, they have obtained a worldwide license for those rights.

The publisher will want to obtain the broadest rights possible in order to exploit the games in as many countries as possible. A developer may be willing to grant worldwide rights, assuming financial terms are agreed upon and provided the publisher has the capability to distribute in the relevant countries. In countries where the publisher does not sell directly, the publisher will try to sell the game through third-party sub-distributors and digital distribution platforms. Most developers will accept this practice, provided that the publisher would still ultimately be responsible for any of its obligations and responsibilities under the terms of their agreement. However, the developer needs to be aware of additional deductions that are taken from the developer's or publisher's share to pay for the sub-distributors and digital distribution platform services, since this might ultimately affect the developer's royalties.

In some situations in which the developer is delivering a finished game, or if the parties have only entered into a distribution agreement, the developer may limit the territory and elect to have different publishers distribute the game in various countries, depending on the capabilities and financial guarantees provided by a publisher. In addition, although rare, a developer may want to grant different

[378] A passive royalty is a royalty paid to a party even though they do no work on the project that entitles them to the royalty. Instead, they are paid because of their involvement in an underlying work that led to the new project. An example could be a writer who wrote the original story for a game but who did not work on the sequel; given that the basis for the sequel originated from their original story, that writer is entitled to a passive royalty.

platform rights to different publishers in the same territory. For example, a developer may grant North American rights to one publisher for console games and then grant other rights, such as mobile rights, to another publisher. If the developer decides to take this course of action, then they need to coordinate the releases among the publishers.

The developer should also negotiate language in distribution agreements to the effect that if the publisher fails to make at least a reasonable effort to distribute the game within a certain agreed-upon time frame in a country (subject to timely delivery), then the rights would either revert back to the developer or become non-exclusive. This is especially important if the developer did not receive any payment (whether in the form of an advance or guarantee) for the rights from the publisher and instead only relied on royalties from sales of the game. Furthermore, a developer should consider negotiating additional terms that discuss what would satisfy the minimums for distribution in a territory. This might include, depending on the bargaining power of the parties, an agreed-upon distribution plan and marketing spend. Alternatively, some agreements may include language whereby the publisher either agrees to a 'best efforts' or 'commercially reasonable efforts' clause to sell and promote the game, including a marketing spend which could even be tied to an industry standard. However, although these terms impose obligations on the publisher, they also could have different meanings to the parties, as well as to a third party interpreting the language in the event of a dispute. Therefore, the parties should aim to be as specific as possible to avoid any potential disagreements as to the language in the agreement.[379] One alternative to consider might require the publisher to market and distribute the game in a way that is similar to equivalent games that have been published previously.

3.2.6 – Term

The term of the agreement spells out the length of time that a publisher has the right to exploit the game, subject to early termination usually caused by the failure of a party to cure a material breach, possibly *force majeure* depending on the language of the agreement, or its entry into bankruptcy. Unless the game is owned by the publisher, terms will vary depending on the platform, the financial considerations of the deal, and whether the parties will continue to support the game with new content.

For agreements in which the publisher owns the copyright, the term is perpetual. However, if the publisher is only acquiring distribution rights, then the term will be an agreed-upon number of years (with a sell-off right for physically distributed games)[380] and will vary from agreement to agreement. In any case, the publisher will seek the longest term possible so that it has enough time to hopefully recoup

[379] Agreements may include general language when referring to obligations that a party will use reasonable or best efforts (i.e., selling a game or renewing obligations) and take actions based on industry standards (i.e., by providing credits). If you are negotiating a deal that includes these types of clauses it is important to understand what the reasonable efforts or industry standards are. For example, if a publisher agrees to a marketing spend based on industry standards, what are the standards that will be applied? Is the standard applied for all games? Is it based on a particular genre or platform, or for games with minimum development costs? Depending on the standard used, the marketing spend can vary.

[380] Provided that the publisher continues to comply with the terms and conditions of the Agreement and does not manufacture any new inventory, the publisher may have a limited non-exclusive period to sell off any remaining retail inventory after the term. The sell-off period typically ranges from three to six months, but will vary depending on the length of the term, and a longer term may result in a longer sell-off period.

any costs (e.g., distribution, marketing and quality assurance costs, etc.) and to make money on its investment.

Depending on the different platforms negotiated in a distribution deal, the term might only be a few years because the life cycle of a game on a particular platform may be limited. Nonetheless, with additional opportunities to exploit a game after the initial platform launch, publishers will request longer terms. This is especially true with developers providing continuous new content to a successful game and providing games as live services. In addition, with digital and mobile distribution, games originally developed for the more traditional platforms (i.e., console and PC) may have value on a new platform. For example, while a PC game from 10 years ago would no longer sell at retail, it is very possible that it could still be sold digitally or on a mobile device years later and therefore still retain some value. *Pac-Man*, an arcade game released more than 40 years ago, is a perfect example of a property that is still popular on relatively new platforms such as mobile. In addition, the parties may negotiate to allow the publisher the option to extend the term for a certain number of years. An option to extend the term may serve as a good compromise if the developer is reluctant to grant the number of years requested by the publisher. Provided that the publisher is not in breach of the agreement, under the option, the publisher would have the opportunity to extend the term by exercising the option. In this scenario, the publisher may pay the developer an additional recoupable advance against future royalties for the right to extend the term.

One point to consider for extending a term may be an automatic extension in the event that the publisher generates an agreed-upon amount of royalties for the developer. For example, if the developer receives $100,000 in royalties then the term extends for an agreed-upon amount of time, with or without an additional advance paid to the developer.

While a term will refer to the number of years a publisher will have the right to exploit a game, it is also important to note that a term can also be tied to obligations of the parties, including required services. Many agreements use one definition for the term but apply it to a number of different contractual provisions. The parties need to be careful when defining the term given that, while agreeing to allow the publisher to exploit rights for a certain period, the developer may not want to commit to providing services or obligations for the same length of time. For example, an agreement may state that the term of the deal is 10 years in order to exploit the rights to the game, but it may also include language by way of example that states the representations and warranties, services to be provided by the developer, and errors and omission (E&O) insurance coverage for the length of the defined term. Unless the developer is continuing to provide additional content during the length of the agreement, a developer may not want to incur certain obligations and costs such as E&O insurance, especially when claims are typically made closer to the release of a game. Therefore, a developer may want to consider separate terms depending on the situation. For example, there could be one term covering the right to exploit a game, another covering the length of services required, and another covering other obligations such as representations, insurance, and even the right of first negotiation if agreed upon by the parties.

3.2.7 – Developer's Services; Delivery

This section of the agreement will spell out the specific services, including the time frames for delivery of milestones that will be required from the developer and will vary depending on whether the game is part of a development deal or distribution only. In both situations, there will be major obligations on the part of the developer under the terms of the agreement, although significantly less if the publisher is only distributing the game.

For games financed by the publisher, during the development process, the developer will be required to submit the game design and technical design specifications[381] to confirm the direction of the game, followed by deliverables of the game at various stages of development for the publisher's approval or rejection.[382] The parties typically negotiate a detailed production/milestone schedule listing each deliverable which may also include marketing materials;[383]

[381] Design specifications usually cover how the game will look and may change during the course of development as agreed upon by the parties or as requested by a licensor if applicable (i.e., if the game is based on a licensed property). If the milestone schedule changes as a result of the direction of the game, then payments may need to be revised if the developer is to incur any additional costs. The technical specifications deal with programming development systems and software used in the development of the game as well as the technical risks and possible alternatives.

[382] For games financed by a publisher, the publisher will typically want to approve game designs and technical design specifications and will usually play an active role in overseeing development. In most situations, the publisher will play a role similar to a studio financing the production of a film, providing recommendations and feedback. In other situations, they may have less oversight depending on the history of the developer; in some cases, the publisher feels more comfortable allowing the developer to make certain decisions during the development of the game. However, in most situations where the publisher finances development and owns the IP, the publisher generally has full creative and quality control. In addition, the size of the budget may determine the level of the publisher's involvement in overseeing the project. An AAA title with a big budget will frequently result in a lot of oversight by the publisher, but a mobile game for $100,000 might have much less publisher involvement after the design concept and milestone schedule has been agreed upon by the parties. This issue can be extremely important for both parties, and a successful developer will probably be more reluctant to defer absolute control to a publisher over the creative process. It is therefore important to negotiate what role and approval the publisher will have regarding the development of the game. In many distribution deals, the developer is delivering a completed game and therefore the publisher's approval process may be easier. Nonetheless, owners of the various platforms such as Sony will need to approve the final deliverables to ensure that the game conforms to their platform requirements. However, if the publisher is paying a minimum guarantee or advance then the publisher will want to have rights to review the game during various stages of development, to protect itself against an unacceptable game.

[383] Unless the publisher is providing IP assets, typically the developer will be responsible for providing all the services and materials to develop all versions of the game and possible demos of the game agreed upon by the parties for all agreed-upon formats (e.g., National Television Standards Committee (NTSC)/Phase Alternate Line (PAL)). Services will primarily include programming artwork software graphics animation/cinematics/video text-sound dialogue music, and some quality assurance testing. Agreements will usually allow the developer to hire subcontractors to perform some aspect of development, subject to approval from the publisher. The parties will also need to confirm each other's responsibilities involving marketing materials. Creating campaigns and assets, buying media space and user acquisitions can be expensive although publishers will typically cover the costs, which are usually recoupable. Publishers will request that developers make themselves available for press inquiries and provide assistance in helping with the creation of game-related materials. The developer may also be responsible for delivering localized versions of the game for various countries, which involves language translations and revisions if necessary for rating purposes and perhaps local customs (see Section 10.7 on ratings). Traditionally games have been localized into English, French, Italian, German, and Spanish (referred to as EFIGS), but as new markets evolve, more games are being localized for several territories. According to a 2020 analysis based on over 34,000 games on Steam, the top 10 languages were English, German, French, Russian, Spanish, Chinese (simplified), Italian, Japanese, Brazilian Portuguese and Korean. Carless, Simon, "Game Localization for Discovery: Trickier Than You Think", *gamesindustry.biz*, June 29, 2021. The same study also noted that approximately 19,521 games were available in only one language, and about 4,200 games were localized into two languages. Localization can be very expensive and time-consuming, especially if voice text and screens are localized and involve several characters. In addition, companies should consider localizing web pages and storefronts (e.g., Steam), especially as that may be the first contact a consumer has with a game. Localization costs for a game are typically covered by the publisher, but the parties must budget the cost and time carefully, so it does not delay the release of the game or become a financial burden preventing completion. In many

the delivery date;[384] and the compensation to be paid by the developer for the publisher's acceptance of each deliverable.[385] Some development agreements will not only tie payment to milestone deliverables but also may pay a monthly fee to the developer. Milestone schedules will vary depending on the scope of the game and the time allocated for development. Mobile games may only take a few months, while a major console game release can take a few years and cost as much as a major film with some exceeding more than $100 million plus marketing costs.[386] The cost to develop a console or PC game can be enormous and costs for these types of games have increased substantially, whereas games for mobile and tablets may average around a few hundred thousand dollars, but these costs have increased as well with some mobile games costing millions of dollars as technology and capabilities improve.

The developer and publisher may also agree to add content, including downloadable content and microtransactions, after the game's initial release. This is especially true for free-to-play games as well as games that are part of live services whereby new content is provided on a continuing basis. The publisher and developer would need to negotiate what type of new content will be created, services to be provided and corresponding compensation, delivery dates, how new content will be paid for and royalties which may be determined differently from the royalty for the initial game. Many of these issues will be addressed in a milestone schedule which can sometimes be a challenge to draft, as it may constantly be updated depending on the success of the game.

All agreements should clearly spell out the delivery and acceptance procedures for each deliverable, especially since this will typically be tied to most of the developer's payments. Since agreements in almost every situation will be drafted by the publisher and therefore initially favorable to its side, publishers tend to have a lot of latitude in rejecting a milestone. As a result, the criteria used in accepting and rejecting milestones might be very broad and will probably initially include language indicating that approval is subject to the publisher's sole discretion. Therefore, developers must negotiate language which requires a rejection to be based on specific reasons, such as a failure to meet technical and design specifications. Developers should also consider adding language

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situations, the publisher may agree to provide the copy for localizations which are then implemented by the developer. According to the developer for *Witcher 3*, the company localized the game into 15 languages and employed over 500 voice actors. Makuch, Eddie, "This is How Much the Witcher 3 Cost to Make", *gamespot.com*, September 9, 2015.

[384] The delivery dates for each milestone are critical to ensuring that the game is released on time. The developer's payment often will be tied to its delivery of the agreed-upon assets for each milestone. If a milestone is delayed because of a failure on the part of the publisher (e.g., the failure to deliver music or localization assets) or failure on the part of a third-party licensor to provide timely approvals, then the developer should not be liable for missed milestones. The parties need to draft the agreement to cover what happens if delivery is delayed as a result of the failure and may need to revise the milestone schedule to reflect the delays. Most games are complex creative processes, and it is not uncommon, to various degrees, for game designs and features to be revised. As a result, milestone dates and deliverables can change, resulting in revisions to the milestone schedule to reflect the addition and removal of deliverables. If revisions are made, the developer needs to make sure that they have the time and resources to meet the new delivery requests.

[385] One possibility when dealing with a milestone payment is to divide it into two payments. This would involve one payment being made upon acceptance of a milestone deliverable, and another payment as a monthly fee. In this situation, if the developer is late delivering an acceptable deliverable then the developer would still be entitled to receive some money to allow them to continue development. Otherwise, there could be situations where the developer may have a problem working on the game if its funding is delayed, even though it may have caused the delay. This is perhaps one of the most difficult issues to deal with since the publisher must weigh the consequences of delaying or stopping funding for a game based on unacceptable deliverables.

[386] Wikipedia, "List of most expensive video games to develop", *en.wikipedia.org.*

indicating that a publisher's decision will not be unreasonably withheld or delayed, since this will affect payments.

Assuming that the deliverable is approved by the publisher, the developer proceeds to the next milestone. The publisher, pursuant to the agreement, will have a certain number of days to review the submission and provide its comments back to the developer. In the event that the deliverable is rejected, the publisher should provide the basis for such rejection, so the developer has an opportunity to correct the problems and resubmit within the allocated time period. Subsequently, the publisher will have another opportunity to review the previously rejected deliverable.[387] Depending on the severity of the problems, this could push back the deliverable schedule. Furthermore, if the problem is material and either cannot be fixed or would take too long to fix to meet the game's street date, then the publisher would have the right to terminate the agreement, among other options.

The options of handling rejected deliverables varies depending on the complexity of the game and the platform(s). For mobile, it may be easier in certain circumstances, depending on the complexity of the code, to deliver an unfinished application/game to another developer to complete the game. However, as mobile games become more complex, for certain mobile applications/games and for console games the option might not be viable due to potential difficulties in working with the source code. Nonetheless, an increasing number of developers are using third-party software such as Epic's Unreal Engine, thereby making it easier to understand the code. If the publisher decides not to proceed with development, then it will seek the return of monies paid to the developer,[388] in addition to any other rights and remedies it may have.

The developer's most important obligation will be to deliver the finished game on the agreed-upon delivery date to the publisher, especially when dealing with a retail product. This is significant since the publisher will have relied on the delivery date to meet a street date in planning its sales and marketing strategy, which may include in-store promotions and advertising. Consequently, any delayed release may result in wasted marketing opportunities and expenses, and any marketing may have little or no value if the game's eventual release is not close to the originally planned release.[389] In the event that the developer does miss the delivery date, and depending on the severity of the delay, then the agreement may include language indicating that any payments to be made to

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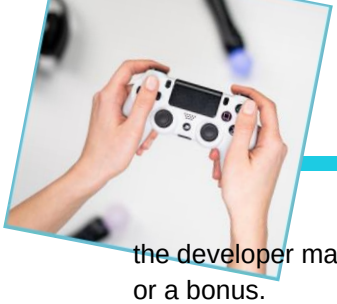
[387] One of the main issues that can occur is when the developer receives no response from the publisher within the review period and therefore deems their game to have been rejected, or the game has not been rejected, but leaves the developer uncertain as to its status. This is language that should be removed by the developer, since the developer will be left without any guidance and this will result in delays affecting both development and payments.

[388] While an agreement generally includes language indicating that, in the event that the developer breaches the agreement during development then the developer must return any monies received from the publisher, the publisher's rights may nonetheless be difficult to enforce. The developer often does not have the financial capability to return the money, since funds received for development would have already been used to develop the game. To verify that money paid for development is actually used for that purpose, publishers may request the right to audit the developer's financial records. This can be a very contentious issue, since the developer may argue that how they spend their money and what their costs are is confidential or a trade secret, and therefore they should not be required to reveal the information to the publisher. If a deal is terminated because of a material breach, the parties would also need to negotiate the rights to the IP. If the IP originated from the developer, then they would want the right to own it, in the event that they have to return the development costs.

[389] Similarly to film studios, a publisher for some forms of media may need to purchase consumer and trade marketing placements months in advance. In some situations, it might not be possible to pull the advertising or promotions, and therefore the publisher would still be responsible for the costs.



the developer may be reduced, whether in the form of an advance, a guarantee, or a bonus.

As part of a publisher's release strategy, they will release 'street date letter agreements', which are normally entered by the publisher and its sub-distributors. They are designed to ensure that the distribution of physical products that requires the delivery of the products to the various retailers and e-tailers takes place sometime prior to the planned launch date and to ensure that the sub-distributor, retailers and e-tailers do not make the game available to consumers prior to the planned release date. They may also adopt certain security measures (e.g., to store the box products in a secure place, to limit access to the products by the employees of the sub-distributor, retailer or e-tailer, etc.) that are meant to ensure the simultaneous release of the game, thus protecting the effectiveness of the so-called hype created by the publisher during and throughout the marketing campaign, as well as ensuring a level playing field between the various retailers and e-tailers.

In addition to delivering the game and any additional content on time and on schedule, the developer will also be obligated to make corrections to the game, usually referred to as 'patches', that might be uncovered after its release,[390] and to provide updates and assistance that may be needed to help with customer support. If the developer is not delivering any additional content, then the parties may negotiate a finite time period in which the developer has to provide these services, since the developer may move people from the development team onto other projects. Otherwise, personnel would need to be available on an ongoing basis for as long as content is provided and the game remains active.

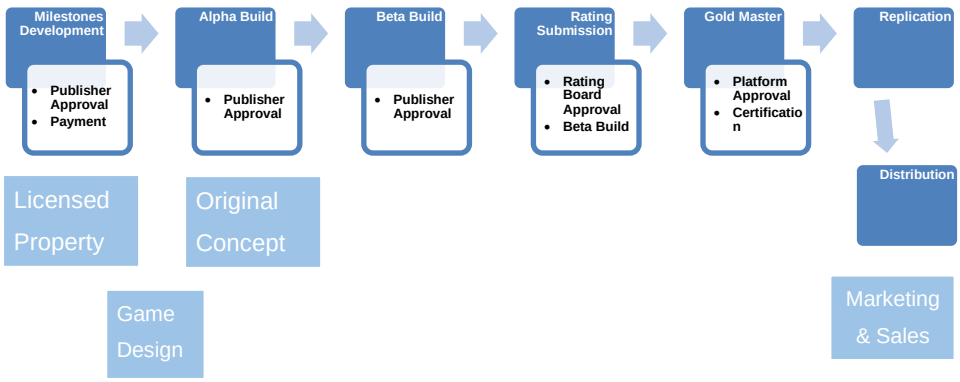
If a game is being financed by a publisher, then language might also appear in the agreement covering key personnel working on the game. This provision helps the publisher to ensure that the game meets the publisher's objectives, with an assurance that certain people will work on the game, whether on a full-time or part-time basis.[391] Any changes to key personnel will typically require prior approval from the publisher.[392]

[390] Corrections needed for a game will typically be assigned a level based on the severity of the problem. For example, a serious problem may be labelled a Level 1 bug. Each level also has a separate time period within which the bug would need to be fixed.

[391] A development studio may be working on a number of projects at one time; therefore, personnel that the publisher had hoped to work on a game may be assigned to another project. This provision will address this issue.

[392] While a publisher often wants key personnel to work on a specified game, an employer cannot prevent an employee from leaving. Nonetheless, the employee is of course prohibited from misappropriating any trade secrets or other confidential information. See Chapter 2.

Console Development Process



3.2.8 – Financials

For both the developer and the publisher, this section will probably be the most important negotiating point in the agreement, since it will spell out the amount of money each party will spend and receive in the development and exploitation of a game. In this section a number of issues will be addressed covering the ways in which a developer may be compensated by the publisher, including advances, guarantees, and royalties, as well as payment schedules, and how royalties will be calculated, including the publisher's recoupment of expenses.

The compensation paid by the publisher will vary depending on whether the publisher is financing the game or is only distributing it. If the publisher is financing all or most of the development, compensation will typically be broken down into two forms of payment, each linked to the other.[393] First, the initial consideration paid to the developer will typically be in the form of recoupable advances to cover development costs pursuant to a milestone schedule. Secondly, the developer may be entitled to royalties based on revenue earned from all forms of exploitation of the game. All of this is subject to negotiations, including on how royalties are earned and how costs are recouped, which can be limited by stating what can be recouped and by capping how much can be recouped by the publisher. Furthermore, royalty rates can vary depending on the amount of revenue earned, means of exploitation, and content distributed (e.g., downloadable content).

The milestone payments paid by the publisher in most cases would be considered recoupable advances against future royalties owed to the developer from revenue earned from the game. A recoupable advance permits the publisher to regain any payments made to the developer. Only after the publisher has recouped the milestone payments typically from the developer's portion of

[393] There are situations in which the publisher only pays a fee to the developer for developing the game, and no additional payments are made to the developer. These types of deals are usually associated with lower-cost products such as mobile games and the porting of games. However, in some situations, if the game includes the developer's pre-existing software then the developer may ask for some form of royalty for the licensing rights, although payment might not be made until the publisher has recouped its development costs out of the developer's share.

net revenue as defined in the agreement, as well as any other agreed-upon expenses, will the developer be entitled to receive royalties.[394]

If the publisher is financing development, the parties would usually agree that part of the recoupable advance payment would be paid upon signing of the agreement as part of the milestone schedule. This would allow the developer to begin developing the game, and then for additional payments to be made based on the successful delivery of specific materials to the publisher. For example, the second milestone may be paid upon the delivery of a design document followed by additional payments upon the delivery and acceptance of various stages of development, including the delivery of the alpha and beta versions of the game. In most situations when negotiating milestone payments, the publisher will back-end payments as the most important deliverables will be towards the end of the development cycle. This also decreases the risk of their investment if the developer fails to deliver an acceptable game.

If a developer is relying on milestones to fund development, it needs to make sure that it has carefully planned out its costs so the payments will cover the development of the game, including salaries for employees, overhead, and costs for licensed materials including software and game assets. In addition, the schedule should include a 'cushion' to avoid any unexpected costs during development.[395]

If the publisher is financing development, the second form of payment would generally be in the form of royalties. These payments are usually an agreed-upon percentage of net revenue earned from the sales and licensing[396] of the game, downloadable content, and possibly any other form of revenue generated from the game, including advertising and derivative works.[397]

Net revenues are calculated by taking all revenues actually received by the publisher from the exploitation of the game (usually referred to as 'gross revenues')[398] and then allowing the publisher to recoup any agreed-upon expenses they incurred in the distribution, marketing, and development of the

[394] The agreed-upon deductions would be deducted from gross revenues and not from the developer's share, although it may affect the developer's share since less money would be available to allocate to royalties.

[395] Prior to the parties agreeing on a milestone schedule, the publisher will often request that the developer demonstrates to the publisher the developer's costs so the publisher can confirm that the costs are consistent with the type of development being undertaken by the developer.

[396] Downloaded content is provided to consumers as licenses and is therefore not owned by consumers. This greatly limits any consumer rights regarding ownership of IP, including user-generated content, and also provides more leeway for developers when terminating services for a game.

[397] Depending on the negotiations and ownership of the IP, the developer might also share in other forms of revenue derived from the exploitation of the property, including derivative works such as sequels, film, collectibles, and toys. If this is the case, it is important to negotiate the royalty rates and deductions, which will be different from those for games since the film and toy industries have different business models in determining deductions. Also, the parties will need to consider whether revenue earned from these derivatives as well as any passive royalty would be cross-collateralized with the revenue generated from sales of the game. See Note 420. Another possible scenario could occur if the developer is the owner of the IP and controls the licensing; in this case the publisher might be entitled to a royalty from ancillary sales. The publisher might justify this by claiming that their work on the game's distribution led to an increased awareness of the property.

[398] Gross revenue would include sales of games, downloadable content, in-game purchases, subscriptions, rentals, in-game advertising, ancillary sales, and any other revenue generated from the exploitation of the game.

game by way of deductions listed in the Agreement.[399] Platform fees are deducted by the platform holders prior to remitting any monies earned by the publisher, though agreements will state that these are allowable deductions. [400] The parties would need to negotiate the deductions (which may partly depend on the platform and whether the game is being released in physical and/or digital format), but typically the agreed-upon deductions (many of which cover only retail sales) may include cost of goods,[401] discounts,[402] damaged goods, promotional and advertising expenses including user acquisitions and 'co-op',[403] refunds, credits, returns,[404] price protection,[405] service provider costs,[406] shipping, insurance, markdowns, porting fees, localization, currency exchange fees, expenses incurred by the publisher in the event that the developer is unable to

[399] A developer will want the publisher to spend money on marketing and distributing the game since it is assumed that money spent wisely will help sales. In some agreements, the parties may agree that all costs associated with the marketing of the game are not recoupable (but typically the publisher would receive a higher fee), or anything over a certain amount (i.e., a cap) would not be recoupable. Most agreements, however will allow the publisher to recoup these costs, which would be recouped from gross revenues and not from the developer's share. It is very possible that the publisher does not recoup their costs because of a game's underperformance. If costs are deductible then a developer should negotiate that the costs should be limited to direct out-of-pocket expenses tied to the game, thereby excluding costs such as overheads or internal marketing costs. Over the years, marketing costs have increased, especially for games that receive the highest development and marketing budgets, known as AAA titles, and for mobile titles with acquisition costs. At the same time, however, there are also a number of new ways to reach consumers through social media, which are relatively cheaper and can be effective, despite occurring in a crowded market.

[400] The revenues actually received by the publisher will determine the royalties earned by the developer since distributors, whether for mobile devices or digital distribution, will be entitled to deduct an agreed-upon percentage as their fee before remitting any monies to the publisher. In addition, if the publisher is using sub-distributors then it will usually only account for the money it actually receives since the sub-distributor will deduct its fee and possibly expenses prior to remitting money to the publisher.

[401] Cost of goods would include the cost of manufacturing, assembling, and packaging units of a game (this would not be applicable to digital games) as well as any royalties owed to console manufacturers or licensors. Generally, no royalties would be paid on retail versions where (i) units are sold for less than the cost of goods since the publisher would not be earning any money on the sales; (ii) replacement copies; and (iii) free goods, although this may be capped unless they are being provided to the press.

[402] Often large retailers will require an additional discount because of the large quantity of purchases made of a game. This is a cost that would apply to physical game sales.

[403] 'Co-op' advertising in this situation involves the practice by which the publisher pays a portion of advertising created by retailers involving the publisher's game(s). Costs are usually associated with in-store, point-of-sale, circulars, and similar promotions paid by the publisher to a retailer or discounted from monies owed by the retailer to the publisher. It is also possible for the publisher to pay for marketing costs and to not recoup costs, although in that case they would ask for a higher fee.

[404] A publisher will often be allowed to deduct returns and refunds from gross revenues since they are not earning any money on those games. This can be particularly important in countries with strong trade laws regarding returns. For example, in Germany, the great majority of retailers have a strong right to return unsold goods to their suppliers for full value. Consequently, European distribution agreements will usually need to apportion this risk between the parties (usually to the publisher's benefit).

[405] In general, in this situation price protection is money paid or credited to a retailer by the publisher when the publisher elects to drop the wholesale price by a certain amount and pays the difference between the original wholesale price paid by the retailer and the new wholesale price. Price protection would only apply to inventory still in the retailer's possession. For example, the publisher sells a game initially at a wholesale price of $30. Later, the publisher decides to drop the wholesale price to $20 to help sell games and as a result the publisher would then owe the retailer a credit of $10 for each unit still in the retailer's inventory. Typically, in order for the retailer to qualify for price protection, it must satisfy certain conditions such as compliance with applicable payment terms and sales information (e.g., confirmation of inventory levels). Activision Blizzard, "Annual Report 2020", *investor.activision.com*.

[406] In this situation, the publisher is paying a third party to provide services involving the distribution of a game such as internet hosting charges, carriage fees for mobile games, and in-game advertising.

perform the required services as per the agreement,[407] and taxes.[408] In addition, publishers may also include very broad language covering any other costs that may be incurred by the publisher in the development, manufacturing and distribution of the game. Publishers add this language to protect themselves against any unforeseen costs that they may not have contemplated, but it is strongly recommended that developers delete it from the Agreement or limit it. For the developer, one of the key takeaways is that they understand what is included in a deduction and the potential costs of such a deduction. They must also consider if a deduction should be removed, and therefore that cost is incurred by the publisher, is capped, or is subject to the developer's approval.

After deducting expenses, the developer's royalty rate is applied to the net revenues to determine the amount of money that the developer will receive from the publisher. However, a developer typically will only receive a royalty after the publisher has recouped all of the defined costs from the gross revenue, and then any monies paid to the developer for development, which are typically deducted from the developer's revenue share. Only after the publisher has recouped these costs will the developer actually receive any royalties, presuming that the revenues earned have exceeded costs. It is possible that some deals may be structured to ensure that the publisher recoups all or some advances from gross revenue instead of the developer's share. There is also the possibility that the publisher remits some revenue to the developer even before they have fully recouped their agreed-upon costs. In this situation, the publisher may pay a royalty to the developer at a lower royalty rate and then increase it once the publisher recoups its costs. Because of the different scenarios that might be negotiated involving the revenue stream, it is critical that the developer understands the type of deductions requested by the publisher before agreeing to them, since this will have a direct impact on revenues earned by the developer.

The following scenario provides an example: the publisher pays the developer a recoupable fee of $1 million according to a milestone schedule for developing a mobile game. Pursuant to the terms of the agreement, the developer is to receive a royalty of 10% of net revenues from all revenue generated by the mobile game. The publisher spends $100,000 on marketing expenses and acquisition costs which are recoupable from gross revenues. The game is released and generates $3.1 million in sales after the platform holder (i.e., Apple) takes their share from all revenues. Before determining the amount of royalties for the developer, the

[407] If the developer is contractually required to provide certain services (e.g., development, bug fixing, localization, music) and is unable to do so, and those services are then undertaken by the publisher, whether directly or through a third party, then the costs incurred by the publisher will either be recouped from developer's royalties or from gross revenues. Although it will need to be negotiated and might be difficult to obtain, the developer will want to have some consultation or approval rights on the party providing the services since costs will be recouped from the developer's share, and there may be a need to disclose some of developer's confidential information.

[408] Different sales or consumption taxes may apply around the world. For example, US states have different levels and rules for sales tax and similarly, the European Union has a valued-added-tax system with different rates across different countries. Therefore, the same game could sell with approximately 10% sales tax in California but 20% sales tax in the UK. There are also different rules around the world regarding corporate taxation and revenue recognition. It is therefore useful to have a working understanding of the applicable financial and tax rules when negotiating a development agreement. An additional tax issue involves withholding taxes which are taxes that the government may impose on revenue earned from the exploitation of a game in that country. In this situation, a publisher would deduct the appropriate taxes from the revenue and pay it to the taxing authority. If this occurs, the publisher should obtain a receipt of payment from the taxing authority which then can be used to possibly obtain a tax credit from the developer's local tax authority. If any of the withholding tax is returned to the publisher, then the developer should insist on receiving the revenue.

publisher is entitled to deduct the $100,000 of marketing expenses from the gross revenues, resulting in net revenues of $3 million. Based on a 10% royalty, the developer would be entitled to $300,000. However, since the publisher paid a $1 million recoupable fee to the developer, the publisher would be allowed to recoup the $300,000 from the developer's share before paying any royalties to the developer and would still be entitled to recoup an additional $700,000 from future royalties earned by the developer.

The parties will need to negotiate the royalty rate that will be used to determine the developer's share.[409] Determining the royalty rate will depend on a number of factors, including but not limited to the bargaining power of the parties, the platform, the rights granted, the services provided by a publisher, the development costs, third-party licensing fees, advances, marketing commitments, whether the royalty is applicable to the initially released game or additional content (e.g., microtransactions, downloadable content), whether costs can be recouped on a cross-collateralized basis, the developer's track record, previous rates between the parties if they have worked together before, industry standards, and platform fees.[410] Furthermore, as the publisher's financial commitment increases, the royalty percentage may be lower for the developer.

Royalty rates can also vary depending on the amount of revenue earned based on a sliding scale. For example, the royalty for the developer may increase when revenues achieve a certain number. The parties could also agree that the royalties decrease if the parties agreed initially to a higher royalty.

3.2.9 – Revenue Share Involving Distribution Only

In distribution agreements, where there is most likely little or no financing provided by the publisher, the developer will receive a larger share of the revenue than in a publisher-developer development agreement, since the developer financed the development and therefore assumed all of the initial risks. The amount of money that the developer receives from the revenue share and the fee that the publisher receives may primarily depend on the following factors:

1. The amount of money invested by the developer to develop the game;
2. The rights granted by the developer and distribution formats;
3. Services being performed by the publisher;
4. Whether the developer has agreed to incur additional costs in the distribution of the game (e.g., marketing costs);
5. The amount of money agreed upon by the publisher to pay for various services which may include manufacturing costs, first-party licensing fees, marketing, content updates and distribution expenses;
6. Interest in distributing the game from other parties;
7. The bargaining power of the parties; and

[409] The royalty rate may also fluctuate if the developer is late with the delivery of the game. For example, depending on how late the developer is with the game, the royalty may be reduced.
[410] Royalty rates may also vary depending on the item sold. A royalty rate for ancillary products may result in a higher royalty rate for the developer than a game or downloadable content.

8. Whether the publisher is paying an advance and/or guarantee for the rights and how much it amounts to.

As part of the negotiations involving each party's revenue share, the publisher and developer will simultaneously negotiate which expenses will be allowed to be deducted from the revenue earned from the exploitation of the game and the order of the deductions. Deductions and platform fees will vary depending on the platforms in which the game is to be distributed. Typically, after platform fees are deducted before any money is remitted to the publisher, the publisher would first be allowed to deduct agreed-upon applicable expenses (e.g., if retail is applicable, then manufacturing costs, price protection) from the gross revenues, and then would be allowed to take its fee/royalties from the net revenues. Afterwards, the parties would then be allowed to deduct any other agreed upon expenses they incurred in the distribution and marketing of the game with any remaining monies going to the developer.[411]

As part of the compensation paid to a developer, a developer might seek an advance against royalties and/or a minimum guarantee from the publisher in exchange for the rights. A guarantee is a payment that the publisher makes to the developer, typically at the end of the term, in the event that the developer has not earned the guaranteed amount of revenue from royalties and advances, if applicable.

In determining the guarantee, a publisher will generally base it on a percentage of the publisher's projected revenue from the exploitation of the game.[412] The guarantee is important for the developer since it provides some form of assurance that the publisher will maximize the opportunity to exploit the game. Other factors that will be considered when determining the guarantee might include the bargaining power of the parties, which is primarily determined based on the level of interest from other publishers, the track record of the developer, other financial considerations such as the publisher's fee, the initial impressions of the game, and other commitments from the publisher such as marketing.

For distribution agreements, the developer might also request a recoupable advance, which may be a single payment or several payments spread out over the term of the agreement. This can be triggered by a particular event, such as the signing of the agreement, acceptance of a gold master by a console manufacturer, or the release of the game.

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[411] To illustrate, here is one possible scenario: the developer and publisher agree that the publisher will take a 10% fee for the services provided and will advance all costs for the manufacturing of goods, and for first-party licensing fees, which will be deducted from the gross revenue. Marketing expenses paid for by the publisher will be recouped from net revenues after the publisher has received its fee. The game grosses $5 million after deducting platform fees. Manufacturing and licensing fees equal $2 million and marketing costs are at $1 million. As a result, the publisher would first deduct the manufacturing and licensing fees from the $5 million gross revenue, resulting in net revenue of $3 million. Based on a 10% fee, the publisher would then be allowed to deduct $300,000 from the net revenue, leaving $2,700,000. From the $2,700,000 the publisher would then be allowed to deduct the $1 million marketing expenses. The remaining $1.7 million would then be remitted to the developer. In some distribution deals, the developer might cover the marketing expenses, but in return may negotiate better economic terms such as their fee.

[412] The publisher needs to be careful when providing projected numbers so they do not over-promise, but at the same time, should not project sales too low since the developer might not have confidence in the publisher's capabilities if the number is lower than the developer's expectations. Projecting revenue has become more challenging with free-to-play games since publishers have traditionally tied guarantees to anticipated retail sales.

The amount of a potential advance will vary depending on a number of factors similar to those used in determining the guarantee, including the bargaining power of the parties, interest in the game, royalties, the amount of money the publisher might have to commit to the game and the guarantee, if any, paid to the developer. If a game attracts a lot of interest from various distributors, then the developer can try to negotiate a number of possible scenarios regarding a guarantee. For example, a developer might negotiate a guarantee that is recoupable, or it may be able to negotiate for only part of the guarantee to be recoupable.

Because returns and price protection can be unpredictable and play a significant role in the industry when dealing with retail versions of the game, the publisher will require the right to establish a reserve that it can draw upon in the event that future royalties fail to cover deductible costs. The reserve is a percentage of the developer's royalties which are withheld by the publisher for an agreed-upon period of time.[413]

For example, the publisher could be in a situation where it has paid the developer royalties based on first-quarter sales of the game only to discover later that it overpaid, because of higher-than-expected returns and/or price protection that the publisher incurs in the second reporting quarter. With a reserve, the publisher would be allowed to access the funds to help pay for the deficit, thereby reducing its risk instead of relying on future royalties to recoup, which may not be enough. Even with a reserve, there still could be situations in which the publisher does not necessarily recoup its costs. Some of the additional issues involving a reserve that the parties will need to negotiate include:

1. The size of the reserve (usually anywhere from 10 to 25% of projected revenues for the affected reporting quarter);[414]
2. Which costs the reserve will be applied against (e.g., gross revenue or developer's royalties);
3. How long the reserve can be maintained before the monies need to be liquidated (usually between 6 and 12 months); and
4. Which costs can be applied against the reserve (e.g., price protection, returns, damaged goods).

3.2.10 – Additional Royalty Issues And Payments

In some agreements, royalty rates may change based on the number of units of a game sold, revenue derived from a game,[415] pricing for a game, or after the publisher recoups their development costs or advance. To illustrate: if a game does well and hits certain levels of sales, then the parties might negotiate a higher royalty rate for games exceeding certain thresholds. For example, the royalty rate for a game may be 10% for sales from 0 to 200,000; 12% for sales from 200,001 to 500,000; and 15% for all sales above 500,000. If using a unit measurement, it is important to determine whether the units sold applied to the

[413] Thornburgh, Don, "The Reserve", International Game Developers Association Contract, WalkThrough 34, 2003. Publishers need to be careful when ordering retail product so they can reduce their risks with returns, price protections, and cost of goods.
[414] The percentage of the reserve can vary, with a higher reserve for the period covering the first six months after launch and then dropping thereafter. Also, instead of establishing a reserve based on a percentage, publishers may ask for more flexibility by establishing a reasonable reserve based on the publisher's expectations.
[415] The adjustment of royalties payments is commonly referred as a 'sliding scale'.

royalty rates involve all games, no matter what the wholesale price, or whether it is only for units sold above a certain wholesale price. It is also possible that the parties may start at a higher royalty rate and then lower the rate after hitting specific financial targets, whether for revenue or games sales. Because so many games are free, even games that are initially sold for a premium price, if the parties agree to a scaled royalty rate, then royalties should be based on revenue thresholds.[416]

For example, the parties could agree that after 200,000 units of a game are sold at a wholesale price no less than $39, then the developer will be entitled to a royalty for all units of the game sold thereafter. While this might be easier for accounting purposes, it does lead to some additional issues. One is determining what price the game has to be sold at to qualify for application of the royalty. Most likely the publisher is looking at the initial wholesale price since they will have calculated the number of units needed to be sold to cover its costs, including development, marketing and sales. Secondly, if the sales threshold is not reached, but just falls short and then the game sells at a lower wholesale price, would the developer be denied royalties?

In addition to royalty payments, the publisher may also agree to pay bonus payments to the developer upon the occurrence of one or several events. For example, the publisher may agree to pay a bonus to the developer if the developer delivers the game earlier than scheduled or the game achieves certain revenue targets, or if the game meets or exceeds an agreed-upon average game rating based on industry reviews.[417] If a bonus payment is made then the developer should try to negotiate to ensure that it is non-recoupable.

3.2.11 – Accounting And Statements

In any publisher agreement in which royalties are paid to a developer, it is critical that the developer receive a statement indicating how the publisher calculated the amount of money owed to the developer. The statement must be clear and easy to understand so that the developer can determine whether or not the statement is in fact accurate. Each deduction in a statement should be spelled out so that the developer can confirm that the deductions were permissible under the terms of the agreement. Although a publisher should often communicate sales numbers and analytics about the playing and buying habits of consumers, a statement will confirm the actual revenue generated from the game.

At the very least, the statement must include the revenues received by the publisher broken down by territory, platform and the source or revenue (i.e., retail

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[416] In very rare situations, especially because many games today are distributed for free and with downloadable content becoming the means in which games make money, a publisher might structure a deal whereby instead of paying royalties after the publisher has recouped its agreed-upon costs, the publisher only pays a royalty after a fixed number of units of the game have been sold and at a certain price. The publisher would determine its costs and establish a number that would be large enough so that the publisher has recouped its costs in financing and exploiting the game with a profit. This model is becoming increasingly outdated.

[417] Some agreements will often use 'metacritic' scores as the basis for determining reviewer scores; these are named after a company that accumulates review scores of games. The company accumulates the reviews from what they believe to be the most respected game reviewers and assign weighted scores to their reviews (some reviewers receive more importance because of their track record and the publication they work for), resulting in an average score. See Metacritic, "How We Create the Metascore Magic", *metacritic.com*. However, this can create problems, for example, determining what should happen if the developer scores one point below the agreed-upon rating.

sales, subscription, advertising, and downloadable content), as well as the deductions taken by the publisher. Itemizing how revenue was earned and deductions is important because certain deductions may only be allowed for certain platforms, and revenue streams and royalty rates may vary by platform. In addition, if the publisher agreed to any type of consumer marketing[418] and or channel/trade[419] commitment, the statement should include how those dollars were spent to confirm that the marketing commitment has or will be satisfied.

In almost every publisher agreement, the publisher will insist on being allowed to recoup its investment (e.g., in development and costs associated with the exploitation of the game) by combining all revenues earned from all sources involved in the exploitation of the game. This provision, referred to as cross-collateralization, allows the publisher to recoup its costs faster and reduces its risks. For example, if the publisher paid separate development costs for a console game and a mobile game, then prior to paying any royalties to the developer, the publisher would be able to combine both streams of revenue before having to pay any royalties to the developer.[420]

Statements are generally provided to the developer on a quarterly basis, 30 to 60 days after the close of a quarter, and each statement should be accompanied by any monies due to the developer. Publishers have traditionally requested this amount of time to allow them to accumulate and analyze the various reports they receive from various parties throughout the world, including retailers, distributors, mobile providers, licensees, sub-distributors, and even divisions within their own company that may have separate reporting structures. After receipt, some of which may be received at different times, the publisher will then calculate revenue earned by the developer. However, it should be noted that mobile and digital distributors may provide real-time information on money earned on those platforms and, in fact, developers can receive money directly from those platform providers. Nonetheless, things can get complicated quickly with statements if some revenue goes to the developer and other revenue goes to the publisher. It can therefore be difficult to determine deductions and, as a result, the publisher will likely want to receive all revenues earned and then report to the developer.

In some agreements, depending on the length of the term, the publisher's obligation to deliver a statement on a quarterly basis may be reduced if revenue does not meet certain minimum numbers. As a result, instead of issuing quarterly statements, the publisher may issue statements semi-annually or not at all, in the event that the game does not earn a minimum amount of revenue during a six-month period. For example, if revenue is less than $1,000 for a particular

[418] Consumer marketing usually covers advertising (online, offline, television), public relations, game trailers, trade shows, and all consumer creative elements.
[419] Channel/trade marketing would usually cover materials that appear in retail stores and in-store placement. Retailers promote video games through their store and store brand, referred to in the business as the 'channel'. The consensus in the industry is that such in-store promotion (either in a video game dedicated store such as GameStop, or a general store with a dedicated video game section, such as a Walmart or Target) has value because the persons receiving the advertising in the stores have self-identified as being interested in video games simply by their presence in the store, and are therefore more likely to purchase a game.
[420] The cross-collateralization provision allows the publisher to recoup any advances or development costs against any and all royalties, regardless of the platform or form of exploitation (e.g., revenue from merchandise). Cross-collateralization may also be allowed if the publisher is financing multiple games, and this would allow for the publisher to recoup all advances paid to the developer from the combined revenue of all the games distributed by the publisher. As a result, if one game does poorly and is in a negative recoupment position, the difference can be made up from revenue from the other games. Cross-collateralization allows the publisher to recoup its costs faster. Without cross-collateralization, the publisher would be allowed only to recoup its costs for that specific game against the revenue earned from that game.

accounting period then the publisher would not be obligated to issue another statement until the time when revenues exceeded $1,000. A developer may not want to agree to this provision, since it is important for a developer to know how well or how poorly a game is generating revenue, especially if the publisher is recouping costs from the developer's share. In addition, with new content continually being created for games, it would be advisable for developers to continue to receive statements on a quarterly or semi-annual basis.

To avoid any doubt on what information the publisher will include in a statement it is advisable for the publisher to provide a sample statement to the developer prior to signing an agreement. If the sample statement is acceptable then the parties should attach a copy to the Agreement typically referenced as an exhibit or attachment. If it is not acceptable then the developer should negotiate revisions and then attach the edited sample statement to the Agreement.

3.2.12 – Audit Rights

It is important whenever an obligation exists to issue a statement that the party receiving a statement also has the right to audit the relevant records associated with the statement. This will be the primary means by which a developer can determine if the numbers calculated by the publisher in determining the developer's share of revenue are accurate. Many times, the mistakes found in statements are the result of conflicting contract interpretation on what deductions are permitted by the publisher.

While the costs of conducting an audit may preclude a developer from exercising their rights as often as they may like, if at all, it is crucial for the developer to at least have the option to audit the records of the publisher. Not only can an audit reveal a mistake that could amount to additional revenue for the developer, but if no mistake is made it provides assurances to the developer that the publisher's calculation of royalties is consistent with the developer's interpretation of the Agreement. It is also possible for an audit to reveal a mistake in favor of the publisher.

Parameters For Audits

To avoid potentially time-consuming and costly audits, the parties will need to set out the parameters within which an audit can be conducted. Specifically, those parameters are: the number of audits that can be conducted each year (usually once a year); the location of the audit (usually the place of business of the publisher); the time at which an audit can take place (during normal business hours); the length of the audit; the records that can be reviewed; and who can conduct the audit.[421]

The developer will want to make sure that they know exactly where audits will take place so there are no surprises and no potential for additional expenses associated with conducting an audit. Prior to an audit taking place, the developer must provide notice within a certain period of time so that the publisher has enough time to accumulate the records that will need to be reviewed. Furthermore, the parties will have to agree on which documents will need to be provided for the developer's auditors and how long an audit can go on, since any

[421] The auditor would need to be certified and would need to sign a confidentiality agreement.

audit will also involve time and resources from the publisher. This section in the agreement will usually entitle the developer to review records that specifically relate to determining the royalties earned for the game and would include records involving all sales to consumers as well as permitted deductions.[422] If the publisher cannot support their deductions with proof, then the deduction should not be permitted. The limitation is justified to avoid a developer requesting documents that might be associated with the publisher's business, but do not directly relate to the game which is the subject of the audit.

The parties will also need to agree on who can conduct an audit. A publisher will at the very least require that the audit can only be conducted by a certified accountant and may also require them to work on a non-contingency basis[423] and to be from a particular accounting firm. The publisher wants to have some degree of approval on who the auditor may be, to ensure that the auditor is competent, has experience in the industry, and possibly to ensure that they have not audited records for a competitor. This is the publisher's guarantee that the audit will be conducted in an efficient and professional manner, which should help both parties, including in terms of cost reduction. An auditor not familiar with the industry will most likely waste time for both parties by requesting unnecessary information.

Contesting A Statement

A publisher will insist on language limiting the time in which the developer has the opportunity to challenge a statement. Generally, excluding fraud, the developer will only be allowed to challenge a statement within one or two years of its receipt. Afterwards, the statement is deemed final and is accepted by the developer. This restriction provides a level of comfort for the publisher that it will not be required to review records from several years earlier, which may be difficult and time-consuming to retrieve. In the event that it is discovered that the publisher has overpaid the developer, then either the developer will be required to return the overpaid amount, or the publisher will be allowed to deduct the amount from future royalty payments, at the option of the publisher.

Issues involved in contesting a statement can create further complications. If an error is obvious, for example a calculation mistake, then there should be no issues about the publisher owing more money to a developer, although the parties would need to agree on when the payment would be made, on whether interest would be paid on the money owed and how the interest rate would be determined. However, there may also be situations where there is a disagreement about calculations and whether certain deductions were permitted under the agreement. As a result, resolving the issue becomes more of a challenge. At the very least, the developer's auditors should be required to provide the publisher with a copy of the audit report within a certain period of time, explaining the accounting discrepancies and allowing the publisher to respond to the alleged errors. Often, an explanation of how the developer's revenue share and deductions were calculated leads to a resolution. Other times,

[422] Some of the records that an auditor might request could involve costs of goods, marketing expenses including those incurred by third-party vendors, and price-protection allowances. In addition, if a game is sub-distributed then the auditor may want to look at the statements provided by the sub-distributor to the publisher. However, the information may be limited subject to what the sub-distributor provides to the publisher.

[423] A publisher will usually make this request since an auditor working on a contingency basis may spend more time on the audit and raise more issues, since they will be paid based on what they find.

the parties might still be in disagreement and will have to discuss a settlement, although depending on the dispute of a disagreement, this could lead to a notice of breach and eventually termination.[424] In the event that the parties need to settle the disagreement, the publisher will require a release from the developer stating that no additional claims will be made against the publisher regarding statements that were covered under the audit, so that future potential litigation is avoided between the parties.

Cost Of Audits

The responsibility associated with the cost of the audit will be another issue within the audit provision. Generally, the cost of the audit (typically limited to reasonable costs associated with the actual audit) is the responsibility of the developer conducting the audit, but the responsibility shifts to the publisher if the audit shows an underpayment in an amount typically between 5 and 10% involving the relevant royalty payments reviewed by the developer.[425] A publisher may also require the underpayment to meet a certain threshold. For example, the parties might agree that the publisher will pay for the audit in the event that an accounting mistake is 10% or more and equivalent to at least $5,000. In the event that either of these two preconditions are not met, the publisher does not have to pay for the audit.

3.2.13 – Publisher Commitments

In addition to any payments required from the publisher to the developer, the parties will agree on additional obligations to be undertaken by the publisher which will vary subject to negotiations and the rights granted. Typically, the publisher can advise on development, assist with community services and also handle the relationships and serve as the liaison with the first-party console manufacturers, digital distributors, and other platforms including mobile.[426] As part of this responsibility, the publisher usually tests the product (for quality assurance), as does the developer; helps with localization, which may include providing in-game text and assisting with the voice-over; provides customer support; and submits the game to the hardware manufacturers for certification.[427] Costs associated with submissions are generally advanced by the publisher (unless the developer is required, as a result of delays, to pay additional fees for

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[424] If the language in the agreement does not cover how to resolve disputes involving a statement, the parties should consider adding it. The fastest and most likely the cheapest way to resolve the disagreement would be mediation and then arbitration. See Section 3.2.21 for a more detailed discussion on dispute resolutions.

[425] The parties must also agree as to what costs would be reimbursed. Costs should be actual and reasonable expenses that may be incurred by the auditor. In addition, consider whether costs include not only the costs to conduct the audit, but the auditor's travel and potential accommodation expenses. Some agreements may also request reimbursement for any legal fees incurred as part of the audit.

[426] Both a publisher's library of games and their relationships with distributors is critical for a developer, since it is the network of publisher's games that can help improve the discoverability of the developer's game.

[427] In some distribution deals involving retail products, the developer may elect to deal with the first parties regarding the approval process but will look to the publishers to help finance the manufacturing costs. When dealing with responsibilities undertaken by a publisher, many of these activities should be tied to some level of commitment. It may not be enough to say that a publisher will perform certain services. Instead, consider that services will be performed in a manner customary to similar games published by the publisher (e.g., a AAA title), especially if you have chosen to work with a publisher based on their track record.

extra or accelerated submissions) and then are typically recouped from revenues earned from the exploitation of the game.

The publisher will generally be responsible for the manufacturing (if a boxed product of the game is being sold), marketing, and sales of the game; and when a developer enters into an agreement with a publisher this should be one of the main issues on which the developer makes its decision to choose one publisher over another, assuming there are multiple expressions of interest from various publishers. The publisher's ability to deliver on the distribution and marketing of the game will be significant in helping to sell the game.[428] The parties will also need to decide who will be responsible for submitting games for ratings (whether a rating board, government body, or platform owner), the collection of player data, and community support. All involve a number of procedures and regulatory guidelines, which will often vary by region, and which need to be carefully understood and followed.[429]

Publishers should provide developers with business plans covering their overall strategy in the distribution of the game. This plan should cover at least the projected release dates in the various territories (subject to the timely delivery of the game), the distribution channels, the retail outlets (if applicable), how they plan to distribute in certain territories which impose additional regulations (e.g., in China and Vietnam), as well as pricing and monetization of the game. Depending on the relationship between the parties, the level of consultation and possible approval of the business plan will vary. If the publisher is acting solely as a distributor, then the developer should have approval rights, especially if marketing costs are recouped by the publisher. A developer will also want a contractual commitment from the publisher, provided that the game is delivered in a timely manner in the major territories.

Depending on the negotiations between the parties, the developer should attempt to negotiate a marketing commitment from the publisher, especially if the parties only enter into a distribution deal. This obligation would require the publisher to spend a certain amount of money and/or to engage in certain consumer marketing initiatives that may include, if applicable, attracting mobile customers, and/or retail marketing events. This commitment would provide additional assurances that the game would be a high priority for the publisher, although if the publisher is spending a lot of money on development, then it would be fair to assume that the publisher will already be committed to putting marketing dollars behind the game.

If the publisher was to agree to a marketing commitment, the parties would also need to agree on how the money will be spent; when the money would be spent (e.g., within the first six months of the game's release); and, depending on the territorial rights granted, the parties must consider how the marketing commitment will be allocated for the different territories. Generally, the publisher will want as much freedom as possible regarding the marketing spend and will

[428] Other than a situation in which the publisher owns the IP to the game or hires a developer to create a game based on the IP of a third party, the developer may request that the publisher provide the agreed-upon distribution and marketing services comparable to other similar games that were distributed by the publisher. At the very least, the developer should insist on language that the publisher will use at least "commercially reasonable efforts". See Note 379. A developer can also play an important role in promoting the game through online channels (i.e., Facebook, Twitter), although it would need to coordinate with the publisher.

[429] See Chapter 10.

argue that based on its experience, it needs the discretion to decide on when and how dollars will be spent.

Since the publisher should be in a better position than the developer to understand market conditions, the publisher should be the party responsible for creating a marketing plan and spending plan for the game. However, the developer should try to get approval rights which may be difficult, or alternatively meaningful consultation rights that allow for their input and evaluation of the game's marketing plans,[430] especially if the publisher is acting only as a distributor, if marketing costs are recouped by the publisher, or if the game is based on the developer's IP.

Finally, if the publisher says they will perform certain services and spend money on certain activities it is important that those assurances are confirmed in writing in the agreement and that both parties understand the obligations of the publisher, and what costs, if any, can be recouped.

3.2.14 – Representations And Warranties

Although representations and warranties are usually ignored by everyone except the lawyers negotiating the deal, these are significant provisions making up any agreement between parties. These are the statements included as part of the representations and warranties on which the other party relies prior to entering into an agreement. Minus these assurances, the other party might not enter into an agreement because there might not be any guarantee that one party possesses the proper rights to enter into an agreement. Without the appropriate guarantees from one party, the other party would then have to assume the risk for certain matters – risks that may not be worth taking, and therefore provide justification for not entering into an agreement. In addition to providing assurances to the other party, representations and warranties are significant because they will be tied to the indemnification provision (see below). An inaccuracy in a representation or warranty could lead to a breach of the agreement and eventually termination of the deal, so it is critical that the representations and warranties provided are accurate. If a party cannot contractually guarantee certain representations and warranties then the risk may be too great for the other party, therefore ending negotiations.

If the publisher has the right to sublicense rights to an affiliate or a third party then the developer should require an additional representation and warranty from the publisher that these parties are bound by the terms of the agreement. The publisher would also need to indemnify the developer against any claims in breach of any of the representations and warranties.

Not only will the developer be required to make a number of representations and warranties, but they must also require the publisher to make representations and warranties. The publisher's representations and warranties often depend on the bargaining power of the parties since most publishers will try to limit their commitments, risks, and exposure by limiting their representations and warranties.

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[430] The marketing plan usually outlines the anticipated amount of money that will be spent, how it will be spent, when it will be spent, and where it will be spent by the publisher.

The most important representation and warranty will be that the materials used in the game, whether content for the game or software used to develop the game, are either original, in the public domain, or licensed and do not violate the rights of third parties involving copyrights, trademarks, patents, rights of publicity (the right to exploit one's likeness for commercial purposes) and privacy (the right to be left alone).

When a publisher enters into a deal with the developer, they need to have assurances that the materials will not violate the rights of third parties, because a problem with the rights could result not only in legal disputes that could prove to be costly, but also a court order preventing the distribution of a game or the removal from a platform. In the event of a threatened legal action involving infringing materials, the developer will be responsible, not only for any costs to resolve the problem with the third party claiming infringement but also for any damages (although they may be limited) incurred by the publisher through the indemnification provision.

In many situations, the publisher may take on the commitment to provide a license for material that the game is based upon or for music. In this particular situation, the developer should require a representation and warranty requesting: confirmation that any licensed materials have been properly obtained;[431] that the license as used in the game or marketing materials does not infringe the rights of third parties; and to be indemnified against any claims that may arise from the acquired licenses, although an indemnity provision under the law of a continental European country such as Germany, France or Italy, may be of very little or no practical value.[432] Furthermore, this representation and warranty should also cover any new materials created or provided by the publisher (excluding any materials as delivered and approved by the developer), whether for the game, such as localized materials prepared by the publisher, or marketing materials. For example, if a publisher uses unlicensed music in a marketing campaign, then the publisher should indemnify the developer for any claims associated with the unlicensed music, since a claim regarding the music could result in a breach of the publisher's representations and warranties.

While the developer will deliver materials to the publisher so that the publisher can create marketing materials and packaging, if applicable, in the event that the publisher alters the materials, or places them in a context which might allegedly infringe the rights of third parties, then the publisher should be held accountable.

In addition to both parties making a representation and warranty regarding the IP associated with the game and any additional content added afterwards, each party will usually also agree to add the following reciprocal guarantees that (i) they has the authority and are free to enter into the agreement; (ii) the person signing the agreement has the authority to act on behalf of the signatory; (iii) it is

[431] A party licensing rights for use in a game needs to confirm that the rights obtained are consistent with the rights granted under the publisher-developer agreement. For example, if underlying licensed rights are limited to five years, and yet the publisher-developer agreement requires a 10-year term, then this will be a problem. Also, when licensing software, the parties need to be aware of whether the software tracks users in violation of privacy regulations.

[432] Because civil codes provide the general principle that – to the extent that there is an obligation on one party (contractual or other) – if that party does not fulfill that obligation, then that party is liable to compensation. On the basis of this principle, whether an indemnification obligation (to be applicable in respect of a contractual breach) is added to the contract, that addition will not strengthen the legal position per se (which would be the same even without the indemnity), nor would it weaken it per se. This is unlike English law, for instance, under which indemnities have specific legal effects (e.g., an indemnity may trigger the aggrieved party's duty to mitigate, which would otherwise not apply in respect of a simple breach of contract claim).

a validly existing corporation or other legal entity; (iv) it is not involved in any legal dispute that would compromise any of the rights granted or prevent it from carrying out any of its obligations; (v) it has the capability to perform its obligations under the terms of the agreement; and (vi) it has not entered into any other agreements that would interfere with the rights granted by it.

The developer may also have to further represent and warrant that:

1. The game, monetization models, and collection of data (this may be reciprocal depending on which party collects data) will not violate any rules, laws or regulations in the territory.
2. The game will operate in accordance with the game design specifications.
3. The game does not contain any computer code, viruses, or Trojan horses that could invalidate a rating, disrupt, harm, or impede in any manner the game, or any 'Easter eggs'[433] which may contain lewd, pornographic, or other objectionable content.
4. All people associated with the game will have been paid for their services and the publisher will have no obligations to compensate any parties unless otherwise agreed upon by the parties.
5. All people working on the game will have performed services either through 'work for hire', depending on the jurisdiction, or will have contractually assigned or have undertaken to assign all their rights in and to the work they provided for the game.[434]
6. They possess the technical resources and abilities required to fulfill their obligations under the terms of the agreement.
7. They are financially sound and fiscally capable of performing their obligations.
8. They will not use any free or open software that might subject any part of the code used for the game to any license obligations unless approved by the publisher.[435]
9. They have not been sued in the past for any claims.

Certain representations and warranties can be absolute or they can be limited, depending on the bargaining power of the parties. A publisher will seek broad representations and warranties from a developer, so it will be the developer's responsibility to try to narrow these statements as much as possible. One way in which the developer can qualify its representations and warranties is by adding the words 'to the best of their knowledge'. For example, the developer may agree to a clause that states the game software does not knowingly contain any virus. In this situation, if there is a virus unknown to the developer, it precludes the

[433] An 'Easter egg' is an item or gameplay hidden in a program which is accessed by performing certain commands outside normal gameplay.
[434] A publisher may require a developer to provide copies of written, signed employment agreements (redacting any information that may be confidential) to confirm this representation and warranty.
[435] The use of open source can pose problems for a developer. While open source may be free to use, it is still subject to a license agreement that can impose significant obligations on the developer, and therefore the license in which the code is used needs to be carefully reviewed. License agreements will vary with regard to the obligations imposed upon the developer. For a discussion on open source software, see Nimmer, Raymond T., *Licensing of Intellectual Property and Other Information Assets*, 2nd edition, LexisNexis, 2007, pp. 808-825.

publisher from claiming breach of the agreement. This is because the developer has only promised that they are unaware of any infringement on the rights of a third party, even though it may transpire that such infringement has occurred.[436] However, in the event that a publisher accepts limited representations and warranties, it may add a clause that the limitation on a representation and warranty does not limit the developer's obligations under its indemnification provisions.

The developer should also request exclusions from certain representations and warranties, including those related to the delivery of materials provided by the publisher to the developer which would remain the responsibility of the publisher. Moreover, if the publisher alters the materials provided by the developer, then those specific alterations to the materials would no longer fall under the developer's representations and warranties.

In many agreements, a developer may be required to represent and warrant that they comply with all laws and regulations in fulfilling their obligations pursuant to the agreement. This is extremely broad language and could be interpreted to include laws involving IP, business practices including monetization models and loot boxes, tax, and privacy to name a few. It is important to understand what this compliance representation includes, especially if the agreement covers the world or a number of countries. In addition, a developer that is required to agree to this language should negotiate reciprocal language so that the publisher has the same obligations. This representation and warranty is becoming even more significant if no separate representation exists in the agreement covering the collection and sharing of consumer data. As more countries impose tougher limitations on the use of data and impose significant fines for the misuse of information, it is critical that, when collecting personal data, each party complies with all the rules and indemnifies the other party against any breach.

An additional representation and warranty that may be made by each party involves revenue earned from a game. Since revenue is unpredictable, and royalties in some situations may be the only form of payment received by a developer, a publisher may require the inclusion of language in the agreement indicating that they do not guarantee royalties will be earned, if any.

In fact, the agreement will typically include language indicating that the developer acknowledges the unpredictability of games sales and agrees not to make any claims against the publisher for lack of sales or more revenue that could have been earned for the game. However, even though the developer may have to agree to this representation and warranty, they should in turn request a commitment from the publisher regarding a release schedule (assuming the game is delivered on time or relatively close to the scheduled release) and possibly a marketing commitment.

3.2.15 – Indemnification

The indemnification clause is another provision that is usually only read by the lawyers unless a problem occurs, but it has the potential to be very significant in the event of a dispute involving a third party. The indemnification clause should spell out the procedures that the parties would need to undertake if the

[436] Litwak, Mark, *Litwak's Multimedia Producer's Handbook*, Silman-James Press, 1998, p.184.

indemnification clause is invoked, as well as the responsibilities and costs of each party.

Indemnification requires one party (the 'indemnifying party' or 'indemnitor') to defend the other party to the agreement (the 'indemnified party' or 'indemnitee') from claims brought by a third party against the indemnified party. In this situation, the indemnifying party takes responsibility for any claims brought against the indemnified party by a third party. Indemnification will not apply when the parties to an agreement are involved in a dispute. Instead, it will only involve a situation in which a third party brings a legal claim and names the indemnified party, and most likely the indemnifying party as well, in the dispute. An example is if a developer represents and warrants that all the music in the game is original or properly licensed from a third party, however, a third party sues the developer for copyright infringement and also sues the publisher, since the publisher is distributing the game. Even though the publisher may not have been directly involved in obtaining the music rights which are the subject of a dispute, since the publisher is distributing the game, the publisher could be in violation of the music owner's copyright. This is because one of the rights of a copyright holder is the right to control the distribution of the copyrighted material. In this situation under the indemnification provision, the developer would typically take responsibility in defending the claim and for any damages, legal fees, court costs, and settlement that the publisher might incur as a result of the pending litigation.

The indemnification clause will often be tied back to the representations and warranties, since a third party lawsuit will be associated with a breach of a representation and warranty that all materials created by the developer (other than materials provided by the publisher) do not infringe the rights of third parties.[437] This is why it is critical for the developer to be aware of the representations and warranties and also that they consider whether the representations and warranties should be limited in certain circumstances. Litigation can be extremely expensive and, for a small developer, the costs involved in defending a lawsuit can be substantial. An award for damages could even put a developer out of business. In addition, it is critical for the developer to obtain representations and warranties from the publisher as well as an obligation to indemnify the developer against any claims if it is named in a lawsuit involving a potential breach by the publisher of its representations and warranties.[438] This is particularly the case when the parties specifically elect to have the agreement governed by US or English law, since under Anglo-American laws an indemnity is capable of producing effects that may, and normally do, enhance the legal position of the indemnified party.[439]

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[437] There may be situations in which a party does not represent that there will be no third-party claims but will still indemnify against those claims. This is primarily done to eliminate a potential breach of the agreement associated with the representations and warranties.

[438] The developer should also require that the publisher indemnify the developer against the publisher's manufacturing, marketing, promotion and distribution of the game unrelated to its development, unless it involved materials provided by the publisher to the developer.

[439] For instance, in the case of English law, an indemnity generally does not impose a duty on the beneficiary of the indemnity (the indemnified party) to mitigate its losses, while a warranty imposes such a duty on the beneficiary of a warranty. Also, with an indemnity, the indemnified party is under no requirement to show the fault or negligence of the other party (i.e., the indemnifying party), and it is sufficient for the indemnified party to show the 'trigger' that the indemnifying party has breached one of the representations or warranties under the terms of the agreement between the parties. The third main advantage of an indemnity is that it covers remote damages which, depending on the degree of remoteness, the beneficiary of a warranty may not be able to recover.

On the other hand, under the laws of European countries such as France, Germany, and Italy, in principle, the violation of an (unqualified) contractual obligation, provided it is clearly worded in the agreement, should put the aggrieved party in the same legal position irrespective of whether or not the aggrieved party can rely on an indemnity.[440]

The indemnification provision not only spells out a party's obligation to indemnify the other party but it also covers how the process works, which could have significant ramifications for both parties. This provision usually includes the following points:

- The fact that proper notice must be provided to the indemnifying party by the indemnified party so that the indemnifying party is aware of the legal action; otherwise, the indemnifying party, if not named in the lawsuit, might not be aware of any potential litigation.[441] In fact, language may be added to an agreement if the indemnifying party does not receive timely notice, thereby prejudicing their defense. In that case, they no longer have an obligation to indemnify the indemnified party for that claim.
- Information on whether the parties want to include an alleged breach to be covered under the indemnification provision or just a breach. A party may want to exclude this if it feels it may be at greater risk if it is included in the agreement, although one party may argue that they should not be responsible for any costs associated with an alleged breach caused by the indemnifying party.
- The indemnified party may want to have approval rights, not only for any type of settlement, since any settlement could potentially affect the rights of the indemnified party, but also the approval of the law firm representing the indemnifying party. The indemnified party may request this additional protection since the indemnified party wants to make sure that the counsel representing the parties is competent; the indemnified party could have a lot at risk, especially if there is a potential for losing distribution rights and paying damages.
- The indemnified party may want to hire its own counsel, although the indemnified party would be responsible for the costs unless it took over the defense for both parties. Agreements may include language that allows either party to assume control of the defense and any settlement (subject to the approval of the other party) if a party believes the indemnifying party is unable to adequately defend the case.

Some of these issues might be resolved by both parties obtaining proper insurance coverage which, subject to the policy, would pay for legal fees and damages.

[440] However, even in civil law countries indemnities are widely used and may be useful drafting tools. For instance, indemnities may be used to pre-quantify the liability of the breaching party and/or to introduce exclusions or limitations of the parties' liability.
[441] Besides including the name of the party making the claim and the nature of the claim, the notice may also include the amount of the alleged damages and the nature of the relief sought. A copy of the claim would also be attached to the notice.

3.2.16 – Insurance

With the increase in litigation and potential associated costs, combined with concerns that a developer may not have the resources to cover their indemnification obligations, publishers in most instances will require the developer to obtain errors and omissions ("E&O") insurance which may also be referred to as professional indemnity insurance or professional liability insurance.[442] Excluding fraud or deliberate infringement, E&O generally covers the costs involved in litigation (including legal fees) and any ensuing settlements associated with claims involving IP issues such as copyright and trademark infringement, as well as rights of publicity and privacy.[443] Typically, patent coverage is provided under a separate policy because the cost of litigation is much higher than for other IP coverage.

Policies that provide worldwide coverage can be obtained, but the availability of E&O insurance will vary by country and in some situations may be difficult to obtain (e.g., in Latin America). In addition, policies written outside the US and Canada, but which provide coverage in those territories may cost additional money because of the amount of litigation and the costs of litigation (i.e., damages and legal fees) in those territories.

Publishers will typically require that the developer:

1. Maintains E&O insurance with minimum amounts for any cause of action;[444]
2. Arranges a deductible that does not exceed an amount requested by the publisher;[445]
3. Maintains coverage for an agreed-upon period of time;
4. Names the publisher as a beneficiary and an additional insured party under the policy;[446]

[442] The E&O application will seek information about the applicant and the game to help the underwriter determine the risks involved in insuring a game. Those questions may include: (i) is the game original and have any rights been obtained from a third party? (ii) have agreements been signed with third parties providing the rights necessary for the developer to exploit the game? (iii) have all clearances been obtained? (iv) is the music original or have licenses been obtained? (v) has the developer been sued in the past for any claims? (vi) what is the developer's yearly revenue and what is the anticipated revenue from the exploitation of the game? (vii) what steps did the developer take to ensure there are no possible infringements? and (viii) is all work done by the developer pursuant to a written contract and do those agreements contain an indemnification clause?

[443] Depending on the policy, E&O insurance can also cover claims involving a breach of contract.

[444] See Section 4.3.11 which includes a discussion on coverage limits. Developers may be required to carry cyber insurance covering data and privacy breaches such as the General Data Protection Regulation (GDPR). See Chapter 10 for a discussion on privacy regulations including the GDPR.

[445] While a higher deductible will result in a lower premium, if the deductible is too high it is possible that the developer may not be able to cover the amount in the event of a claim.

[446] Many agreements require the developer to name the publisher as well as its affiliates and subsidiaries, etc., as an additional insured party, but the developer should ask for this to be deleted. This request would theoretically mean that a claim brought against the publisher that might have nothing to do with the developer could fall under the policy because they are an additional insured party. However, it is very doubtful that this would have been the intent of the parties, especially since the publisher should have their own E&O policy. Instead, the publisher would be more concerned about being named a beneficiary under the policy. In this situation, if the developer were to win their claim under the policy, then the insurance company would directly provide the publisher with any money they would have been entitled to under the insurance policy as a result of any ruling or settlement. For the publisher, this avoids them having to request the money from the developer, which could pose problems.

5. Notifies the publisher at least 30 days in advance if the policy is cancelled or has been revised; and

6. Receives a certificate of insurance evidencing proof of developer's insurance as required under the agreement. However, a publisher should also request a copy of the developer's policy to confirm that the insurance policy actually does cover what was requested by the publisher. This is especially true when working with smaller independent developers. A publisher should confirm that the developer is properly insured; that the policy actually covers the game and any other content distributed (otherwise a potential claim can be denied); which actions would trigger coverage under the policy; and how the insurance company would defend a complaint.

If the developer has obtained E&O insurance[447] and a claim is made against the publisher (and assuming the claim is covered under the policy), the insurance company would be responsible for a certain amount of the damages or settlements incurred regarding the litigation, subject to the deductible and amounts covered under the policy as well as the developer following the required procedures in submitting a claim.[448] Furthermore, the insurance company will generally play a major role in the hiring of the law firm that would handle the case.

For example, if the developer and the publisher are sued for an alleged copyright infringement involving materials created by the developer for the game, under the indemnification provision the developer would be responsible for defending the case and paying for any and all damages or settlements, including those incurred by the publisher. Assume that the claim is for $300,000 and the developer's policy covers up to $500,000 for any single claim and $1 million for all claims with a $100,000 deductible. In this case, if the developer settled for $150,000 then the developer would be responsible for paying $100,000, which covers the deductible, and the insurance company would pay the remaining $50,000 out of the settlement. As part of the E&O policy, insurance companies will usually direct the insured party regarding the law firm that will represent the

[447] Developers need to think about E&O insurance, and depending on the budget, they may not have allocated resources for a policy. It is very common not to have an E&O policy, especially for smaller developers, because either they are not aware of it or they do not have the money to purchase a policy. Furthermore, developers need to consider when the appropriate time is to obtain E&O insurance. In most situations, as soon as a developer releases content publicly, they will want to be covered. Even when the game has not yet been completed, a developer by itself or through a publisher will release marketing materials, trailers, place content on a website, and release parts of the game, including beta versions, for possible consumer feedback. All of these situations expose the developer and possibly a publisher to a claim by a third party. Finding an insurance company (typically a broker), completing an application, and having the application approved takes time. As a result, the developer needs to factor in these steps when obtaining a policy, especially if a publisher requires a copy of an insurance certificate and the policy within 30 days from signing an agreement. In very rare situations, and depending on the relationship, it is possible that the publisher will cover the developer under their policy. Publishers will most likely be reluctant to do this since it increases their exposure to a claim. Developers and publishers might also want to consider other forms of insurance covering their business which might include general liability insurance, employer's liability insurance and workers compensation (required in some jurisdictions), cyber insurance (covering hacking, ransomware, viruses), and product liability insurance. Game companies should also make sure their policies are updated and provide the coverage needed, especially when a company grows in revenue and personnel, thereby increasing risks.

[448] Insurance policies will require that the insured party notify the insurance company immediately and provide the required documentation about a claim within a certain time frame. Failure to do so could result in a claim being rejected by the insurance company. If a claim is made against a developer and they have E&O insurance, one of the first things they should do is contact their insurance company and notify them about the claim.

developer and may also offer advice on settling the claim, since this could be cheaper for the insurance company.[449]

E&O insurance costs can be expensive and costs for a policy will typically be determined by a number of factors and may include (i) the size of the developer seeking insurance; (ii) the services and products provided by the developer; (iii) the risks involved; (iv) how the developer manages risks (e.g., what steps do they take to prevent them); (v) what type and amount of coverage the developer is seeking; (vi) the level of experience of the developer (vii) whether the developer has been involved in legal disputes; (viii) how much coverage the developer wants to obtain and the deductible that would be agreed upon; (ix) the size of the deal into which they are entering with the publisher; and (x) the length of the policy requested by the developer. As for any deal, parties seeking coverage should negotiate the costs quoted by the insurance company.

The party responsible for covering the E&O costs will usually be determined on the basis of a number of factors, including the type of deal between the publisher and the developer, and whether or not the cost was contemplated when determining a milestone schedule. Whoever is responsible for the costs of the insurance, it is critical that the parties understand what the policy does and does not cover, and the procedures that must be followed in order to claim coverage.[450]

3.2.17 – Credits

This section in the agreement covers the attribution credits that will be given to the developer, the publisher and the individuals associated with the game. As games continue to grow in prestige throughout the world, credits are taking on greater prominence. For the developer, credits can be a significant issue in the agreement since they provide recognition that is seen by other publishers as well as the consumer. Therefore, the parties need to negotiate what credit or other form of acknowledgment (e.g., a website address) the developer, as well as the personnel associated with the game and any additional content, will receive, where the credits will appear, as well as the size and screen time of the credit subject to any limitations imposed by any platform manufacturers. Credit attribution should not just be limited to the game but should also consider marketing, press, and any other materials related to the game that are seen by the public.

If the game is financed or owned by the publisher, the developer will want to make sure that its company logo appears at the beginning of the game on a separate screen prior to the game starting, for an agreed period of time and no

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[449] Insurance companies will recommend a selection of law firms that have previously worked with the insurance company, specialize in the area in dispute, and are located where the dispute is to be resolved. Depending on the policy, it might be possible for the insured party to select their own law firm, although costs will most likely be capped. One of the goals of the insurance company is to limit their exposure, and sometimes they might recommend settlement so as not to incur additional court costs and an unfavorable verdict.

[450] Finding appropriate insurance coverage can be a daunting challenge for developers, as few are likely to have experience in this area, aside from finding their own personal insurance. E&O is entirely different in nature, and therefore it is important for a developer to work with a broker they can trust and who is knowledgeable in this area. The approach should be no different from when a developer seeks legal counsel. A developer needs to research this area, and should ask for recommendations from other developers or from the publisher or the lawyers they work with. Also, just like any other agreement, the developer needs to understand what their policy covers.

less prominently than the publisher's credit. This on- screen credit has become even more significant with the rise of other forms of distribution that do not involve traditional packaging, thereby reducing opportunities for recognition. The developer will also want its logo to appear on any packaging as well as marketing materials including social media posts, no less prominently than the publisher's logo. If no publisher credit appears then the developer should try to obtain credit at least as large as any other credit on any of the materials.

In addition to receiving logo credit, a developer will want a guarantee that credits for the personnel and any other third party associated with the game appear in the game's credits. Developers need to be aware of the credit obligations they sign off on with talent and third-party licensors, including those that provide software that may require the company's logo on packaging or in the game's credits.[451]

Both the developer and the publisher should be aware that if development work relating to a game has been done by personnel based in a country whose laws recognize moral rights, including the so-called right of attribution or paternity right (i.e., the author's right to be recognized and named as the author, co-author, or director of a copyrighted work), then all the individual developers that have worked on the content (including any coding, artwork or music) of the game may have a statutory right to appear in the credit section of the game. Because in certain countries moral rights cannot be transferred to a third party (e.g., the studio) and/or waived, both the publisher and the developer should be aware that, independently of what they may agree or may have agreed in the agreement between them, a physical person who has worked on the game may have a right to be named in the credits section.[452]

For games in which the publisher is only involved in the distribution, the developer's credits should be more prominent than those of the publisher. However, depending on the publisher's prestige it could also be very beneficial for the developer to have the publisher's logo appear with equal prominence, as this could bring additional credibility to the game.

A further issue that is usually not addressed involves determining what happens with the developer's credit when a game is not completed by the developer. Many agreements include language indicating that the developer's credit is subject to the developer providing all the services required under the agreement. What happens if the developer fails to provide all such services, but provides the majority of the work? How much work would need to be done to receive some form of attribution? Could a developer be denied credit? The issue becomes even more complicated when dealing with developers in countries that recognize moral rights, as discussed above. Despite the language in the agreement, a publisher may still provide a form of credit to the developer, but it may be in the developer's best interest to add additional language to the agreement stating that if they feel they have been denied a proper credit, the parties will agree to the involvement of a third-party mediator to resolve the problem.

[451] If this is a requirement, the developer should make sure that it is subject to the discretion of any of the applicable parties such as the platform holders, licensors and publisher.
[452] See Chapter 2.

3.2.18 – Termination For Cause

Another major section in an agreement will cover the consequences of a party failing to cure a material breach of the agreement which will allow the non-breaching party to terminate the relationship and possibly seek damages. Rarely are situations similar because of different facts leading to the potential termination, and despite the inclusion of relevant language in agreements, the situation can easily become expensive and complicated for both parties, exacerbated by the potential for increasing levels of tension between them. It can also be challenging to address many of the situations which may lead to termination, especially when dealing with long-term deals and the uncertainty that may occur in a constantly changing industry. In this section, some of the language that typically appears in an agreement will be discussed. A number of additional issues would need to be addressed when an agreement is terminated by the publisher for cause. Some of those issues may include: (i) credits, (ii) royalties if a game is completed without the developer's services, and (iii) rights of first negotiation and last refusal.

The termination section will spell out the obligations as well as the remedies that may be triggered in the event of a breach of the agreement by either party.[453] Typically, a party may have the right to terminate the agreement upon the occurrence of a material breach which the parties will list in the agreement. In this situation, the breaching party either fails to perform one of its contractual obligations or exceeds its rights under the agreement (i.e., acts in a way prohibited by the agreement), thereby allowing the other party the right to end the relationship. Because termination can result in major consequences for both parties, each party will attempt to limit the grounds for termination and request the opportunity to cure any breach.

The most common grounds for a material breach by the developer include:

1. Failure to deliver an approved deliverable;
2. Failure to submit a deliverable on time;
3. A breach of a representation and warranty;
4. Failure to maintain proper insurance; and
5. Bankruptcy.[454]

For the publisher, possible grounds for the developer to terminate the agreement could include:

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[453] Most agreements end when the term expires, with the various rights reverting back to the respected parties. Agreements should include post-expiration language covering what obligations and rights might continue after the term (survival clause) and what materials would need to be returned.

[454] With regard to bankruptcy as a termination event, both the developer and the publisher should be aware that under the national insolvency laws of certain countries, only the official receiver is entitled to decide whether or not they should terminate existing agreements involving the (insolvent) party. As a general rule of private international law, the law of the country of incorporation of the entity that has become insolvent will apply to the insolvency proceedings, irrespective of the governing law of the agreement chosen by the parties. For a discussion on dealing with bankruptcy issues in the US see Cannady, Cynthia, *Technology Licensing and Development Agreements*, Oxford University Press, 2013, pp. 208-213.

1. Failure to pay any development costs, advances, guarantees, or royalties when owed;[455]
2. Failure to issue statements;
3. A breach of a representation or warranty;
4. Failure to fulfill any obligations such as a marketing commitment; and
5. Bankruptcy.

In order for a party to claim breach, the non-breaching party must first provide notice of the breach and if the accused breaching party fails to cure within a certain period of time, then that party will be deemed to be in breach. Cure periods may vary depending on the type of breach.[456] For example, failure to deliver a milestone or failure by the publisher to pay for a milestone may have a shorter cure period compared to other breaches, such as a breach involving a representation and warranty which may require more time to cure. Furthermore, cure periods may be based on business days or calendar days. In some situations, such as bankruptcy, a breach may not allow for a cure period because of the type of breach that has occurred, and no matter what the cure period the breach cannot be cured.

In the event of an uncured material breach, the non-breaching party will have the right to terminate the agreement and seek remedies which may include damages. Depending on the breaching party, the type of breach, form of distribution (e.g., retail or digital product), and when the breach occurs (e.g., during development, after the game's release or providing live services), the remedies will vary. The most serious breach that the developer could cause would be its failure to deliver the milestones pursuant to the delivery schedule. If the developer is unable to submit an acceptable deliverable on time, and unless the parties revise the deliverable schedule the publisher will generally have the right to terminate the agreement.[457] In this situation the publisher may seek the return of any advances paid, and suspend any of its obligations, or depending on the stage of development, may request access to the underlying source code, providing a possible opportunity for the publisher to finish the game.[458]

In some situations, the publisher will insist that the code developed during the making of the game should either be delivered as soon as possible to the publisher or placed in an escrow account on an ongoing basis pursuant to the milestone schedule in case the publisher needs to access the original code (in

[455] If royalties are the subject of a dispute, failure to pay might not be deemed a material breach unless and until the developer can show payment was owed by providing appropriate documentation (e.g., an audit report) subject to the publisher first providing the appropriate books and records to the developer (failure by the publisher to provide books and records would be separate grounds for a material breach); or in the case that the publisher has failed to cure the breach and a final judgment has been rendered by a mediator, arbitrator or court (whichever was agreed to by the parties in resolving this type of dispute).

[456] Situations may arise in which the accused breaching party denies breach, thus making it impractical to 'cure' and making litigation probable.

[457] In most situations, the developer will have the right to resubmit a disapproved deliverable, assuming the deliverable can be fixed. Contracts should address how long the developer will have to fix the deliverable, how long the publisher will have to review the deliverable, and how many times the developer will be allowed to resubmit. It is in the interests of the parties to resolve the problem, but resubmissions cannot be ongoing, since at some point, the publisher may elect to either hire another developer to fix the problem or complete the game, assuming that is a possibility, or may terminate the agreement.

[458] If the publisher was going to finish the game either using internal developers or hiring a third party then those costs would be recoupable against the developer's share, assuming the developer was still entitled to royalties.

contrast to licensed code) to finish the game. On paper, this may appear to be a possible solution, but the developer may be reluctant to provide code to either a publisher or third party since the code could be considered a trade secret.[459] In addition, depending on the type of game and the complexities associated with the source code, it might be unrealistic to assume that the publisher or third party could understand the code to be able to finish the game. However, this is becoming less of an issue as more developers use licensed software that is publicly available.

In situations where the publisher has invested in the development of the game, then the publisher will typically insist on language that prohibits the developer from seeking injunctive relief in the event of a material breach by the publisher. Because a publisher has invested money to create the game, it does not want to be in a situation where its investment is at risk because of a material breach that could result in the game being pulled from distribution. As a result, language may appear in the agreement that states that in the event of a material breach by the publisher, the developer's only remedy will be for monetary damages.

A major clause tied to termination and the remedies provision will be a limitation of liability associated with the type of damages that may be awarded to a non-breaching party as well as the amounts that a non-breaching party may claim. Because of the severity of limiting a party's rights, the language will typically appear in bold and also in capital letters, highlighting its significance.

Language in this section typically states that damages would not include consequential (i.e., loss profits), specific, and punitive (i.e., damages awarded as punishment for the actions of the breaching party to serve as a deterrent for future activities). In addition, the parties may set limits on the total amount of damages. The publisher will generally request a limit on the amount of monies paid to the developer and the developer may seek to limit damages based on monies received.

The limitation of liability is usually not absolute, and the parties typically carve out exceptions to the limits. In most agreements, the limitation does not generally cover breaches of the confidentiality provision, either party's obligations under the indemnification clause, gross negligence or a breach of data protection obligations. A breach of confidentiality could reveal the trade secrets of a party, which may exceed the value of any damages received by the non-breaching party. In addition, a non-breaching party does not want to be responsible for possible damages for any awards or settlements under the indemnification provision that exceed any cap under the limitation of liability.

3.2.19 – Termination For Convenience

Because of the risks and uncertainties of development, the publisher may want to have the right to terminate the agreement at will (typically referred to as termination for convenience). In this situation, the publisher may feel that the game will not turn out the way it was originally envisioned and perform poorly, even if the developer has delivered on time and pursuant to the design document

[459] If a developer is required to deliver code to the publisher (this is the case in most situations) then the developer may request that access to the code be limited to approved internal developer teams of the publisher and third party developers. This would avoid a situation in which the code is provided to a developer's competitor.

and milestone schedule. A design concept for a game may satisfy all the parties before work begins, but when executed it may be different from what the publisher had envisioned for the game. Other reasons may also come into play, such as changes in the publisher's business strategies, market conditions, and negative consumer feedback.

The publisher may feel that additional monies paid for development and eventually manufacturing, sales, and distribution, as well as lost business opportunities because of a shift in resources, would not justify the continued investment in the game. As a result, termination for convenience allows the publisher to stop the development of the game for any reason prior to the final acceptance of the game. For the developer, a termination for convenience should be accompanied by some form of payment to compensate the developer for the publisher's decision. Typically, the publisher will pay the developer a fee usually referred to as a 'kill fee', which is a predetermined sum to be paid by the publisher to the developer at the time that the publisher elects to terminate the agreement. The developer would be allowed to keep any monies it has received for development and would also be entitled to receive any monies owed for previous milestones that have been accepted but have not yet been paid, and any milestone the developer was working on when the publisher elected to terminate the agreement. In some agreements, the 'kill fee' payment may involve additional payments, possibly including additional milestone payments.

If the underlying story was created by the developer and acquired by the publisher then the developer should request that all rights in and to the game, including code and the right to make derivatives, would revert back to the developer so that the developer could try to seek a deal with another publisher or even self-publish. If the publisher does agree to a reversion of rights, they might insist that if the developer is able to publish the game, then they would be entitled to some form of compensation, which might cover its previous costs in the development of the game if they had not been repaid or did not constitute a passive royalty for its initial investment in the game. The parties would then also need to negotiate the procedure and time frame for the payback and the actual costs.

3.2.20 – Governing Law And Jurisdiction

One particular aspect that is sometimes overlooked in contracts by non-lawyers, but which is critical to the entire document, is the governing law and jurisdiction clause.[460] Parties need to consider that laws can vary among countries (and even within a particular country), and the potential costs in filing and defending against a claim in a particular jurisdiction can be substantial.

This section will specify which country's law will govern the interpretation of the contract (for example Chinese law, US law or French law) and separately which country will have jurisdiction over the contract. It is common for the same country to have the governing law and jurisdiction, but this is not universal: some businesses may prefer to have the governing law and/or jurisdiction of the contract as a neutral venue. For example, it is quite common in the business world generally for business contracts involving parties from different countries to specify English law and/or jurisdiction, since the UK is considered a neutral

[460] For additional information on governing law, jurisdiction and legal fees, see Chapter 12 covering common clauses.

jurisdiction with a well-regarded legal system. In practice, governing law and jurisdiction is often a matter of bargaining power and the stronger party will specify terms that are most favorable to it.

When drafting governing law and jurisdiction clauses, it is important to be precise as to which countries or regions are being used in the governing law and jurisdiction clause. For example, 'American law' has no meaning; instead one must use the appropriate US State (California and Washington state law are by far the most frequently used jurisdictions in the Western game industry contracts since the states contain a great many video games companies). Similarly, 'UK law' means little (one must specify English, Scottish, or Northern Irish law), which is also the case for 'Cyprus law', as there are two different Cypriot republics.

3.2.21 – Dispute Resolution

Linked closely to the question of which country or countries will govern the interpretation and enforcement of the contract is the question of how any disputes between the parties will be resolved. The most common approach is for any dispute to be resolved by the courts of the governing country (either on an exclusive or non-exclusive basis). It is also possible that a different form of resolution may be applicable depending on the dispute between the parties.

However, some parties may prefer to specify alternative dispute resolution mechanisms. One partial alternative is to require the parties to have an informal resolution process (for example, the respective chief executive officers or other officers negotiating for a specific period of time). Otherwise, they may require the parties to engage in a formal mediation process involving a mediator specializing in the gaming industry or entertainment industry. In both cases though, the final resort is usually to have recourse to the courts.

A complete alternative is arbitration. Very simply, arbitration is a dispute resolution process in which the parties can choose everything about how to resolve the dispute: who will adjudicate it (and there can be multiple arbitrators), where, under which law and rules, when, and so forth. Most importantly, arbitration is usually confidential (whereas court proceedings are public). Arbitration can therefore provide a useful alternative to litigation and may also be faster and cheaper. However, neither arbitration nor litigation is better than the other: which option is chosen depends very much on the deal in question and the attitudes of the parties to the issue.

One final matter worth bearing in mind is that having a good governing law and jurisdiction clause and dispute resolution process is all well and good, but ultimately if there is a problem between the parties then the successful party will need to enforce its claims against the unsuccessful party. Sometimes this may be straightforward if the unsuccessful party is able to pay the damages claim, but if it cannot or if it refuses, then the successful party can face a distasteful choice between trying to enforce its claim against the assets of the other party (which may even involve having to go overseas to foreign courts with possibly substantial costs of time and money), or writing off some or all of its claim.

Consequently, running through all of the risk allocation, governing law, and dispute resolution sections of the contract is the need to be aware of the financial strengths of the parties and the locations of their resources, since this will be a

material factor in how the parties approach all of these clauses. Finally, the parties will want to address which party would be responsible for legal fees if there is a dispute that is not settled either by mediation or arbitration (typically, in these types of resolutions, the parties will be responsible for their own costs). Do the parties assume responsibility for their own costs whether or not they are successful, or does the unsuccessful party pay the costs for the successful party? Furthermore, the parties need to decide when a party would get paid, and whether legal costs are capped or limited by reasonable expenses.

3.2.22 – Additional Provisions

The publishing agreement will also include 'boilerplate' language, as outlined in Chapter 12, and a confidentiality section, even though the parties may have already signed a separate confidentiality agreement. The confidentiality provision will reiterate the language in the signed document and is included to cover new situations not addressed in the confidentiality agreement. In addition, it is possible the parties never entered into a confidentiality agreement and should therefore include language to cover this area.

Two other provisions that may be included in the agreement involve the prohibition of either party from soliciting the other party's employees and the assurance that neither party will disparage or criticize the other party, including their products and any personnel, whether in written or oral form or in any media. This can be very broad language that could include a number of situations, so the developer needs to understand what is included even if the language is reciprocal. Furthermore, what is the resolution if one party does disparage the other? How can a comment be determined as disparaging in nature, for example in cases where the information is true or has also been noted by a third party?

3.3 – A Changing Role

Since the introduction of next-generation platforms, publishers have played a significant role in the industry by financing and publishing games as well as building relationships with retailers and creating the infrastructure to take a game from concept to retail. However, that role is changing with the growing importance of alternative ways in which consumers can play games and increased opportunities that allow independent developers to deal directly with digital and mobile distributors, thereby reducing their reliance on publishers. How much that role will change will depend on the success independent developers have in financing, marketing, and distributing their products. In the meantime, while the role of publishers may not be as significant for the developer community as in years past, they will still continue to play an important role in the industry financing and publishing projects, especially for higher-end titles.

3.4 – Scenarios

SCENARIO 1: Questions For The Developer When The Publisher Owns The IP To The Game
I. TECHNOLOGY
1. Which party will own the new technology and code created by the developer?
2. If the code is owned by the publisher, will the developer have the right to use it for other projects? Will there be any restrictions on the developer's use?
3. If the publisher is allowed to use code owned by the developer in subsequent products, will the developer be entitled to a royalty?
4. If the developer owns the new code or technology, will there be any restrictions placed on the developer?
5. If additional third-party software and first-party tools are needed, which party will be responsible for paying any licensing fees?
II. DELIVERY OF MATERIALS
1. Is it clear, based on the milestone schedule, what the publisher is requesting for each milestone deliverable?
2. If the milestone schedule is revised, will the developer be required to do more work? How will the developer be compensated and how will it affect the delivery schedule?
3. Is the acceptance/rejection procedure clearly spelled out? Is the publisher required to inform the developer in writing within an agreed-upon time period if a deliverable is rejected, and to provide the reasons for rejection?
4. What happens if a deliverable is rejected?
5. If a deliverable is rejected, will the developer receive any money for the milestone?
6. How much involvement will the publisher have in overseeing the development of the game?
7. What happens if there is a disagreement regarding the direction of the development of the game? Will the publisher have the right to terminate?
8. What will be the procedure for deciding on new content after the game has been released? What will be the business model for revenues earned? Will the parties enter into a new agreement?

III. PAYMENT
1. How will milestone payments be determined?
2. How will royalties and the publisher's share be determined?
3. What costs will be deducted from gross revenues before the developer is entitled to any royalties?
4. Will deductions be made from gross revenue or from developer's revenue share?
5. How and when will the publisher report to the developer on sales of the game?
6. Will the developer have the right to audit statements?
IV. FUTURE PROJECTS, PRODUCT SUPPORT, AND NON-COMPETE
1. Will the developer be allowed the opportunity to work on future projects based on the game? If so, what would be the process to allow the developer to work on the project?
2. What type of support will the publisher request after the game is finalized? Will the developer need to work on updates or additional content?
3. Will there be any non-compete clauses limiting the developer's ability to work on similar games for a certain period of time?
V. REPRESENTATIONS, WARRANTIES AND INDEMNIFICATION
1. What assurances will each party need to make to the other party under the representations and warranties?
2. Do representations and warranties have to be absolute or can there be exceptions? Can any be reciprocal?
3. What responsibilities will the developer have to undertake as part of its indemnification commitment?
4. If the developer is sued because of a breach of a representation or warranty, will the developer be able to control the defence?
5. Will the developer be required to carry E&O insurance? Even if not required, should the developer obtain E&O insurance?
6. Should the developer obtain insurance coverage against possible patent claims?
7. Can the developer's E&O insurance fall under the publisher's policy?

VI. CREDIT
1. What type of credit will the developer receive? Will the developer's logo and name appear on packaging, and if so, where?
2. Will developer's logo appear in the game? As part of marketing or on press materials?
3. What will the size and length of the developer's credit be when it appears in the game and on any other materials?
VII. TERMINATION
1. What grounds will either party have in terminating the agreement because of a breach?
2. What actions or failure to act will be considered material breaches in the agreement?
3. Will there be a right to cure and how long will the cure period be in the event of a breach of the agreement?
4. What happens if the publisher claims breach and there is a dispute as to whether or not a breach has occurred?
5. What happens in the event of a breach? What are the remedies?
6. Who owns the IP if the publisher breaches?
7. Will the publisher be permitted to terminate without cause prior to the game being completed? If so, what obligations will the publisher have to the developer?
8. In the event of a dispute that cannot be resolved among the parties, how does the dispute get resolved and where does it get resolved? Will the parties have to go to court or is there an arbitration option? Can different problems be resolved differently?
9. Will the parties be entitled to recover legal fees if there is a dispute?
10. Can either party limit its liability if a claim is made by the other party? If so, how will the number be determined?
VIII. PUBLISHER'S OBLIGATIONS
1. What obligations will be undertaken by the publisher?
2. Will publisher agree to a marketing spend? How will the publisher promote the game?

SCENARIO 2: Questions For A Distribution Agreement Only
Some of the questions below which have not been previously mentioned are also applicable to Scenario 1 and vice versa.
I. CONSIDERING A PUBLISHER
1. Why consider working with a publisher?
2. What services can the publisher provide?
3. How good are the publisher's relationships with first parties? Distributors? The media?
4. What is the publisher's history of working with other developers in distributing products?
5. Are there common strategies regarding the release and marketing of the game between the developer and publisher?
6. Will the publisher need to sub-license rights? Do they have access to markets such as China?
II. GRANT OF RIGHTS
1. What rights is the developer granting to the publisher (i.e., platforms, territory and term)?
2. What happens if the publisher fails to release the game in a particular country/region?
3. Who will control the digital distribution rights?
4. What approval rights will the developer have regarding the distribution and marketing of the game?
5. What happens if there is a disagreement regarding the publisher's decisions? Whose decision is final?
III. OBLIGATIONS OF THE PARTIES; DELIVERY
1. What will the developer be required to deliver to the publisher, and when?
2. Which languages will the game be localized in and which elements will be localized?
3. What happens if there is a problem with the delivery of the game?
4. What happens if the delivery is late? Will a delayed delivery affect the publisher's payment obligations?

5. What are the publisher's obligations?
6. Who will be responsible for marketing? Will there be a certain amount of money required to be spent on marketing?
7. Which party will be responsible for ratings, testing, community support, and submissions?
8. Who controls the inventory for retail sales?
9. What information will be required to be provided by the publisher when submitting a sales and marketing plan? When would the plans need to be delivered?
10. Will the developer create additional content? Who will pay the associated costs? Which party will decide on what will be included as part of the new content?
11. If data is collected, who collects it? Which party owns it? Will the information be shared? Which party will be responsible for complying with regulations regarding the collection of data?
IV. CONSIDERATION
1. Is the publisher paying an advance or guarantee for the rights? If yes, when are these payments made?
2. Will a certain Metacritic score for a game trigger a bonus for the developer or decrease the guarantee for the developer?
3. What is the fee that the publisher will receive for providing its services?
4. What costs will be fronted by the publisher?
5. What costs will the publisher be allowed to deduct before remitting monies to the developer? Will there be caps on deductions?
6. What will be the order of deductions taken?
7. What happens if the publisher is unable to recoup its costs?
8. When will statements along with payment need to be made to the developer?
9. What information will be included in each statement?
10. What rights will the developer have regarding audits?
V. REPRESENTATIONS, WARRANTIES AND INDEMNIFICATION

1. What assurances will each party need to make to the other party under the representations and warranties?
2. What responsibilities will each party have to undertake as part of their indemnification commitment?
3. Do representations and warranties have to be absolute or can there be exceptions?
4. If data is being collected about players, how will it be used, who will have access to it and who will control it?
VI. CREDIT
1. Where will the developer's and publisher's credits appear on various materials?
VII. TERMINATION
1. What grounds will either party have with regard to the right to terminate the agreement because of breach?
2. Will there be a right to cure and how long will the cure period last? Will cure periods vary depending on the breach?
3. What happens in the event of a breach? What are the remedies?
4. In the event of a dispute that cannot be resolved among the parties, how does the dispute get resolved? Where does it get resolved? Will the parties have to go to court or is there an arbitration option?
5. Will the parties be entitled to recover legal fees if there is a dispute?
6. Can either party limit liability if a claim is made? If so, what limits will be allowed?

SCENARIO 3: Publisher Helps Finance A Game Based On Developer's Concept
I. GRANT OF RIGHTS
1. Who owns the rights to the game? And who owns to the underlying code and technology used to create the game?
2. If the developer owns the IP, what rights will be granted regarding platforms, term and territory?
3. Will the publisher sub-license rights? In the event that the publisher sub-licenses, how will this affect the economics of the deal?

II. DERIVATIVE WORKS
1. What business terms will be considered if the rights of first negotiation and last refusal are included in the agreement?
2. Are there certain requirements that trigger a right of first negotiation and last refusal?
III. OTHER ISSUES
1. Publisher considerations, delivery, milestone schedules, obligations, representations and warranties, payment, credit, payment, credits and termination: see above scenarios.

CHAPTER 4

LICENSING CONTENT

4.1 – Introduction

Throughout the evolution of the gaming industry, developers have incorporated licensed materials to help distinguish their games from others in the hope of attracting a wider audience with recognizable brands and more realistic gameplay. [461]

A developer or publisher[462] (for purposes of this chapter both will be referred to as the 'Licensee') may want to incorporate the intellectual property (IP) of third parties into their game, primarily within the following scenarios:

(1) basing the game on another party's IP and/or

(2) incorporating IP owned or controlled by another party into their game to provide more realism for the players[463] and/or

(3) in-game event and character integrations.

Licensees will also license other IP such as music and software to help with the development of the game.[464]

Licensed IP will usually consist of copyrighted material and trademarks associated with a particular brand as well as the rights of an individual's likeness. Licensees hope that visibility and recognition of the licensed IP will carry over to players. For example, a game is based on a story of a successful motion picture

[461] This chapter will mainly focus on Primary and major Secondary Licenses.
[462] Because of the costs associated with most licenses, especially for games based on a hit film or sports league, Licensors only dealt with publishers that were able to afford the guarantees and other commitments required by the Licensor. Many of these deals also became exclusive licenses. Over the years, the licensing landscape has looked a little different as more AAA publishers focus on their own IP, reducing their reliance on games based on licensed IP, and with more opportunities for developers to release their games directly to the consumer without a publisher, rights owners are licensing properties directly to independent developers, especially for mobile, tablet, and online games. While costs may still be high, they may be lower for particular platforms or games with a unique take on a particular sport or film that could help expand the fan base. Although more Licensors are willing to work with independent developers it can still be a challenge to obtain a license if the Licensee does not have a proven track record of developing and distributing games.
[463] Examples include logos from sports teams (e.g., Electronic Arts' *Madden* football game based on licenses from the National Football League and NFL Players Association, FIFA and car manufacturers).
[464] Licensees may license software to help in the development of a game such as middleware. See Boyd, S. Gregory, Pyne, Brian and Kane, Sean, *Video Game Law: Everything You Need to Know About Legal and Business Issues in the Game Industry*, CRS Press, 2019, pp. 89-95 for more on middleware licensing.

franchise or for an upcoming motion picture,[465] television show, book or toy.[466] Basing a game on a known brand can be less expensive than building a new brand from scratch. This chapter will refer to this type of license as a Primary License.

In other situations, a Licensee may want to incorporate various licenses that create a realistic gaming environment but are not necessarily the focus of the game. These might include names, locations, cars, planes, items[467] or other identifiable IP.[468] The Licensee would pay considerably less, although some licenses involving such IP can still be costly to use, compared to the game being based on one underlying property, though many of the contractual issues will be the same. This chapter will refer to those licenses as Secondary Licenses.

For the owner or party that controls IP (the "Licensor"), an association with a video game can bring significant benefits. In addition to potentially receiving revenue from Licensees, which may be in the form of guarantees or royalties (or both),[469] it can offer them an opportunity to expand into new markets and product

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[465] Traditionally, the parties would generally coordinate the release of a game with the premiere of a motion picture. For the Licensee, this could take advantage of the press, advertising, and promotion accompanying the motion picture's worldwide release and consumer familiarity with the film's stories and characters. For the Licensor, the release of a game could provide additional publicity for the brand and expand the target audience. Furthermore, there could be opportunities to cross-promote the video game with the movies (i.e., tagging film posters or advertising with a mention of the video game, or placing advertisements in the video game materials promoting the film). Today, fewer Licensees are releasing a retail game in tandem with the release of a film. Instead, they are focusing more on the brand, allowing for longer development times to launch an initial game and then providing ongoing content updates. It is increasingly common for Licensees to create new stories that are separate from past or future films, but which retain the traits of the characters and storylines from the film's franchise. In contrast, many mobile games tied to a film license will aim for a simultaneous release with a film since they tend to deal with smaller development time frames. See "Category: Video games based on films", *www.wikipedia.org*. Movie licenses associated with video games have been a major part of the industry for almost 40 years, but with mixed results. Some licensed games have been hugely successful while others have been major disappointments. A number of factors may contribute to the success or failure of a game, including poor reviews either for the games themselves and/or the associated movies. One famous licensing mishap involved the 1982 version of the film *ET*, which was poorly developed during a period of five weeks instead of the normal development cycle of about six to eight months to meet the Christmas season. It was released for the Atari 2600 with such disastrous results that it led shortly thereafter to Atari's bankruptcy and a profound downturn for the video game industry. See Morris, Alex, "How E.T. the Extra-Terrestrial Nearly Destroyed the Video Game Industry", *allbusiness.com*. For a look at games tied to movie licenses in the 1980s, see Aldred, Jessica, "A Question of Character: Transmediation, Abstraction, and Identification in Early Games Licensed from Movies" in Wolf, M.J.P., *Before The Crash: Early Video Game History*, Wayne State University Press, 2012, pp. 90-104. The financial success of licensing games based on movies has led some studios to create their own video game development studios to exploit their properties. However, that has also led to mixed results. Many film studios created video game divisions acting as publishers of their products, but at the time of writing, other than Sony, Warner Bros. (now owned by AT&T) remains the only film studio acting as a developer and distributor of video games. Ironically, video game companies are now more active in film production including Ubisoft (Ubisoft Film & Television formed in 2011) Sony's PlayStation division (PlayStation Productions formed in 2019), and Activision/Blizzard (Activision Blizzard Studios formed in 2015).

[466] Some games based on toys, such as Lego or the Teenage Mutant Ninja Turtles, have proven very successful over the last three decades.

[467] Licensors and Licensees need to be aware that certain products might be prohibited from appearing in video games due to laws and ratings. In addition, platform holders may restrict certain content such as drugs, tobacco and pornography. Also, Licensees need to be aware of potential negative publicity for the inclusion of certain items, for example, the portrayal of realistic guns in video games. See Fussell, Sidney, "Why It's so Hard to Stop Marketing Guns in Video Games", *theatlantic.com*, August 19, 2019.

[468] Some games have been based just on one particular car, such as *Need For Speed Porsche Unleashed*. For a fascinating look at the cars that have appeared the most in video games, see "The Cars Most Featured in Video Games" *Carwow*, March 17, 2020.

[469] For some Licensors, video games have become a significant revenue generator among licensed products, especially for sports and movie franchises. In 2019, the NBA and its player union signed

categories while reaching new consumers and providing additional publicity and promotional value for their brand.[470] Professional sports, for example, have successfully entered new markets assisted by video games and esports[471] in territories that may have taken longer to penetrate in the past with more traditional means such as television and live events. Moreover, the Licensor can expand on their IP when the Licensee creates new storylines and characters, etc., based on the original licensed property.

Traditionally, licensing in games has been focused on console and PC games. While the major publishers are focusing less on Primary Licenses and more on their own IP (although they still license the biggest movie franchises and sports properties), the market has shifted more towards mobile, online, and digital as Licensees try to distinguish their games in those increasingly crowded markets.

Prior to deciding on whether a license would be desirable, especially one on which a game would be based, a Licensee should consider a number of factors:[472]

1. Which party owns or controls the rights to the license? What may seem like an easy answer can become very complicated, and therefore it is critical that a Licensee obtains proof of the proper owner(s) of the IP. For example, a developer is interested in a movie or television based on a comic book. Does the film studio own the rights? Does the comic book company own the rights? Does the original author of the comic book maintain rights to the property? It also may depend on what rights the Licensee wants to acquire. Perhaps, the Licensee wants to use characters that were created by the film studio as well as original characters from the comic book. In this situation, the Licensee may need to enter into two separate agreements and must also confirm that they can use characters from both properties in the game.

2. Does the Licensor have a licensing program, and does it handle inquiries internally or through a licensing agent? A Licensor will either have people within the organization dedicated to licensing or be represented by agents that will negotiate the deal with potential Licensees on their

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an estimated $1.1 billion multi-year deal with Take-Two for the NBA license. Rollins, Khadrice, "NBA, NBPA Agree to $1.1 Billion Licensing Deal with Makers of NBA 2K", *www.si.com*, January 15, 2019. In 2020, EA signed a five-year deal worth a reported $1 billion to the NFL, $500 million to the players, and a $500 million marketing commitment. Sarkar, Samit, "EA Maintains Exclusive Madden NFL License in Multiyear Renewal", *polygon.com*, May 28, 2020.

[470] An additional benefit for the Licensor is that it allows them to expand their trademark portfolio by entering into new classifications.

[471] It could be argued that the success of video games in certain markets has resulted in significant financial gains for Licensors with new licensing opportunities outside of the video game market. Record-breaking television and online broadcasting deals by professional sports leagues including Fédération Internationale de Football Association (FIFA), the Premier League based in England, the National Basketball Association and the National Football League based in the US have been fueled to a degree by video game consumers. The popularity of the Premier League in the US in many ways sprung from young fans playing EA's FIFA and becoming fans not only of the league but of specific teams. According to Take-Two's 2019 Annual Report, their NBA free-to-play simulation game had over 45 million registered users in China at the time of the report's release. Take-Two Interactive Software, Inc., "2019 Annual Report", ir.take2games.com.

[472] A Licensor will also consider a number of issues when deciding on whether to work with a Licensee. Some of the business issues would include: (i) how successful has the Licensee been in developing games on time for the platforms licensed? (ii) has the Licensee developed the type of games requested per the license (e.g., genre, platform)? (iii) which personnel will work on the game, what is their experience, and have they worked together in the past? (iv) is the Licensee financially secure and will they be able to pay any advances, guarantees or royalties, if applicable? (v) what will be the business model for earning revenue? (vi) has the Licensee worked with Licensors in the past and how successful were those games? (vii) what are the Licensee's worldwide distribution capabilities? and (viii) how would the Licensee market the game?

behalf. Many of the major Licensors such as movie studios, sports leagues, player associations, and some of the major corporations like Coca-Cola have internal licensing programs, while other Licensors use agents. A Licensor may not have the resources or capability to engage in a licensing program, and therefore hires an agent in return for a fee based on sales. In this situation, the agent typically seeks opportunities for the Licensor; negotiates deals; reviews financial statements and submitted materials for acceptance or rejection; and deals with day-to-day issues with the Licensee.[473] In some situations, a Licensor may hire a number of different agents to represent them across various territories because of their expertise and connections with licensees, retailers and distributors in those territories.

3. Will the inclusion of a license result in additional sales and marketing exposure (especially true for free to play mobile games) and attract new players, justifying the costs of the license? What is the Licensee's budget and has it factored in licensing costs which may include advances, guarantees, royalties, and a marketing commitment? The demand for a particular property, the success of the property, and the rights sought for exploiting the licensed property are among the factors that will affect the licensing costs.[474]

4. What rights does the Licensee want to obtain? Will the Licensor allow the Licensee to alter the licensed property and create new content (e.g., new stories, characters) for a game? What restrictions, if any, will the Licensor impose that may affect the development and marketing of the game? Will the License require a specific rating for the game? It is critical that this issue be discussed before entering into a deal so that the parties understand what a Licensee wants to do with the licensed property. Licensors can vary quite a bit on how much discretion they will allow a Licensee, although over the past few years it appears that many are providing more flexibility.[475]

5. Does the license have worldwide recognition and is it reaching the Licensee's target audience? This is not as significant if a Licensee's goal is to reach a limited market and therefore the licensing fee if required, should reflect the limited territorial rights. In most situations a Licensee should try to obtain worldwide rights initially and if they are unable to do so, they should request the right to an option to exploit the rights in other territories, assuring access to those rights in the event that the property

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[473] See Section 4.5.1 for a more detailed discussion on Licensors and the use of agents in representing properties.

[474] In many ways similar to a publisher determining whether a particular game might be financially successful, parties will typically conduct a profit and loss (P&L) study to determine potential revenues. With free-to-play games it has become more of a challenge to predict outcomes because of the difficulty in forecasting ongoing user acquisitions and development costs against revenue and the fact that free-to-play games can take a few years to become profitable for Licensees. In contrast, the results of P&L studies for console games were easier to predict (although still a challenge) since costs were clearer to determine, such as units ordered and fixed development costs. As a result, minimum guarantees, which used to be based on a percentage of forecasted revenues, have evolved and are not as relevant as in the past, although this will also depend on the particular licensed property. In some licensing situations the minimum guarantee might be primarily determined by what fits in the Licensee's P&L to make it a viable business option, and this has led to lower minimum guarantees and different royalty calculations.

[475] For a discussion on movie licenses and creativity see Takahashi, Dean, "The DeanBeat: After All These Years, Hollywood Still Doesn't Get Games", *venturebeat.com*, September 20, 2019.

receives greater international recognition. Negotiating the fees for those rights in advance could also save significant money in case the game is a hit, and prevents a situation where the rights might not even be available.

6. For games that incorporate IP but for which IP is not the basis for the game, is there enough time to contact the Licensor(s), negotiate a deal or deals (a deal memo may be required), and put the licensed IP in the game prior to the anticipated release date? As the shelf life of a game goes beyond its initial release with added downloadable content, more opportunities might exist to allow Secondary Licenses, including characters from pop culture, to be added to a game after its initial release.

7. How difficult is it to work with the Licensor? Does the Licensor understand the video game industry and do they have personnel who are dedicated and knowledgeable about the industry? Does a Licensee have to deal with a number of people and is the Licensor slow to respond to requests? If so, development could be delayed and problematic, and result in additional costs involving multiple submissions to the platform holders for approvals.

8. What will be the major business terms, including rights granted, platforms, territory, term, exclusivity vs. non-exclusivity, compensation, and how will revenue be determined?

9. Additional business and marketing considerations: (i) what will the market conditions look like for the type of game planned by the Licensee when released? (ii) are there similar games on the market and how will the Licensee distinguish its game? (iii) will the price point change because of the licenses? (iv) will the Licensee develop additional content after the game's release and how will they monetize the game? and (v) will the Licensor need to approve the Licensee's business plans on how they will earn revenue, which may change in the long term (e.g., token economics)?

10. How does the Licensor protect their IP? Do they pursue infringers? This is important because a failure to protect licensed IP reduces the value for the Licensee if they are competing against illegal goods. A Licensor may not go after every infringer, but they can take certain steps to reduce infringements including filing registrations and maintaining them in popular markets; issuing takedown notices; and pursuing legal action when appropriate.[476]

As already discussed in Chapter 2, not all uses of marks or materials need to be licensed, as the IP may fall into one of the exception categories. In the United States, First Amendment (the right to free speech) protections, fair use, parody,

[476] Some courts in the United States have ruled that an exclusive Licensee can pursue actions for infringement. However, many agreements include language that expressly prohibits a Licensee from taking actions against infringers. A concern for a Licensee might be what happens when the Licensor does not take action and the parties have a disagreement on which actions to take, if any? Is the cost of pursuing the infringer, which can be expensive and time-consuming worth the expense? Because of these uncertainties, a Licensee should negotiate language that allows them to pursue an infringer subject to the approval of the Licensor which should not be unreasonably withheld or delayed. If this was to be allowed, a Licensor would also request the Licensee to indemnify the Licensor against any losses or damages and to have the approval of Licensee's counsel and any settlement. If the Licensee can pursue infringers, the parties will also need to negotiate how the costs are recouped and how damages, if any, would be divided between the parties.

incidental or *de minimis* use, and materials in the public domain are examples of some such exceptions. Of course, the available exemptions depend on which country's legal system applies to the Licensee's usage of the IP in question, and therefore while an exception may be allowed in one country it may not be recognized in another. Furthermore, in deciding whether IP needs to be licensed or not, the Licensee must be extremely careful as an incorrect decision may result in huge costs to defend against any claims. Litigation, whether valid or not, can be costly and can drain a Licensee's financial resources, as well as costing time and potentially harming their reputation.

Depending on the outcome of the litigation or settlement, a Licensee may:

1. Be forced to pay damages (including profits made from any actual use of the unlicensed IP); and/or
2. Stop selling the disputed game; and/or
3. Redesign the game to avoid any infringements which could cause delays in the game's release and increase expenses; and/or
4. Enter into a license agreement which, if available, might be on unfavorable terms[477]; and/or
5. Replace or remove the unlicensed IP with new downloadable content or through a patch, assuming this is an option. In that case, damages may still need to be paid but might be less than they would have been without the removal.

Furthermore, an infringement claim could result in a breach of the Licensee's representations and warranties in their console, mobile, or digital distribution platform agreements, making the Licensee liable also vis-à-vis its distributors. As a result, before proceeding to use any third-party IP, the Licensee must discuss these issues with a legal expert in IP rights and clearances.

As video games try to capture as much realism as possible, including games in an historical setting, issues involving whether or not a license is needed for a game have become more prominent. Since the US Supreme Court ruled that video games include protected speech similar to movies and books, Licensees have sought broader rights in using the IP of third parties as part of the game. In doing so they have attempted to create more realistic scenarios without obtaining a license, claiming they are replicating current or historical events and are therefore protected by First Amendment rights.[478]

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[477] An infringement action brought by a Licensor could also ruin any potential relationship between the Licensor and potential licensee. A Licensor understandably may decide not to work with a company that has knowingly or negligently infringed on the rights of the Licensor. As a result, a Licensor may not even want to enter into an agreement with such company.

[478] The US Supreme Court in *Brown v. Entertainment Merchants Association*, 131 S. Ct. 2729 (2011) in a challenge to California Civil Code Section 746-1746.5 ('Act') which prohibited the sale or rental of 'violent video games' to minors and required their packaging to be labeled "18", ruled that video games like protected books, plays, and movies qualify for first amendment protection in the US subject to a few limited exceptions such as obscenity, incitement, and fighting words. The Act covered games 'in which the range of options available to a player included killing, maiming, dismembering, or sexually assaulting an image of a human being, if those acts are depicted' in a manner that '[a] reasonable person, considering the game as a whole, would find appeals to a deviant or morbid interest of minors,' that is 'patently offensive to prevailing standards in the community as to what is suitable for minors,' and that 'causes the game, as a whole, to lack serious literary, artistic, political, or scientific value for minors' Section 1746(d)(1)(A). Violation of the Act would be punishable by a

Although cases will vary depending on the facts and the use of the licensed material, courts in the US appear to be moving in a direction that is providing Licensees with more latitude than in the past. However, Licensees will still need to carefully evaluate whether a license is still needed since courts may have inconsistent guidelines and some matters may have only been settled out of court thereby providing little guidance. It should also be recalled that some exclusions are only applicable in the US.

While Licensees have made significant efforts to seek greater protections for free speech, given that the issue is still in flux they should also consider whether they have the resources to challenge an infringement claim since it involves money, time, and resources that might be better used for other projects. It should be recalled that fair use in the US is a defense against a claim which may or may not be successful. The more established licensees are more likely to challenge on First Amendment grounds as it will be a recurring issue in future games, and they will be seeking better guidance on what they can and cannot do.

4.2 – The Licensing Agreement: The Long-Form Agreement

If the Licensee decides that they want to include a licensed property in a game and they determine that a license is required, they will need to enter into an agreement which should spell out, among other issues: the rights granted; the obligations of the parties; the length of time for the exploitation of the rights; the way in which the rights can be exploited; the costs involved in securing a license (which may include advances, guarantees and royalties); approvals; representations and warranties; indemnification; and how and where disputes get settled.

Depending on how the Licensee wants to make use of the licensed IP, the terms and conditions of the agreement will vary. In most situations,[479] the Licensor will draft the agreement and will include terms that are favorable to the Licensor, which should be expected. The drafter of an agreement always has an initial advantage, since that party will include all of the provisions it requires and with favorable terms. It is then the responsibility of the Licensee to request additions to and deletions from the agreement. Unless the Licensor has experience in the video game industry it may not include specific provisions required from a Licensee. Therefore, it is essential for the Licensee's counsel and any party that

civil fine of up to $1,000. The court rejected California's claim that 'interactive' video games present special problems in that the player participates in the violent action on screen and determines its outcome, noting that California's law was too broad as written and couldn't satisfy the 'strict scrutiny' legal test. The Court further went on to say that video games 'communicate ideas through familiar literary devices and features distinctive to the medium and 'the basic principles of freedom of speech ….do not vary with a new and different communication medium' *Joseph Burstyn, Inc. v. Wilson*, 343 US 495, 503.

[479] There are situations in which the Licensee will draft an agreement. For example, this may occur if the Licensor is licensing a trademark which is not the focus of a deal (e.g., a Secondary License) and is not familiar with the gaming industry and does not have a form agreement. In some situations, companies that do not have experience with video game licensing agreements will submit their form licensing agreement to the Licensee, which is a blanket template to cover a number of licensing scenarios, but will most likely have sections that are not applicable as well as sections that might be missing.

might incur responsibilities and obligations to review the agreement[480] and include language relevant to the Licensee. Some of the issues to consider include ownership of IP such as source code and content; how content updates and live services, will be handled, if applicable; how royalties are calculated and what deductions will be allowed; and issues dealing with future distribution platforms (i.e., the metaverse) .

The next section of this chapter will discuss the major issues of an agreement incorporating licensed IP, with a focus on Primary Licenses. Most of the sections will be relevant in any type of licensing agreement, but there will be a few differences that will be addressed in the chapter. For example, if the game is based on a license such as a movie, then the movie owner will require a much greater degree of control over the exploitation of the game and seek higher advances and royalties in comparison with the use of a Secondary License.

4.3 – The Major Issues In Licensing Agreements

4.3.1 – Rights

The rights section and the compensation section are perhaps the two most significant parts of the License Agreement. The rights section will cover a number of important issues including:

1. What is included as part of the licensed property/content?
2. What new content can be created by the Licensee?
3. Which product(s) can be developed using the licensed property (i.e., video games)?
4. How can the licensed property be exploited?
5. Which platforms can the game be distributed on?
6. How long does the Licensee have the rights to exploit the licensed property?
7. Where can the licensee exploit the game?
8. Are the rights exclusive or non-exclusive?

Any rights not spelled out in the agreement will be reserved by the Licensor (usually in express language to that effect) and if later sought by the Licensee will most likely cost the Licensee additional fees, provided they are available.

4.3.2 – The Licensed Property

In this section, the parties will define the nature of the licensed property that can be used in the game, additional content (i.e., downloadable content or microtransactions), and marketing and press materials. Licensors have traditionally limited the scope of rights, but with the increased financial and

[480] Agreements impose several obligations on the Licensee involving development, financing, marketing, and compliance with regulatory issues. As a result, Licensee's personnel working in these areas should review the agreement with their counsel to confirm they can comply with any requests or negotiate revisions.

marketing value of games more Licensors are making more content accessible providing greater creative possibilities for Licensees. Furthermore, Licensors especially those that have worked with a particular Licensee on an established motion picture franchise have become more flexible in allowing Licensees to expand on the IP, resulting in new stories and characters, etc.

In licensing rights to a book or a comic book, the Licensee will, at the very least, want the right to use the title, logos, story, images, settings, characters in the game, and the right to use the author's name in publicity materials. When dealing with items that have unique or well-known designs such as toys, planes, or cars, the Licensee must also obtain the rights to use what many call the 'look and feel' of the item in the game, including the designs and marks associated specifically with the items.[481]

Licensing IP based on a movie can be complicated by the number of parties associated with the property.[482] A Licensee interested in making a game based on a movie property will want the rights to incorporate all the elements from the movie (which may also comprise past and future movies, depending on the rights granted), including the story, title and logo, characters (plus voice and likeness of the actors, if possible),[483] themes, images, graphics, names, settings, and original music.[484]

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[481] Licensors will usually want to have creative input, if not creative control, over how that recreation and new content (if allowed) is developed and used in the game. This will be especially true for Primary Licenses involving new content originating from a film franchise. However, it can also be applicable for Secondary Licenses such as car manufacturers that may insist that any damage done to licensed cars is realistic, not disproportionate, and in keeping with its overall brand and marketing guidelines.

[482] Movie licenses may require the input from the producer, director, and talent involved with a film along with people working in the video game division of the studio. Coordinating approval rights can sometimes be difficult, time-consuming, and result in contradictory responses.

[483] The right to incorporate an actor's likeness and use music from a film may cost additional money if the Licensor has not secured those rights for use in a video game. Licensors realize the value of games to help promote a movie and a franchise as well as the potential financial gains, and are therefore most likely to try to obtain these rights with the actor and composer, especially with big-budget films. However, when talent agreements are signed, it might be unknown whether or not a game will be developed, therefore a Licensor may not want to incur any additional costs for video game rights. Alternatively, a Licensor could include an option to obtain these rights at a later time. As a result, the Licensee might be responsible for securing the necessary rights. Furthermore, a Licensee would typically have to pay the actor for additional voice-over and motion capture services. At the very least, it would be advantageous for the Licensor to use their influence to ensure that the rights can be obtained. If the rights are not part of the license, then the Licensee would have to enter into a separate agreement with the talent to obtain services and the accompanying rights. If the actor is a member of a guild or union, the Licensee would need to meet certain union obligations involving pay and working conditions. The Screen Actors Guild and the American Federation of Television and Radio Artists (SAG-AFTRA), which is the largest union for actors in the US, defines an actor under the interactive media agreement as voice-over, on-camera (motion capture, stunt) performers, stunt coordinators, singers, dancers, puppeteers, and background performers. Signatories to the agreement need to pay union wages as well as pension and health benefits and bonuses, if applicable while complying with minimum working requirements and work restrictions. See Chapter 5 for more information about actor agreements and SAG-AFTRA.

[484] Some licensing deals will involve a film's franchise and include a number of films under the license, especially if the parties enter into a long-term deal. As a result, rights would include all the stories and characters from the various films. This can be very advantageous for the parties since it allows the Licensee greater access to content for games and downloadable content. There can be situations whereby a property may have two licensors, and therefore if a Licensee is unable to obtain a license from one licensor, it might try to obtain a license from the other licensor, although the rights will slightly vary. For example, a comic book made into a film could potentially have two licensors. One licensor would be the original creator of the comic book and the other licensor would be the copyright owner of the motion picture. Subject to their agreement with the movie studio, the comic book company may be able to license rights to the story and characters in the comic book but would be unable to license any of the actual actors (e.g., names and likenesses) and any revisions made to the comic book story created by the movie studio. Consequently, the movie studio could have the right to license the film based on the comic book, which would include all the elements in the film. For the video game *Walking Dead*, Telltale Games had the rights from the author of the comic book series and Activision had the rights to the AMC television show.

LICENSING HYPOTHETICAL

Skyvision Productions (SVP) wants to create a racing game, but the company is not sure which direction to take the game. It has been considering incorporating a number of licensed properties including car manufacturers. Before making a decision, SVP will need to consider:

- Which party owns or controls the rights to license the cars?
- For each car manufacturer, does the car manufacturer have a licensing programming to license the cars? If so, does the car manufacturer handle licensing opportunities, or is it done by an agent representing the car manufacturer?
- What is SVP's budget for potentially paying licensing fees?
- Will potential licensing costs, which may include advances, guarantees, and royalties, justify the inclusion of licences into the game to generate additional sales?
- What cars are they considering for the game? Does SVP just want current cars or older models? (Can the game have exclusivity for a specific model?)
- If the game is sold worldwide, which car manufacturers would SVP want to include to appeal to a worldwide audience? Are there specific brands in Europe or Asia that may add extra appeal for the game in these markets?
- In addition to obtaining rights to cars, what other rights does SVP want to obtain (i.e., logos, drivers)? If additional rights are required, who controls those rights?
- Is there enough time to contact car manufacturers, negotiate deals (a deal memo may be required) and put the licenses in the game prior to the anticipated release date?
- What restrictions, if any, will the car manufacturers impose on SVP that may affect game development and marketing of the game? For example, will crashes be permitted? Can cars be remodeled? (Will certain manufacturers ask that their cars perform better than other cars or no worse than cars of equal value?) Can new cars be added to the game after the game's release as downloadable content? Also, how long is the approval process? (If a car manufacturer works with an agent, will that extend the approval time requested by the car manufacturer?)

- What will be the major business terms including rights granted, platforms, territory, term, exclusivity vs. non-exclusivity, guarantees, royalties, and approvals? Will parity involving economic terms be required among the car manufacturers? Can the SVP establish a revenue pool whereby a percentage is allocated for all the car manufacturers and from that revenue the Licensors receive their royalty percentage? How will royalties work with downloadable content? Can SVP obtain similar rights from the various car manufacturers? If not, how will that affect development and distribution rights, assuming SVP would still be interested in a license?

Additional Business And Marketing Considerations:

1. What will the market conditions look like for the type of game planned by SVP when released? How successful have recent racing games been in the last few years? Have games on certain platforms performed better than others?

2. Are there already competitive racing games on the market which would make it difficult for SVP to sell their game? If so, what will distinguish SVP's game from other games?

Sports Licensing

Professional sports games[485] are somewhat unique compared to other licenses. While a Licensee could develop a team sports game especially if it is a simulation, without a license, there is more of a challenge as to whether or not the game will be successful, since most fans want to play their favorite team and control their favorite players. To do so, when dealing with American professional sports a Licensee would need to obtain a license from both the sports league which controls the rights to license team names, logos, uniforms, and league logos, while the players associations represent the players, including with regard to the use of their names and likenesses. As a result, the Licensee would need to negotiate two separate agreements, each with different guarantees and royalty rates, although they generally like to be treated equally.[486] This would typically be achieved by including a 'most favored nation' clause where terms are applied equally to all licensors.

Many sports games with league and player association licenses also include an incredible number of Secondary Licenses such as new and old stadiums, signage, retired players, coaches, referees, announcers, equipment

[485] Supposedly EA's deal in 1984 with Larry Bird and Julius Erving ('Dr. J'), two of the top basketball players at the time, was the first sports license agreement in the video game industry. Their names and likenesses (although difficult to ascertain because of technological limitations) were used in the game *Dr. J and Larry Bird Go One-On-One*, which was released on the Apple II and Commodore 64. "The Licensing Game", Next Generation, July 1998, p. 39.

[486] However, see Note 469 above. It was reported that in the most recent EA deal with the National Football League and the player's union, the parties received different remuneration.

manufacturers, apparel, officials, mascots, and music associated with a team.[487] Some may be part of a license with a league or players association, but many involve separate agreements. Games such as EA's FIFA involve worldwide licenses and rights to players (both current and retired), leagues, and tournaments that are owned or controlled by a number of different entities throughout the world, illustrating the incredible amount of work involved in securing rights.[488]

For some sports games, the potential returns can be extremely lucrative. Games such as the *Madden* American football game series and the Take-Two NBA franchise (all of which feature extensive licensing from their respective sports) are amongst the most profitable in the entire video game industry. EA's FIFA series of soccer games is even more successful, becoming one of the bestselling franchises in video game history.[489]

4.3.3 – Rights Granted

Under this section, the Licensor will specify the rights granted and how the licensed property can be exploited by the Licensee, and whether the rights are exclusive or non-exclusive. In almost all situations, the rights granted are conditional upon the Licensee fulfilling its obligations under the terms of the agreement. At the very least, the Licensee must have the right to develop, manufacture, sell, distribute (either directly or indirectly through distribution partners such as console manufacturers or digital distributors including app stores), market, promote, and publicize the game throughout the licensed territory (which can be limited to certain countries or can be worldwide, depending on the deal) during the term and sell-off period, if applicable. As part of the grant of rights, the Licensee might need the ability to alter the property subject to the Licensor's approval.

The above rights will be conditional on the Licensor's approval, and the extent to which the Licensor enforces its approval rights will vary primarily depending on the Licensor, the platform, the relationship between the parties, and how the license is used. For example, game development and marketing will be closely

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[487] According to EA, *FIFA 21* featured more than 30 official leagues, over 700 clubs, 95 licensed stadiums, and over 17,000 players. France, Sam, "FIFA 21 Stadium List: All 125 Grounds on Xbox One and PS4 Versions of New Game", *goal.com*, October 7, 2020.

[488] An example of the complications and novel issues involving sports licensing is illustrated by the Manchester United and Sega controversy. In 2020, the Manchester United football team ('MU') sued Sega Publishing Europe Limited and Sports Interactive Limited, the publisher and developer respectively, in England, covering a series of games called *Football Manager*. MU claimed that the use of their name, which appeared next to unofficial team crests, was an infringement of their trademark. MU, argued that using unofficial crests deprived them of licensing opportunities. In response, Sega claimed, among other things, that the way in which the logo was used would not indicate that the logo was licensed. PA Media, "Manchester United Sues Football Manager Makers Over Use of Name", *theguardian.com,* May 22, 2020. The case was settled out of court in August 2021, thereby providing no guidance on how this issue might be resolved. As part of the settlement Sega agreed to rename MU for games beginning with "*FM22*". Bliss, Nathan, "Manchester United to be Renamed on Football Manager Following Trademark Settlement", *manchestereveningnews.co.uk,* August 6, 2021.

[489] As of 2021, EA's FIFA franchise, has sold more than 325 million copies worldwide becoming the number one sports video game franchise in unit sales. Batchelor, James, "EA Extends UEFA Exclusivity, Working On Multiple FIFA Mobile Games", *gameindustry.biz*, February 2, 2021; and Kidd, Robert, "As FIFA Game Passes Sales Milestone, EA Sports Seeks New Markets And To Clear Up Image Rights 'Misunderstanding'", *forbes.com*, February 2, 2021. Assuming EA's sales numbers stay relatively consistent, the game will continue to generate substantial revenue with in-game purchases, live services combined with new distribution channels and growing markets. It is expected that EA will earn more revenue from live services associated with the game than unit sales.

overseen by many Licensors pursuant to the approval process to ensure that the game's development and marketing are consistent with the direction of the licensed property.

In contrast, the Licensor should probably have less oversight in sales and manufacturing. Regarding sales, although the Licensor cannot dictate the price of a game, it will want to ensure that the price of the game does not drop to a price point that may lead to consumer perception that the property's value is diluted if the game is sold below the prices of similar titles. While the prices of games will drop over time, and earlier than expected if the game does not sell as projected, one way in which the Licensor may protect itself, although rare, is by requesting a minimum royalty for each unit sold. However, this approach may be difficult or impossible in mobile or free-to-play/games as a service ('GaaS') games for which revenue can be structured differently to traditional games. Therefore the Licensee may not be able to give per-unit price guarantees even though overall revenues may nonetheless prove substantial.

It is important, however, that the Licensee maintains control of the development and exploitation of the property as the Licensee will be in the better position to understand the market since this is their area of expertise. While Licensors need to have approval rights regarding game development, they should give Licensees the flexibility to create a game. That may mean giving video game Licensees more freedom in using the licensed property than they would other licensees dealing with consumer products such as apparel.

The rights section will also specify whether the rights granted are exclusive or non-exclusive. In most licensing situations where the property is the basis for the underlying game, the Licensee will want to have exclusive rights for the video game category including platforms or, at least, the relevant game genre.[490] This decision will mostly depend on the type of license requested, how the licensed property will be incorporated into the game, costs, and the Licensee's reputation and track record. An exclusive license will cost more for the Licensee although in some situations it would be counter-productive for a Licensor were to license the same property to different Licensees although it is becoming more common for Licensors to split rights based on game genres. For example, it would not be

[490] A sports league, like other Licensees such as the holders of very successful IPs (e.g., *Star Wars, Spiderman, Lord of the Rings, Harry Potter*) will typically grant exclusives, although more are limiting exclusivity to a platform and a particular type of game (e.g., a simulation game for sports). As the industry continues to expand, combined with fierce competition among Licensees to acquire rights to some of the biggest brands, these Licensors have seized on an opportunity to expand their fan base (different genres may attract a different demographic) while also receiving significant revenue for the rights. See Batchelor, James, "Star Wars Has Made $3bn for EA",.*gamesindustry.biz*, February 3, 2021; and Shreier, Jason and Kharif, Olga, "Ubisoft to Make Star Wars Game, Marking End to EA Exclusivity",.*bloomberg.com*, January 13, 2021. At one time, many sports leagues entered into deals with multiple licensees resulting in three or four different simulation sports games per year. Although several of the games were well received, the costs of development and marketing and the fierce competition left just a few standing. As a result, with fewer Licensees the leagues and player associations shifted gears and decided to go with exclusive deals, which led to higher guarantees while working with fewer established publishers. A Licensor may decide to grant an exclusive license or split rights believing the guarantees and royalties paid will exceed those of a number of Licensees and less oversight will be needed since the Licensor will only need to work with one Licensee. On the other hand, a Licensor may want to grant a non-exclusive license for a number of reasons including: (i) more competition may result in better products although there is also a risk that a bad game could damage the brand in the category; (ii) more companies providing guarantees in exchange for the license might result in receiving more revenue than one exclusive license; (iii) reduction of risks in the event that one of the Licensees has problems with development and is either unable to release a game or the game is delayed then a game created by other Licensees may still be released on time; and (iv) greater possibilities in creating different types of game (genres) and concepts working with more development teams while also expanding on the demographics. While this is still true, some Licensors are instead granting exclusives for genres.

a good idea to have several games based on a new *Spiderman* movie developed by different Licensees unless the original Licensee was unable to develop for certain platforms. Even then, one would normally expect that other Licensees would be involved to port the licensed game to other platforms rather than creating entirely new and rival games based on the *Spiderman* IP.

Non-exclusive licenses are common but are usually tied to situations in which the licensed property is a Secondary License. For example, IP may be licensed for an in-game event, or a character may be added to an existing game, or a car manufacturer may license vehicles for a number of games although they may grant an exclusive license for certain car models to a Licensee.[491]

If a Licensee obtains a licensed property like a movie that will serve as the basis for a game, they should request the right to make games based on sequels, prequels, or television shows. Some agreements with Licensees may extend for many years and incorporate a film's franchise as compared to just one film (especially the most popular licenses) and therefore rights to numerous films would typically fall under the license. If the Licensee is going to invest tens of millions of dollars in a game in addition to providing financial benefits to the Licensor, then the Licensee should also benefit from its success (assuming it is successful) in making a game by obtaining the rights as part of the original agreement or having the right to option future IP created using the same source material. This is becoming more important with continuing content provided to players. Otherwise, a Licensee may feel that its time and investment for a game based on just one film may not be worth it. They may decide that the same investment would be better spent on creating its own original IP. If the parties do agree to an option on future films, it is just as important that the parties negotiate the business terms for those rights when they enter into the original agreement. If not, the Licensee may find itself in a vulnerable bargaining position.

4.3.4 – Crossover Integration

One of the most popular trends in game development and licensing is crossover integration, which primarily involves the inclusion of video game characters, but also specific items, and possibly stories, settings, and universes from one property into another game whether appearing within a publisher's own circle of games[492] or those of another publisher (e.g., Sonic characters and Pac-Man in *Minecraft*, Lara Croft in *Fortnite*). In addition, in game integration can also include film, television, manga/anime, and comic book characters,[493] athletes, musicians, personalities, influencers, and various forms of IP. The majority of the content is downloadable requiring an additional upfront payment, and accessibility may be limited by time, a special event, and what the character can do in the game.

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[491] It is possible that a Licensor will not agree to draft language in an agreement providing for an exclusive deal, even though that may be the intent of the parties. This is done primarily to protect the Licensor in the event of a bankruptcy, which may allow a Licensor to find another Licensee during bankruptcy proceedings. Battersby, Gregory J. and Simon, Danny, *The New and Complete Business of Licensing: The Essential Guide To Monetizing IP*, Kent Press, 2018, pp. 604-605.

[492] For instance, Nintendo characters from *Donkey Kong*, *Mario Bros*. and *The Legend of Zelda* have appeared in the Animal Crossing series of games, and characters from Square Enix's *Final Fantasy* have appeared in *Kingdom Hearts*, as did Disney characters including Donald Duck.

[493] See Howard, Jessica, "From 'Resident Evil' to "SAW," Here Are All of the Dead By Daylight Killer Crossovers", *Uproxx.com*, May 25, 2021, where *Dead by Daylight* introduced a host of characters from horror films, a science fiction show and other video games.

Besides the potential financial rewards, if part of downloadable content, crossover integration requires less development time, and it helps continually refresh a game while simultaneously building the player base by attracting audiences of the licensed integrated IP. For the Licensor it can be an opportunity to showcase IP, a new band, song, or album, or product to a potentially vast audience.

Although video game characters have previously crossed over into other games, typically as part of an AAA title where development ended upon certification by the hardware platform, it is happening with more frequency. This is primarily driven by the growing reliance on live service business models based on frequent content updates, while also engaging players with new characters and items.

Nowhere has in-game integration been more evident than in Nintendo's *Super Smash Bros.* with over 80 crossover characters including many from Nintendo properties,[494] and in *Fortnite* with over 70 crossover skins including IP from pop culture and sports.[495] For example, in *Fortnite*, the NFL and NBA featured downloadable content including the skins of team jerseys and tournaments providing various rewards ranging from in-game currency to cosmetics.[496]

4.3.5 – Platforms

Once the parties agree on the property to be licensed, the next issue will concern the platforms on which the Licensee will be allowed to develop and distribute a game.[497] Typically, the more licensed platforms, the higher the licensing fee since this will most likely result in more revenue. However, more Licensors are also entering into agreements that may only involve one platform, especially mobile. With mobile becoming the leading platform for video games, this has become an attractive alternative.

The Licensee should also be aware that platforms not licensed to one Licensee may be licensed to another party. From the Licensor's standpoint, it will want to have the property exploited on as many platforms as possible to help generate additional royalties and marketing exposure. However, more Licensors wanting their properties exploited in the video game space are entering solely into mobile deals. This has been primarily driven by the broad audience that has now become important in helping to drive a brand and more established mobile

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[494] Nintendo also introduced characters from other games that included Bandai Namco's *Tekken*, Capcom's *Devil May Cry*, and Microsoft's *Skyrim*. Totillo, Stephen, "Nintendo's 'Smash Bros.' is Gaming's Biggest Crossover", *axios.com,* June 28, 2021.

[495] Some of the crossover integration has included characters from films (e.g., *Star Wars*, *Terminator*), television (e.g., *Rick and Morty*), comics (Batman (DC) and Black Panther, Captain America (Marvel)) and video games including *Halo*, *Street Fighter*, *Metal Gear Solid*, *Tekken*, *God of War*. Paez, Danny, "Fortnite or Smash Bros: Which Has More Crossover Characters?" *screenrant.com*, March 19, 2021.

[496] Fortnite, "The Crossover: the NBA Arrives in Fortnite", *epicgames.com*, May 19, 2021. To some, *Fortnite* represents the future for a certain genre of games that are transformed also into a platform hosting events and introducing new characters and IP into a game which is often referred to as a metaverse. Licensors and Licensees can see this as a branding opportunity serving to some degree as a marketing platform. At the same time, it provides the Licensee with access to new content to continually update a game. However, Licensees need to be careful not to alienate fans if the content is not enhancing gameplay.

[497] When determining which platforms to license to a Licensee, the amount of money paid for the rights will probably be the most important consideration. However, the Licensor will also want to consider the Licensee's ability to develop, sell, distribute**,** and market the game on different platforms. For example, the Licensor should review the track record of the Licensee to determine how successful previously released games performed and how successful the Licensee has been in distributing and marketing games in the territory and on different platforms where rights are requested. Distributing a poorly received game can be very detrimental to a brand and future games.

developers producing higher quality games. If a Licensee does not have the capability to develop games for a certain platform, then the Licensor may want to license those platforms to another Licensee.[498]

As a result, the Licensee, usually the one paying the higher licensing fee (although this can also depend on which Licensee provides the greatest commercial opportunity for the Licensor)– will need to coordinate with the Licensor on the release schedule for the game on the different platforms to ensure that they have the opportunity to release their game first. Although this is rare, a Licensee, depending on their bargaining power compared to other Licensees may request that the other party be prohibited from releasing their game until an agreed-upon date thereby granting a limited exclusive window to one of the Licensees.[499]

One additional issue involves the release of new platforms and technologies, including new means of distribution that emerge during the term. How has platform been defined in an agreement that it captures future technologies? For example, do PC distribution rights include cloud gaming? the metaverse? One way in which some Licensees address this issue is by including language that the right includes all present and future technologies now known or later introduced during the term. Some Licensors may feel uncomfortable granting rights without an understanding of the business model associated with those future revenue streams. The concern is that granting a license without knowing all of the economic factors could result in undervaluing the property for a particular platform. Some Licensors will want to restrict the license from applying to future platforms that are not specifically mentioned in the agreement. They hope that they will earn more revenue later by selling rights for those future technologies, although any future iteration of a current platform would usually be included in the grant of rights. Language will typically appear in an agreement saying that the rights which are not specifically granted are reserved by the Licensor.

If future technologies are not covered in the agreement, then the Licensee should ask for a right of first negotiation and maybe even a right of last refusal to try to secure these rights during the term. A right of first negotiation would require the Licensor to first negotiate in good faith with the Licensee for a certain period of time for the rights under consideration. In the event that the parties are unable to come to terms, then the Licensor would be free to discuss and enter into a deal with other parties for the rights. The right of last refusal, which may also be referred to as last negotiation, allows the Licensee an additional opportunity to acquire the rights since the Licensee has the right to match and improve the terms of any verifiable offer that the Licensor has negotiated with a third party. Licensors are reluctant to grant rights of last negotiation because a grant hinders their negotiations with other parties, since those parties know that they may not get the rights if another party has the right to match their offer.

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[498] This can be a delicate situation depending on the platforms granted to a Licensee, since a poorly received game developed by one Licensee may adversely affect the other Licensee. A consumer may not distinguish between different Licensees and different platforms. On the other hand, a very well-received game could help future releases.

[499] This may also be referred to as a 'holdback period' whereby one party is prohibited from releasing their game for a certain period of time providing an exclusive window to the other party. In addition, if there is a holdback provision, the Licensor will request that there be an outside release date for the Licensee with the exclusive window in the event there is a delay with the Licensee's release.

Recently, with the push toward cross-platform compatibility whereby a game can be developed for one platform but played on another platform through the Internet, parties will need to address this form of distribution and how revenues earned will be recognized. The parties will need to consider whether the Licensor will collect the same royalties and permit the same allowable deductions for the various platforms. In addition, will this form of distribution be considered a sub-license or an assignment of rights thereby requiring additional approval from the Licensor? This should also be clarified in the agreement.

4.3.6 – Territory And Term

These sections will identify the countries where the game can be exploited and for how long. As distribution becomes easier and more accessible, including the ability to continually provide content as a result of digital capabilities, more Licensees are seeking worldwide rights (including the right to distribute in any language) and longer periods to exploit their game.

If a Licensee was to request worldwide rights then they would also want the right to sub-license distribution in certain territories, which would typically be subject to the Licensor's approval, not to be unreasonably withheld. The countries listed in each territory should be clearly defined to eliminate potential issues with rights and possibly allocation of royalties which may vary by territory. Furthermore, using general territorial designations such as the European Union could cause problems if countries join or leave the bloc during the term.

Regarding the term, a Licensee will need it to be long enough to exploit the game and to have the possibility of providing downloadable content on an ongoing basis, with a view to earning revenue long after the launch of the game. Typically, the longer the term, the higher the minimum guarantee because of anticipated additional sales, even though the sales of a game will generally decrease in future years. Nonetheless, for some games, revenue may continue with ongoing downloadable content.[500] In fact, Licensees are embracing strategies in which games will continue to provide new content on an ongoing basis, thereby extending the life of a game and also providing a greater opportunity to build a community around the brand. For many of the major licensed properties that are licensed by AAA publishers, terms last between 7 and 10 years.[501]

The term will commence upon execution of the agreement (usually referred to as the 'effective date') or a binding deal memo so that development can begin immediately. Time will be critical if the parties want to release the game upon an event such as a movie's release, the start of a sports season or a holiday. A Licensee will generally want the deal to start upon execution of the agreement and to continue for a fixed number of years from the release of the game.[502]

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[500] Although sales of games traditionally have decreased over time, a successful game can still do very well several years after its initial release with new content including downloadable content and microtransactions, price reductions, and qualifying for participation in 'greatest hits'-type programs offered by console manufacturers.

[501] EA's exclusive agreement with the Walt Disney Company for the *Star Wars* property lasted for 10 years. The agreement, set to expire in 2023, has generated over three billion dollars as of February 2021, according to EA. Batchelor, James, "Star Wars Has Made $3bn for EA", *gamesindustry.biz*, February 3, 2021. Interestingly, Lucas Films Games, part of the Disney company, ended EA's exclusivity (although EA will continue to have a relationship with Lucas Films Games) by entering into an agreement with Ubisoft to create an open-world *Star Wars* game which would likely be distributed after the exclusivity period ends. One issue is whether during EA's exclusive period, Ubisoft will be able to market their game.

[502] Although it may be difficult, the Licensee could try to have different terms for various platforms given that release dates may vary.

While this language would be favorable to the Licensee, it may pose a problem for the Licensor unless an outside date is agreed upon by the parties for the release of the game in order to avoid a term extending indefinitely. For example, a term may start upon execution of the agreement and continue for a period of three years from the release of a game, but in no event will the term extend past an agreed-upon date. In addition, if a game is tied to a film's theatrical release and the release is delayed, or the film is released initially on a different platform (e.g., television instead of theatrical) then the Licensee should request that the term be extended for the period of time the film's release is delayed or the duration of an agreed-upon extension.[503] Licensees should also consider the possibility of an option to extend the term. Doing so allows the Licensee to notify the Licensor at a pre-determined time that they wish to extend their rights to exploit the game. An option may be extended if a Licensee achieves certain performance guarantees involving revenue or an agreed upon number of sales of a game.[504]

However, in some situations, the Licensor may not be willing to allow for such an option. For example, a movie studio will most likely not want to extend a license for a movie-based game if the studio is planning to release a sequel since this might interfere with future video game deals involving sequels. A previous game might reduce the value of a subsequent video game license. In order to avoid a disadvantaged bargaining position, the Licensee would need to negotiate the guarantees, advances, and royalty rates for the extension while negotiating the original agreement. Otherwise, the Licensor could be in a much stronger position to dictate the terms if the original licensed property exceeded expectations.

One recent issue regarding the term is the likelihood for games to have longer life cycles with continuing digital updates of content. Some parties have entered into longer terms, but there also may be some hesitancy from Licensees since a licensed game may not do as well as planned, in which case the Licensee would not want to commit to additional guarantees to obtain a longer term.

How the parties deal with this issue will depend on a number of factors including: (i) how long the Licensee wants to continue using the content depending on changing consumer demand; (ii) whether the original license was exclusive and if so, whether it becomes non-exclusive; (iii) whether other licensing opportunities are being considered by the Licensor; and (iv) how the Licensor will be compensated. It should also be considered whether the Licensor will require an additional guarantee covering a fixed period of time, or whether royalties will suffice as compensation. Moreover, if the Licensor accepts a continuation of royalties, will the royalty be higher, lower, or calculated in a different way?

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[503] The term of an agreement may also be extended by a *force majeure* event or the duration of a Licensor's breach which adversely affects Licensee's rights, including the development and distribution of the game. One issue that comes up with sports games is how the term (as well as compensation) is addressed if there is a strike and the start of a sport's season is delayed or a season is interrupted.

[504] While it is a good idea for a Licensee to ask for a term extension that can be exercised if the Licensee hits certain revenue numbers, a Licensor may want to consider other factors before considering an extension. For example, a Licensor may not have a good working relationship with the Licensee, or there may have been other problems between the parties, and therefore the Licensor may not necessarily want to continue working with the Licensee.

In some agreements (usually in exclusive deals), if the Licensee fails to exploit certain rights in a particular territory or within a certain period,[505] those rights either become non-exclusive or revert to the Licensor without any reduction in the guarantee.

4.3.7 – Licensing Fee

Other than the rights being granted, the costs associated with obtaining a license will be the most significant issue negotiated between the parties. For some licenses, the competition is intense, resulting in higher costs for the Licensee. The more rights requested by the Licensee, the higher the fees that the Licensor will require in the deal. The cost to obtain a license will vary but will largely be dependent on the factors below:

FACTORS INFLUENCING THE COST OF OBTAINING A LICENCE
• The type of property: if the game is based on a famous book or sequel to a blockbuster movie, the minimum guarantee and royalties will be higher since there will be less of a perceived risk of a game's commercial failure.
• Is the underlying property the sole basis of the game or one of many elements of the game?
• What is included as part of the property? For example, if it is a movie, in addition to including the story and characters, will it also include music, talent? If the game is based on a sports license, will it include teams, logos, players (typically negotiated separately with the player's union), numbers, sponsors, stadiums, jerseys including logos of the team and sponsors that appear on a jersey, and special events conducted by the league such as an All-Star game or tournament?
• Is there interest in the property from other potential licensees?
• What is the length of the term?
• Is the territory limited or worldwide?
• Which platforms will the game appear on and what are the forms of distribution?
• What is the projected revenue which may include such factors as the projected sales of the game based on the wholesale price, expected revenue from downloadable content and microtransactions?
• Is the licence exclusive or non-exclusive?
• What is the royalty structure (this could affect the advance and/or guarantee)?

[505] This could also include a situation in which a Licensee fails to continue providing additional content.

- Is a marketing commitment being requested that will impact a guarantee, advances, and the royalty percentage?

Except in a few instances (e.g., a cross-promotional deal), Licensors will request a minimum guarantee. This is a total, fixed minimum amount, that is guaranteed to the Licensor by the Licensee. The guarantee is an assurance that no matter how well or poorly a game does, the Licensor will receive at least that amount of money for the rights granted to the Licensee. In the event that the Licensee fails to reach the minimum guarantee payments through a combination of advance payments (which will most likely also be required by the Licensor) and royalties, then the Licensee must pay the shortfall near or at the end of the term.[506] If the Licensee is distributing across different platforms and/or in different territories they should try to negotiate that all revenues received will be used to recoup any guarantees paid to a Licensor even if separate guarantees were paid for different platforms and/or territories.[507]

If the property is a Secondary License, the parties could agree to a one-time payment to the Licensor. This possibility is preferable from an administrative standpoint for a Licensee since it eliminates the need to issue statements. However, it also adds to uncertainty for both the Licensor and Licensee in determining the value for the license and therefore the fee paid for the rights. A Licensee may be concerned that it has overpaid if the game does poorly, and a Licensor may feel that it was underpaid if the game exceeds expectations.

The minimum guarantee amount will vary depending on a number of factors, including the royalty structure, projected revenue, popularity of the license, the length of the term, and current market conditions. In many situations, the bargaining power of the companies will be the most significant factor. The Licensee may have great arguments on why the guarantee and other payments should be at a certain rate, but if other parties are interested in the same property, then the Licensor will have more leverage to negotiate more favorable terms. In some situations, especially when dealing with character integrations, the Licensee of a successful game may have more leverage since Licensors may want to be part of the game to take advantage of the huge fan base.

If the value of the license is dependent on any representations regarding future actions by the Licensor, the Licensee should try to secure written confirmation of those future actions in the agreement, although doing so may be difficult. For example, if the license is based on an upcoming movie, then the Licensee will want written assurances that the movie will be released on a certain date, as the game development schedule may be timed to the release. A Licensee may request a guarantee involving a marketing (i.e., advertisement spending) and theatrical distribution commitment (i.e., number of screens and which countries) for the movie. For a television show, the Licensee may request a guarantee that the show will be aired for a certain length of time on agreed-upon outlets in certain territories. If the Licensor fails to satisfy those guarantees, then there

[506] Some agreements may require that the Licensee pay any remaining guarantee a few months prior to the actual term ending since it might be easier to collect any outstanding payments.
[507] See Chapter 3 for a more detailed discussion on cross-collateralization.

should be a reduction of any guarantees or royalties and/or an extension of the term. Termination of the agreement would be an unusual remedy if the Licensee had invested in development costs although it would depend on the stage of development. Another option is that the parties agree to a liquidated damage clause whereby a Licensee would receive pre-determined compensation for the damage caused by the Licensor's failure to meet their release commitments.

The minimum guarantee is an advance on royalties that is usually fully recoupable and non-refundable. Unless the Licensor has breached the agreement the Licensor keeps any advances even if the Licensee is unable to recoup all of its advances. The minimum guarantee can be paid at various stages during the term triggered by either date(s) and/or event(s) that are all subject to negotiations.

The amount of the advance payments will vary and may be paid during different stages of the relationship. For example, payments may occur upon signing, during various stages of development, and/or upon the release of the game on a particular platform.[508] In addition to a minimum guarantee and probably advance payments, a Licensee will need to pay a royalty (i.e., a fixed fee which can either be a percentage of revenues or a specific dollar amount) for each unit of a game sold or manufactured (and/or each downloadable content/in-game item sold) based on net sales. Net sales will typically be defined as the gross revenues received by the Licensee from the exploitation of the game (e.g., sales of the game, microtransactions, downloadable content, any form of in-game advertising associated with the game, subscriptions) less allowable deductions.[509]

Royalty rates will vary depending on the rights requested, the popularity of the licensed property, and other financial commitments from the Licensee. Royalty rates may also vary depending on: (i) the item being sold (e.g., whether it is a boxed game, downloadable content or microtransaction); (ii) the platform, with royalties higher for platforms in which first-party fees are not applicable (i.e., PC games), and (iii) the means of distribution where there may be fewer costs to distribute, such as digital and mobile distribution. For instance, the royalty rate owed by the Licensee may be higher for games distributed on digital or mobile in comparison with retail, because there are no costs for manufacturing, although the distinction is becoming less relevant because of the high costs associated with user acquisitions (e.g., for advertising). Furthermore, royalties can vary during the term depending on the success of the game. For example, the parties agree to a sliding scale royalty rate with the royalty percentage increasing with greater sales or increased revenue**.** The parties may agree to a 10% royalty for the first $300,000 earned, increasing to 11% for revenue exceeding $300,000.[510] It is also possible that the parties will start with a higher royalty and decrease it as revenue hits certain benchmarks.

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[508] A Licensor should request an outside date if the game misses its scheduled release date, which was not caused by the Licensor or a *force majeure* event.

[509] In some agreements, when dealing with a retail product, Licensors may insist that the royalty rates should not be calculated based on revenue received but rather on all products sold, shipped, or distributed by the Licensee even if revenue is not received, thereby putting the risk on the Licensee in the event that a third party fails to pay (this would be associated with retail sales). Other issues that will need to be factored in when determining royalties will include units sold at discount and copies, subject to a possible cap, distributed for free to third parties.

[510] If a sliding scale royalty is used for retail sales, it is important to determine how those sales numbers will be calculated. Does it include any sale of a game at any price, or must the game be sold at a minimum price?

A major part of negotiations will involve how the royalty rate is calculated. All forms of distribution will involve deductions, and some will only be applicable to retail or digital, although most will involve retail sales. The Licensee will usually be permitted to deduct the following from gross revenues when calculating net sales: (i) actual out-of-pocket third-party service charges incurred in the distribution of the game (e.g., an app store or console manufacturer retains a certain fee for distributing the game on their platforms); (ii) sales taxes and shipping costs; and (iii) allowances such as price protection and returns, quantity discounts, refunds, rebates, chargebacks, and taxes (including withholding). Licensors will typically allow these allowances, but may also insist that they are capped, and anything over the cap would therefore not qualify as a deduction. Depending on the platform, certain deductions may not be permitted if they are not applicable when calculating royalties. For example, price protection, co-op marketing, sales commissions, cost of goods and quantity discounts would not be relevant for mobile distribution. However, at the same time, the parties might negotiate that the Licensee can deduct user acquisition costs, live-ops, and costs involving back-end support for particular platforms such as cloud computing.

In general, Licensors will not allow for the Licensee to deduct costs incurred in development, manufacturing, selling, distributing, advertising, uncollectible accounts, or currency conversions. As the costs for games increase, especially console games**,** this is an area that the Licensee may want to consider negotiating more aggressively in order to recoup some of these costs, especially when dealing with free-to-play mobile games and providing ongoing content. To date, it has been very rare for a Licensor to allow deduction of these expenses.[511] However, if a Licensee is required to commit to spending a certain amount of money on one of the Licensor's marketing initiatives for the underlying property, then the Licensee should negotiate for those funds or a percentage thereof to be deductible.[512]

4.3.8 – Statements And Audits

In all licensing situations involving royalty payments to the Licensor, the Licensee will be required to provide financial statements specifying the revenue generated from the sales of the game, the deductions permitted and the royalty payments due to the Licensor. The Licensee will issue statements at specified times (typically 30 to 60 days after the close of a quarter, which may be tied to a calendar or Licensee's fiscal) and concurrently pay any royalties indicated.

The information required in the statements will vary depending on the negotiations, but generally, the Licensee will need to specify (i) total revenue earned (gross revenues) from the exploitation of the license, which would include but may not be limited to the number of units sold (if retail is involved), revenue from microtransactions, downloadable content and advertising during an agreed period of time (e.g., quarterly), usually separated by country or territory (e.g., North America, Latin America, Europe, Asia); (ii) net receipts that show allowable

[511] Licensees might want to consider an additional deduction involving development costs for new content or alternatively try to get the Licensor to pay for some of the costs in return for a higher royalty (i.e., downloadable content).

[512] One possible scenario to consider is that the parties agree to split marketing costs and allow for a certain percentage of the costs to be deducted from revenue with the possibility of increasing the cap, subject to approval from both parties.

deductions from gross receipts, including but not limited to any advances paid to the Licensor, price protection, returns, withholding taxes; (iii) the distribution partners that may have distributed the game via a particular platform (i.e., mobile and digital distributors);[513] (iv) any monies spent on a marketing commitment if required by the agreement or if it can be deducted, and how the money was spent; (v) currency exchange rates, if applicable; and (vi) remaining guarantee amounts owed. In most situations, the Licensor will supply the template for the statement and will attach it as part of the license agreement.

Licensors typically have the right to audit the books and records of the Licensee to verify the accuracy of statements. While the Licensor should have the right to audit, it is important that the Licensee limit the Licensor's audit rights; if parameters are not set, the process can become very costly and time-consuming for the Licensee, even if the Licensee has properly reported to the Licensor. As a result, the Licensee will want to limit the number of audits that can be conducted by the Licensor (usually once a year); the location of the audit (usually the place of business of the Licensee); the time when an audit can take place (during normal business hours); when notice must be sent requesting an audit (10-30 days in advance); the length of the audit; and who can conduct the audit subject to the auditor also signing a confidentiality agreement.

It is important for the auditor to understand the video game business and the agreement entered into by the parties so that time and money are not wasted during the audit. Generally, a Licensee may require the auditor to be a Certified Public Accountant or to have a similar title (if the audit takes place outside of the US), to work for a major accounting firm, and not to be conducting an audit on a contingency basis.

An auditor will require that they have access to all books and records that may determine the royalty amount owed to the Licensor. This can result in a huge amount of documentation and therefore the Licensee should insist on narrowing the scope of the records the auditor can request. At the very least, prior to conducting an audit, the auditor should be required to provide a specific list of documents that may be requested for the audit to allow for the Licensee to compile the records and also to contest a requirement if they feel that the requested records are not relevant.

Furthermore, a Licensee should try to restrict the time period within which statements can be challenged and audited. For example, a Licensee might try to limit the right of a Licensor to contest a statement to one or two years. Anything longer than two years usually imposes an administrative burden on the Licensee, not only in terms of keeping the records, but also because relevant employees may leave a company, making it more difficult to accurately answer inquiries. The Licensee will want to include language indicating that in the event that a Licensor does not contest a statement within a certain period of time, the statement is deemed final and cannot be contested unless fraud was involved, in which case a statement can be questioned at any time.

The issues involved in contesting a statement can create further complications. If a mistake is obvious, it may be as simple as a calculation error and there should

[513] It is often good practice to attach a sample of a statement that both parties can agree on so there is no disagreement on what the Licensee reports in a statement.

be no problem with the Licensee paying the difference to the Licensor.[514] However, in most situations when a statement is contested it involves a discrepancy in the allowable deductions. As a result, resolving the issue becomes more of a challenge. At the very least, the Licensor's auditors must provide the Licensee with a copy of the audit report within a certain period of time explaining the accounting discrepancies and the Licensee must be allowed to respond to the alleged errors. Often, an explanation of how the net receipts were determined leads to a resolution. It is very important that any deductions taken by the Licensee are supported by proper documentation, or else they will be challenged by the Licensor's auditor and difficult to dispute.

If the parties are still in disagreement, they will have to discuss a settlement. Any disagreement that creates problems in the business relationship needs to be settled in a timely fashion. A disagreement could lead to termination and possibly litigation. If the parties need to settle a disagreement and avoid litigation, they might mutually agree on a third-party mediator. If the parties do reach an amicable settlement, the Licensee should obtain a release from the Licensor stating that no additional claims will be made against them related to the audited statements that were covered under the audit to avoid the threat of future litigation.

The audit provision will also specify who bears the cost of the audit, and, if necessary, costs associated with any dispute over the results. Generally, the cost of the audit is the obligation of the party conducting the audit, but it shifts if the audit shows that a mistake had been made that exceeds a certain percentage (usually 5 to 10 %) of the difference between what was paid and what was owed.

If the Licensee is responsible for the audit, then they should try to negotiate limitations on their responsibility for the costs of the audit. First, the Licensee will want the rate to be as high as possible to trigger the Licensee's obligation to pay for the audit, and they should also insist that the mistake meets a certain minimum dollar amount. For example, the parties could agree that the Licensee will pay for the audit in the event that an accounting mistake is 10% or more on what was reported in the contested statement, provided that the mistake is at least $5,000. If the mistake only amounts to $3,000, then the costs would be borne by the Licensor. In addition, the parties need to determine which audit costs will be covered. Costs should be actual and reasonable expenses that may be incurred by the auditor. These costs can include the auditor's reasonable professional fees, as well as reasonable travel and lodging expenses.

4.3.9 – Ownership Issues

While the Licensor owns the IP provided to the Licensee, the Licensor also typically requires that any materials derived from the original property are also owned by the Licensor, whether they are created by the Licensee or by any personnel or third parties on behalf of the Licensee. For example, even if the Licensee has created new characters and/or stories for the game, the Licensor

[514] Unless there is a legitimate or *bona fide* dispute regarding an amount owed to the Licensee then the failure by the Licensee to pay royalties on time will require the Licensee to pay interest on the amount owed. Typically, agreements will include language on what the interest rate will be if payments are late. There can be situations in which the auditor uncovers a mistake that is favorable to the Licensee. In that situation, the Licensor should repay any monies overpaid by the Licensee or provide a credit against future revenues that might be earned by the Licensor, if applicable.

will claim ownership of those creations. As a result, the Licensor will often include language in the agreement indicating that the work created by the Licensee will be a 'work for hire', which is a US copyright concept whereby in this situation, the Licensor rather than the Licensee owns the work pursuant to the license agreement (though as discussed in Chapter 2, this does not always apply and alternative language may be needed depending on the jurisdiction in question).

In the event that work has not been done as part of a work-for-hire arrangement or has not been recognized, then the Licensee would be required to assign (i.e., transfer) all of their rights to the IP they created to the Licensor, perpetually and throughout the world. If there is any doubt that a work-for-hire clause and assignment may not be recognized, the agreement may also have language that provides for a perpetual royalty-free worldwide license to the Licensor. In all of these situations, the Licensor will usually be free to use the materials created by the Licensee by any and all means without further compensation to the Licensee even after the expiration of the term. That said, as it becomes more common for Licensees to create original content based on the underlying license, they should at least try to negotiate some form of compensation. The way in which the Licensor uses the content created by the Licensee (e.g., how they incorporate a character into a film or the production of merchandise) could determine the form of compensation, whether it be royalties or a fee.[515] In addition, if the Licensor was to use the new material created by the Licensee, then the Licensee would want to prohibit the Licensor from licensing the content to another gaming company for a certain period of time.

While the Licensor will own all of the derivative IP created from the underlying property, the Licensee will still own any of the source code and tools used to make the game that they created or licensed.[516] It is important for the Licensee to maintain ownership or control of this IP for future projects. Since the Licensor is usually not in the business of making games, this should not be an issue.

4.3.10 – Representations And Warranties

For the Licensee, the representations and warranties are critical because without these guarantees associated with the licensed property the Licensee would be taking on unknown risks in its attempt to exploit the property. The Licensor will also require reciprocal representations and warranties from the Licensee involving the distribution and marketing of the game and any new materials created by the Licensee.

The Licensor is in the best position regarding knowledge about ownership issues and, in most situations, the Licensee is paying a minimum guarantee and/or royalties based on these assurances. Consequently, the Licensee should insist that the Licensor provide the necessary representations and warranties to the Licensee to allow them to develop and distribute a game without any concerns about possible litigation involving infringement related to the materials and rights

[515] It may be challenging to determine how a Licensee would be compensated since this will vary depending on how the Licensor uses the content created by the Licensee. For example, if the Licensee uses a character as an important part in an upcoming movie, should the Licensee receive a royalty or a fee that might be comparable to what a writer on the movie would receive, potentially including a flat fee with a possible back-end royalty? If the same character is instead used in a small role, then perhaps the Licensee would receive a one-time fee. However, if the same character was used in merchandise, then the Licensee should ask for a royalty which should be calculated differently from a royalty based on revenue for the movie.

[516] The Licensee cannot assign source code and tools licensed from the console manufacturers and third parties.

delivered by the Licensor. While Licensors will try to limit their exposure, the Licensee must at the very least obtain the following representations and warranties involving the IP:

1. The Licensor either owns or controls the rights being licensed to the Licensee to allow the Licensee to exploit the licensed property pursuant to the agreement. The Licensee does not want to be in a situation in which another party claims rights to the licensed property since this could result in litigation and a demand to stop development or distribution of the game.

2. The licensed property does not violate the rights of any third party including the rights to copyrights, trademarks, rights of publicity, privacy, or patents (although patents are not typically relevant in the licensing of entertainment or sports content, though they would be relevant for software licenses).[517]

3. There is no pending or threatened litigation involving the licensed property that would affect the Licensor's grant of rights and other obligations, and the Licensor's actions will not violate any third-party agreements. If there is litigation that might affect the game's development or release, then the legal risks may not justify the potential financial benefits.

If the license involves a property based on a television show or movie series, the Licensee may also request a representation that the Licensor will continue to exploit the property for a certain period of time. This could include confirmation that a new television series or film will be released within an agreed-upon period during the term.[518]

The Licensor will also request representations and warranties from the Licensee, including that the game and any elements contained in the game such as software, and music (other than music and IP that may have been provided by the Licensor) used in the development of the game, as well as any marketing materials, do not infringe on the rights of any third party. This provision will include infringements involving copyrights, trademarks, patents, privacy and publicity. This provision is the most significant for the Licensor since they usually will have greater resources and will therefore be named as a party in any IP lawsuit involving the game, even if the licensed property is not the subject of the litigation. The fact that the Licensor is associated with the game might be enough for a third party to also initially make a claim against them.

The Licensor may also require the following additional representations and warranties, but the Licensee should keep them as narrow as possible to avoid disputes over their interpretation. If the Licensee is required to agree to the representations and warranties below, and in most cases, they will be, the Licensee should think about whether any of them can be mutual, whether a 'best

[517] Licensors will seek limitations on this absolute representation and warranty conditioned upon Licensor's approval with regard to rights and exclusions to any alterations to the licensed property, whether approved or not by the Licensor.

[518] In 2003, Activision sued Viacom, the owners of the *Star Trek* property**,** claiming that Viacom failed to promote and maintain the quality of the franchise by only releasing one new film and removing two television shows from the air decreasing the value of the five-year license. Bramwell, Tom, "Activision Sues Viacom Over Lack of Decent Star Trek", *gameindustry.biz*, July 2, 2003. The parties settled their disagreement out of court. Jenkins, David, "Activision, Viacom Settle Star Trek License Lawsuit", Gamasutra, *gamedeveloper.com*, March 14, 2015.

of knowledge' qualifier can be applied, and whether they can be limited by a period of time and territory.

1. There is no pending or threatened litigation against the Licensee that will preclude them from fulfilling their obligations.
2. The Licensee is a validly existing legal entity, whether a corporation or limited partnership, and the party signing the agreement has the authority to sign on the entity's behalf.[519]
3. The game is of a high quality. This is a very subjective standard and therefore, the Licensee should try to eliminate it provided that the Licensor has approval rights or instead represents that the game will be of similar quality to another game with a similar budget on the same platform developed by the Licensee, assuming that is an option.
4. It will not harm, misuse, or bring into disrepute the licensed property (although this can also be highly subjective, and provided that the Licensor has approved materials it should be considered eliminated from the agreement).
5. It will not incur any costs chargeable to Licensor unless approved by the Licensor in advance.
6. It will comply with all laws and regulations involving the development, sale, marketing, and any other form of exploitation of the game and/or will not violate any third-party rights (without any specification as to the nature of these rights). This is also very broad language and can cover privacy (i.e., data collection), consumer protection, advertising and labor laws and other regulatory issues. The licensee should try to narrow this down, especially if the rights are worldwide, by limiting it to territories where the most revenue is projected or by adding 'best of knowledge' language, although this is likely to be difficult.
7. It will maintain adequate arrangements for the distribution of the game throughout the territory. Originally drafted to ensure that Licensees sustained sufficient inventory at retail, it could also be important in providing a guarantee to the Licensor that the Licensee will enter into deals with agreed-upon digital or mobile distributors.
8. An agreed-upon rating to assure that the game will not include content that is inappropriate for the Licensor's suggested audience.
9. There are no material defects, viruses, worms, Trojan horses, time bombs, or hidden content (e.g., Easter eggs) that may negatively affect the game or change a rating. This provision is unique to video games since a Licensor does not want to be the subject of bad publicity in the event that unknown and/or damaging elements are hidden within the game or downloadable content.
10. It will fulfill all obligations and requirements of any third-party agreement entered into including hardware manufacturers (e.g., Sony, Apple) and distributors.

[519] If the person signing an agreement on behalf of a corporation does not have the authority, then the corporation will not be legally bound.

11. It will maintain proper insurance as required by the agreement throughout the term.

Furthermore, the Licensor will probably require the Licensee to use commercially reasonable efforts to release the game on a minimum of one platform (if multiple platforms have been licensed) on an agreed-upon launch date, and may even insist on a marketing commitment.[520] If the Licensee is required to agree to any of these requests then they should add language absolving themselves of this obligation if it is the result of any delay in the Licensor's fulfillment of any of their obligations, including the delivery of materials and timely approvals under the agreement.[521]

4.3.11 – Indemnification

While each party will be required to make representations and warranties, the parties will also need to indemnify each other (as the indemnifying party) for their actions or failure to act in breach of the agreement that results in any claims made by a third party against the non-breaching party (the indemnified party).

In almost every agreement involving indemnification, the same concerns that arise with the developer and publisher relationship as discussed in Chapter 3 also need to be addressed in any licensing agreement, including:

1. Determining which claims will be covered under the indemnification;
2. Determining which costs the indemnifying party will be responsible for, including but not limited to third party damages, (reasonable) legal fees, court costs, and settlements;
3. Determining when payment will be owed (e.g., after a final judgment of a claim, after appeals have been exhausted, when legal fees are incurred);
4. The extent of the indemnified party's involvement with a claim, including participating in the defense or even taking over the defense;
5. When notice must be provided to the indemnifying party of a claim; and

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[520] In many licensing agreements, the Licensor will also require the Licensee to agree to a marketing commitment to be mutually agreed upon by the parties which provides a guarantee that the Licensee will spend a certain amount of money on marketing initiatives. The amount might either be a fixed sum or a percentage based on projected revenue of the game (e.g., five percent of projected net revenues). Projected revenues can pose a problem for the Licensee if dealing with free to play and if revenue far exceeds actual revenue and there is not enough revenue to recoup marketing costs. Marketing initiatives could cover marketing involving television, print, internet, events, etc. If the Licensee agrees to this then the Licensee should tie this into the overall consideration paid to the Licensor, although hopefully the marketing dollars will eventually help both parties by increasing awareness of the game, which should result in greater sales. A higher marketing commitment might result in reduced royalty rates or a minimum guarantee. The parties will need to negotiate what marketing opportunities the money will be spent on, when the money will be spent (usually within the first few months of a game's release), and in which countries the money will be spent. In some situations, the Licensor will want some money allocated to marketing programmes initiated by the Licensor, for example, the sponsoring of a Licensor event. This should only be agreed to if it will help drive sales and awareness.

[521] A Licensor should require that the Licensee provide the Licensor with notifications informing them of any government or legitimate consumer complaints that might lead to litigation or governmental action, or may affect the reputation of the licensed property, and how the Licensee plans to deal with the potential issue(s). This can include issues such as IP, privacy, monetization, advertising, and ratings.

6. How settlements will be handled. Parties will attempt to limit their indemnification obligations by limiting the claims that may be covered under the clause, type of damages, and the amount of damages.[522]

Because of the increased threat of litigation involving video games and concern by Licensors that Licensees may not have the funds necessary to defend against potentially costly litigation, Licensors typically require Licensees to obtain Errors and Omissions ("E&O") insurance to protect against these risks.[523] In addition, Licensors may also require that Licensees maintain product liability insurance, comprehensive general liability, and possibly data security and advertising liability insurance.[524]

E&O primarily insures against claims associated with unauthorized use of copyrights and trademarks, invasions of publicity and privacy, and defamation. If the Licensee has obtained E&O, and a claim is made against the Licensor, the insurance company would be responsible for a certain amount of the damages or settlements incurred regarding the litigation, subject to the deductible and amounts covered under the policy.[525] In this case, the insurance company also has the right to help determine the Licensee's legal representation.[526] For example, the Licensee and the Licensor are sued for an alleged copyright infringement involving the game that is separate from any of the materials provided by the Licensor. Under a typical indemnification provision, the Licensee would be responsible for defending the case and paying for any and all damages or settlements. Assume that the claim is for $300,000 and the Licensee's policy covers up to $500,000 for any single claim and $1 million for all claims with a $100,000 deductible. In this case, if we also assume that the Licensee settled for $150,000 then the Licensee would be responsible for paying $100,000, which covers the deductible, and the insurance company would pay the remaining $50,000 in addition to any legal costs.

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[522] See Section 4.3.13 on termination rights.

[523] Within a certain period of time (usually 30 days), the Licensee will need to provide proof of insurance coverage to the Licensor by submitting a certificate of insurance outlining the insurance coverage and naming the Licensor as an additional insured party and possibly a beneficiary. As mentioned previously, a party receiving a certificate should also ask for a copy of the policy to confirm that it accurately covers the insured parties per the agreement, since a certificate may not provide some critical information. The Licensee should also require that the Licensor has E&O coverage.

[524] For further information on what is typically covered under data or cyber security insurance, see Brook, Chris, "What is Data Breach or Cyber Security Insurance?", *digitalguardian.com*, December 4, 2018.

[525] There are typically two types of limits related to E&O policies. One is for each claim and the other is for all claims combined. Standard policies in the US will have limits of $1 million/ $3 million. The first number is the limit per claim and the second number covers the limit on all claims under the policy. Therefore, the insurance company will not pay out any amounts exceeding $1 million for any one claim under a policy of $1 million/ $3 million. In addition, an insured party must understand how the policy is written and whether it is a claim- or occurrence-made policy, since this will impose an additional restriction. Under a claim-made policy, the policy will only cover claims made during the policy period. For example, if the claim policy runs from January 1, 2022, to January 1, 2023, and a claim is made against the insured on February 1, 2023, even if an alleged copyright infringement occurred in December of 2022 then the policy will not cover the claim. As a result, it does not matter when the infringement occurred. In contrast, under the occurrence-made policy, the policy does not go into effect when the claim is made but when the event that gave rise to the claim occurred. In the above example, if the insured had an occurrence-made policy then the alleged copyright infringement claim would have been covered under the policy. See Gerges, Ted et al., *Counseling Content Providers In The Digital Age*, New York State Bar Association, 2010, pp. 281-291.

[526] As part of the E&O policy, insurance companies will usually want to direct the insured party to the law firm that will represent the Licensees since the insurance company wants to ensure that the law firm is knowledgeable and capable of defending a claim in the jurisdiction in which the claim is brought, and their fees are within the insurance company's range. However, this issue should be discussed, addressing whether the policy would alternatively allow the policyholder to work with a firm of its choosing. See Section 3.2.16 for additional information on insurance.

E&O may not be easily available for Licensees in certain territories, and both the Licensor and the Licensee should carefully assess whether the policies that insurance companies offer in the relevant market actually meet their needs; otherwise the Licensee may simply end up spending a lot of money for nothing.

4.3.12 – Approvals

Another standard provision of the agreement will be the right of the Licensor to approve all materials involving the licensed property which will include the game, additional content, marketing, packaging, publicity materials, music and possibly even the voice-overs used for the different languages included in the game.[527] The Licensor might also have approval rights over the distribution and sales strategy of the Licensee, including how the Licensee plans to make money with downloadable content and microtransactions. Approval language will appear in every licensing agreement but, depending on the license granted (e.g., Primary License or cross-promotion), the extent of approval will vary from agreement to agreement. Since games based on an underlying property may be released in conjunction with a particular event such as the release of a movie or the start of a sport's season, the Licensee must be careful to build in enough time for the Licensor to review and approve the various submitted elements involving the game to avoid potential delays. Furthermore, if a game includes a number of licenses then the Licensee needs to manage their time carefully to provide themselves with enough time to obtain approvals.[528]

In most relationships, the Licensor will require prior written approval over all materials involving the game and any subsequent game content released. The Licensor needs to protect the integrity and value of their copyrights and trademarks and wants to make sure the game is consistent with the direction of their property. Although they should understand the risks, and most do since many have already been associated with some type of video game, Licensors do not want to be in a position where a game is of poor quality, as this could undermine the goodwill and value built up over the years by the Licensor. While the possibility will always exist because of challenges in development, the Licensor will want to reduce its risks. It is therefore standard for them to request broad approval rights. Furthermore, as some Licensors allow Licensees to expand on their IP with the creation of new storylines, characters, trademarks, and environments, the Licensor will want to have approval of all of these elements.

Typically, a Licensor will require a fixed number of days to approve any materials submitted. The amount of time will vary depending on the bargaining position of the parties and can be anywhere from 5 to 30 days depending on the item being submitted for approval. For example, reviewing the game towards the end of the development cycle will involve more time to review as compared to reviewing a press release. In addition, parties could even agree to reduce time periods under

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[527] The Licensor will require the Licensee to include the company's logo, trademark and copyright notices, and possibly a URL address for the Licensor's website and in the game, downloadable content, and any other materials publicly released. The extent of the notice might vary depending on the material released and space limitations. Generally, the Licensee's style guide will include information on the various notices required and how they should appear.

[528] For some Secondary Licenses, a Licensee might try to avoid obtaining approvals and instead represent and warrant that the use of the license will not disparage the Licensor and that the use of any of the Licensor's IP will be treated equally to that of other similar secondary licensors.

certain circumstances that may require immediate responses to prevent losing an opportunity, perhaps in a sales or marketing situation (e.g., showcasing a game on the app store).

The Licensor might require additional time because of the number of parties involved in the approval process. A movie license, for example, may need approval from the people working on the video game that might be very different from the approval by the people associated with the movie which is the subject of the license. Unfortunately, this puts an extra burden on the Licensee and, given that there is potential for a negative impact on the Licensee, it is critical to try to lock in very specific time frames for approval. In addition, a Licensee should consider adding language to the agreement that places an obligation on the Licensor to obtain timely approvals from third parties involved with the licensed property (i.e., approvals or reasons for rejection must be done within the agreed-upon approval period).

Although it might be difficult to obtain, a Licensee should try to get a concession from the Licensor that if the Licensor fails to respond to an approval inquiry within the allocated time period, the materials are deemed to have been approved.[529] Otherwise, the Licensee could be waiting for an excessive period of time, which would create uncertainty in moving forward with game development and the release of the video game, which would not be in the best interests for either party. Furthermore, the Licensor will require that, following approval, the Licensee cannot depart from the approved item without first obtaining additional approval from the Licensor.

In a perfect scenario, materials are submitted to the Licensor for approval and the Licensor approves the materials within the allocated time period. In the event that the materials are rejected, then the Licensor must provide clear and precise written explanations of the reasons behind the rejection so that approvals can later be obtained based on the Licensor's feedback. It is in the interests of both parties for the Licensor to be involved early on in the development process, so that they understand the direction of the game and how the license will be incorporated into it, in order to avoid any surprises that could lead to delays and increased costs. It is most likely that the Licensor will already be aware of the game's direction, as this would most likely have been part of the initial discussions to determine whether to form a relationship.

One way in which the Licensee can avoid potential approval-related delays is by including language in the agreement stating that once materials have been approved, they cannot later be disapproved during a subsequent submission provided they have not been altered. This is significant since the Licensee will be relying on the previous approved milestones, and an unexpected rejection of a milestone involving previously approved materials whether in the game or as part of marketing materials will result in potential delays and increased costs for the Licensee. A Licensee must receive in writing all approvals from the Licensor so there can be no disagreements in the future. Also, materials approved for one

[529] Many agreements will include language indicating that if the Licensor fails to respond within the approval period, then the submission is deemed not have been approved. The Licensee should try to delete this language or at the very least include language that provides for some additional response by the Licensor. For example, if the Licensor fails to respond with reasons for its disapproval within seven days of a subsequent follow-up by the Licensee, then the submission is deemed to have been approved.

territory should be deemed accepted for other territories unless material changes have been made.

The Licensor might add language to the agreement that states that their approval of a submission does not include approval of any third-party rights and that even though the Licensor may approve materials other than the materials created by the Licensor, in the event of any legal action the Licensee will still be required to indemnify the Licensor. Subject to approval rights regarding the game and marketing materials, the Licensee should have the right in its sole, reasonable, discretion to determine the logistical aspects associated with the distribution, marketing and sales of the game, including the channels of distribution and pricing of the games and any additional content.

WAYS THAT A LICENSEE CAN REDUCE ITS RISKS REGARDING APPROVALS:
• Deeming materials to be approved in the event that they have not been approved by the Licensor within a certain time period.
• Applying different approval time periods depending on the materials submitted and the possibility of reducing time periods subject to mutual agreement in the event that an opportunity requires a faster turnaround.
• Ensuring that previously accepted materials cannot be rejected at a later date unless materially altered.
• Ensuring that materials accepted for one territory do not need to be approved again for another territory unless material revisions have been made to the previously submitted items.
• Requiring the Licensor to designate a representative responsible for submissions and approvals.

4.3.13 – Termination Rights

In certain situations, a party will have the right to terminate the agreement because of the failure of one party to fulfill and/or perform its obligations. Typically, the non-breaching party will be allowed to terminate the agreement in the event of a material breach of the agreement if the breaching party fails to cure the breach within a certain period of time following written notification (known as the ‘cure period’). Most licensing agreements will tend to have more scenarios allowing the Licensor to terminate the deal because of the greater obligations imposed upon the Licensee.

The primary material breaches for the Licensee, which would also include any of their sub-licensees,[530] might include: (i) breach of representations or warranties by the Licensee; (ii) failure to pay any monies owed to Licensor when due, whether royalties or advances; (iii) failure to fulfill any marketing commitment; (iv) failure to obtain approvals; (v) failure to issue statements; (vi) continuing breaches even if cured; (vii) failure to maintain proper insurance; and (viii) failure to complete or release the game which can include failure to be certified by a platform holder within a certain period of time. However, a Licensee should try to avoid committing to a specific release date for the game, if possible, because problems could occur in development (some which may be caused by the Licensor). The agreement should also include language indicating that the Licensor could be in breach of the agreement, which could be caused by breach of their representations or warranties or failure to perform any of its obligations, including timely approvals.

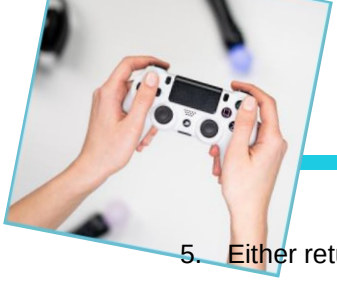
In order for a party to claim breach, the non-breaching party should first provide written notice of the material breach and if the accused breaching party fails to cure within the cure period, then that party will be deemed to be in breach. Cure periods may vary depending on the type of breach. Failure to pay an advance may have a 10-day cure period, while a breach involving a representation and warranty may have a 30-day cure period. Furthermore, cure periods may be based on business days or calendar days. In some situations, because of the type of breach, there may be no possibility of a cure period. For example, if the Licensee becomes insolvent, or is unable to pay its debts when due, or makes an assignment for the benefit of creditors, or files a petition in bankruptcy, then the agreement would typically terminate immediately (provided this is possible under applicable law, which may not necessarily be the case outside of the US). However, what happens next will depend on applicable law and the bankruptcy court.

The termination language in the agreement will also include the remedies that may be sought by the non-breaching party. Clearly, termination for breach can have significant ramifications for both parties. Therefore, it should not be taken lightly and should be avoided, although that is not always possible depending on the severity of the breach. For example, even the non-breaching party will have to commit time and money to dealing with the breach and missed opportunities if a game is not released.

For the Licensee, depending on the type of material breach and when it occurs, the Licensee may have to:

1. Stop development or stop the distribution and exploitation of the game;
2. Accelerate payments upon termination if any advances or guarantees are owed;
3. Provide a final royalty report for sales of the game;
4. Return all materials delivered by the Licensor and created by the Licensee, except for any materials that they retained rights to including source code and development tools; and

[530] Licensees will be liable for any breaches by their sub-licensees and will also be required to indemnify the Licensor against any third-party claims arising from such a breach.



5. Either return any remaining inventory or destroy the physical units of the game and provide proof of destruction if there is a retail version.

The Licensor may also seek additional damages such as lost profits depending on agreed-upon limits on liability due to termination for material breach, as well as the right to injunctive relief.

Under certain conditions, such as an infringement involving a copyright or trademark, the Licensor might seek a preliminary injunction against the Licensee. This could result in the immediate termination of any exploitation associated with the game subject to a court order.[531] This can happen if the Licensee releases the game without the Licensor's final approval, or if the Licensee sells the game beyond the term or in an unauthorized territory. If an injunction is granted, the Licensee might be required to immediately remove all games from the market in the territory in which the injunction was granted. This is a difficult and costly requirement, especially if a retail product is involved with which the Licensee will have to comply in order to avoid further damages. Because injunctive relief is an extreme remedy and, in most jurisdictions, requires a number of preconditions in order for it to be granted by a court, contracts will typically include language whereby the parties acknowledge certain facts, making it easier for a party to obtain injunctive relief.

The agreement will usually include language indicating that: (i) a Licensor has the right to seek injunctive relief (this would be true in many jurisdictions even without the contractual language); and (ii) the Licensee acknowledges that in certain situations in which injunctive relief is sought, a material breach would result in irreparable or immediate harm to the Licensor, and that monetary damages would not remedy the damage. By including such language in the agreement, the Licensor will find it easier to prove to the court one of the main conditions for granting an injunction since the Licensee will have acknowledged that the material breach has caused irreparable harm. In addition to showing irreparable harm, in most jurisdictions the Licensor will also have to prove to the court that there is a likelihood of success on the merits.

If the Licensor materially breaches the agreement depending on when the breach occurs, the Licensee should seek a return of any advances or royalties paid (even though doing so may be difficult). In the case of a Primary License, they should also seek a return of development costs if the game would not have been developed if not for the underlying licensed property. It is most likely that disputes involving the return of revenue will result in litigation and be determined by a court or arbitrator depending on how the parties have elected to settle disagreements.

A major clause associated with termination for a material breach and remedies is a limitation of liability. This limitation is typically tied to the type of damages that may be awarded and the amount that can be claimed by the non-breaching party. For example, a party may not claim damages that are consequential (i.e., loss profits), special, incidental, indirect, or punitive (i.e., damages awarded as punishment for the actions of the breaching party to serve as a deterrent for

[531] In the US, the party seeking injunctive relief must show that they will suffer irreparable harm if equitable relief is denied. For cases in which money damages are adequate to remedy the problem, injunctive relief will not be granted. For an example of injunctive relief dealing with confidential information. see *Delphine Software International, S.A.R.L. v. Electronic Arts Inc.*, 99 Civ. 4454 (AGS), 1999 U.S. Dist. LEXIS 12629, S.D.N.Y. August 18, 1999.

future activities). The parties may also set limits on the total amount of damages, which is generally tied to the amount of revenue either received by or paid out by the breaching party over a period of time. The Licensor most likely will require that the amount of damages it would be liable for in the event of a breach would be capped by the amount of money it has received for a specific period (e.g.,revenues received during the preceding year from the alleged breach). A Licensee's exposure would be capped by the amount of money it paid, whether as advances or royalties, to the Licensor, and possible monies owed (i.e., guarantees). Like the Licensor, the Licensee will want to limit this to a certain time frame. Otherwise, the damage limitation could include the guarantee, which may or may not have been met at the time of the breach.

If there is a cap (and typically there is), the amount needs to be carefully considered depending on the type of damages that a party may be exposed to or could be awarded. For example, a Licensee may suffer significantly more monetary damage than the amount of money that it paid to the Licensor prior to Licensor's breach, especially if development costs are factored into the damages.

The limitation of liability should not be absolute, and the parties will carve out exceptions to the limits, although they may vary. In certain jurisdictions, limitation of liability clauses require additional formalities to be valid and claims such as fraud and gross negligence would not be limited. In most agreements, the limitation will not cover breaches of the confidentiality (including data leaks) provision or either party's obligations under the indemnification clause. A breach of confidentiality could reveal valuable trade secrets whose value may exceed any potential compensation. In addition, a non-breaching party does not want to be responsible for possible damages for any awards or settlements under the indemnification provision that exceeds any cap under the limitation of liability.

The parties could also agree to a set damage award in the event of a breach by one of the parties, referred to as a liquidation clause. This liquidated damage clause would set a fixed amount of money for any damages incurred by the non-breaching party for a particular type of breach. However, the amount must be a fair amount and cannot serve as a penalty against the breaching party (since under the law of many countries, penalties are liable to be challenged and can be held as unenforceable if they are clearly excessive). However, if a liquidated damage clause exists that would be triggered by a particular event, injunctive relief would be inappropriate in that situation since that parties have determined that a monetary amount could cover the damage incurred by the non-breaching party. Both parties need to be careful when reviewing the language relating to the limitation of liability. Often, drafters (although more common with Licensors) may only apply limitations to the party they represent, or if there is reciprocal language, it may only apply to certain situations.

In addition to termination for material breach, the parties may agree to allow the Licensee to terminate for convenience. In this scenario, the Licensee decides to terminate the agreement even though no party has breached the agreement. Instead, a Licensee may feel that the game they are working on is not up to the standards they had hoped for, or that the economics do not justify the continuing development or release the game. By terminating the agreement, the Licensee is reducing their losses which can include development, manufacturing, marketing, and future licensing fees, whether in additional guarantees and/or royalties. If the Licensor were to allow for a termination for convenience, thereby

agreeing to possibly waive some of the consideration that may be owed to them at a later date, then the Licensor would need to negotiate a final fee which would most likely be less than the amount required under the terms of the agreement.

4.3.14 – Expiration Of The Agreement

Language will be included in the agreement covering each party's obligations upon the expiration of the term. Unlike termination of the agreement, in this situation the term of the agreement has expired and neither party has breached the agreement. Since retail games may still be on the market, the Licensee will want to include language in the agreement which allows for the Licensee, on a non-exclusive basis (even if the parties have entered into an exclusive relationship), to sell off the remaining retail product inventory in any of the distribution channels permitted under the terms of the agreement. This right, which will be at the sole discretion of the Licensor, will generally be granted by the Licensor provided that the Licensee: (i) is not in breach of the agreement; (ii) accounts to and pays any royalties owed to Licensor from sales during the sell-off period, although typically these sales would not be applied to any shortfall of the guarantee; and (iii) does not manufacture any new games during the sell-off period (only applicable for retail sales). The sell-off period may vary depending on the platform and the length of the term. Typically, sell-off periods will range from 60 to 90 days for retail products, but as terms get longer the sell-off period may do the same. Nonetheless, it most likely that the sell-off period would be shorter for other forms of distribution (i.e., digital) since the removal of games can be done in a shorter period of time.

4.3.15 – Miscellaneous Provisions

Finally, the agreement will also contain common terms (see Chapter 12) that appear in all agreements (referred to as 'boilerplate' provisions), such as confidentiality, how disputes will be resolved, law to apply, where a legal proceeding between the parties can be heard, *force majeure*,[532] notices, sub-licensing and assignment.[533] Although the language looks similar in many agreements, it is very important to review it carefully to ensure that nothing unexpected is included in the section.

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[532] Some Licensees, including a few in the video game industry, have invoked the *force majeure* clause to terminate deals as a result of the coronavirus pandemic. See Section 12.8 for a discussion on *force majeure*.

[533] The right to sub-license may vary by jurisdiction, but it is typically permitted by courts in the US even in the absence of any related language in an agreement. As a result, it is common to see specific language restricting the Licensee's right to sub-license without the prior approval of the Licensor. Licensees may need to use sub-licensees to help with distribution in certain countries where the Licensee may not have connections and expertise. Typically, a Licensor will approve the use of sub-licensees provided that the financial arrangement does not reduce the Licensor's share and that they honor the contractual obligations and restrictions agreed to by the Licensee.
Licensors will prohibit the Licensee's right to assign the agreement without their prior written approval, which will typically be at the Licensor's sole discretion. The reasoning behind this is that the Licensor entered into the relationship with the Licensee for a number of reasons, including their belief that the developer has the talent and resources to develop and distribute a high-quality game and therefore wants to continue working with them. However, in some situations, a Licensor may approve an assignment, but it may be subject to some additional concessions. At the very least, the assignee will need to fulfill the original contractual obligations. A Licensor might also require additional financial benefits, including an increase in the guarantee or the royalties, or both.

4.4 – Music

Music[534] has always been part of the video game landscape, evolving from the 8-bit jingle of *Super Mario Bros.* to today's fully orchestrated versions. With the continuing improvements in platform and distribution technology, music has taken on unprecedented significance in how it is used in games, and the way in which games are developed and played.[535]

Music has not only enhanced the gaming experience; it has also created a new format to distribute music, providing additional revenue and exposure for artists, songwriters, composers, music publishers and music recording labels, ranging from the introduction of new groups and songs to in-game concerts.

Many games have soundtracks of cinematic quality with full orchestras. The music for several games has been composed by famous film composers,[536] and many video game composers have become just as famous and have subsequently worked on films.[537] Music from games has also spawned live concert events across the world including some at iconic venues such as the Royal Albert Hall in London and The Hollywood Bowl in California.[538] During the opening ceremonies of the Tokyo Summer Olympics, athletes heard music from video games including *Final Fantasy XIII*, the original *Sonic the Hedgehog*, *Monster Hunter*, *Kingdom Hearts*, and *Chrono Trigger*.[539]

The type of music that will be used in a game will depend on a number of factors including the budget, the developer's vision, and the intended use of each piece of music.[540] Music for games primarily involves pre-existing music that is licensed and/or original scored music whereby a composer is either hired to provide work-for-hire services, or licenses scored music to the developer.

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[534] Every piece of music consists of two separate copyrightable interests: (i) the composition (which includes the lyrics, notes, orchestrations, and arrangements), and (ii) the master sound recording (which is the actual recorded version of a particular composition). Unless otherwise noted, the use of the term 'music' in this section will denote both the composition and the master sound recording.

[535] Throughout the 1970s and up until the mid-1990s, there were memory and disc space limitations which severely limited the amount of music in games. With the introduction in 1994 of the CD-ROM game discs for the Sega Saturn and Sony PlayStation in Japan (which allowed for more music and provided CD audio quality), music, whether composed or licensed, came to play a more important role in game development.

[536] Hans Zimmer, who has composed over 100 film scores including *Rain Man*, *The Lion King*, *Gladiator*, *The Dark Knight Rises* and *Dunkirk* has scored multiple games, including *Modern Warfare 2*. "Hans Zimmer Discography", wikipedia.org. Bear McCreary, who has composed numerous television shows, including *The Walking Dead* and *Outlander*, also composed the *God of War* video game soundtrack. Ramin Djawadi composed the scores for *Iron Man, Game of Thrones,* and the video games *Medal of Honor*: *Warfighter* and *Gears of War 4.* Danny Elfman, the composer for many of Tim Burton's films and former member of the musical group Oingo Boingo, has also composed music for games. "Danny Elfman is Well Known For His Work as a Film Composer and Front Man of the Rock Band Oingo Boingo", *giantbomb.com*.

[537] See Stuart, Keith, "'Mozart Would Have Made Video Game Music': Composer Eímear Noone on a Winning Art Form", *theguardian.com*, October 22, 2019. For a history of music in games including a list of some of the top composers, see Aska, Alyssa, "Introduction to the Study of Video Game Music", *lulu.com*, 2nd ed., 2017.

[538] Halder, Arwa, "Why Video Game Concerts Are a Growing Phenomenon", *ft.com, September 29, 2019*.

[539] Park, Gene, "The Music for the Tokyo Olympics Opening Ceremonies? It Comes from Video Games", *washingtonpost.com*, July 23, 2021. A number of radio stations dedicated to video game music have joined the airwaves and the music service Spotify has a separate music gaming category which includes original compositions and soundtracks from games. Some songs have been accessed more than 25 million times.

[540] Once the script for the game is finalized, the developers will typically go through what is called a spotting session to analyze the script to determine which scenes require music, what kind of music works where, and whether the scenes should be scored or whether licensed music should be sourced.

4.4.1 – Hiring A Composer

Typically, a composer is hired by a developer to either write or modify a score (i.e., to compose, orchestrate and arrange the composition) and to deliver a finished master recording of the score. If the composer is hired under a work-for-hire contract in the US, it is the developer and not the composer who owns all of the music created by the composer (which may include the composition and/or the master recording).[541] This allows the developer to own the copyright to the music and provides them with the maximum rights in terms of its exploitation. The music could then be used for any purposes including for marketing materials, online, and even in future games without having to obtain any additional rights. In contrast, a hired composer that retains ownership issues a license that imposes limitations on how the developer can use the music.

As is the case with any agreement, the terms of a composer agreement are subject to negotiation and primarily depend on the bargaining power of the two parties and on whether the composition/master sound recording is produced as work for hire or is licensed. In any event, the composer should try to negotiate reciprocal language covering representations and warranties[542] where applicable, indemnification, limitation of liability, and confidentiality. The main issues to be addressed while negotiating a composer agreement typically include the following:

1. Services to be provided, including how much music is to be delivered, which will be set out in a milestone schedule. It is possible that a developer will request slight revisions or additional music after the delivery of the final milestone. Depending on the amount of work requested, this may require further compensation, especially if the revision is the result of a developer's mistake. Furthermore, the parties will need to negotiate who will be responsible for hiring and compensating any additional musicians that may assist the composer in creating a master recording, such as an orchestra.

2. Ownership of the music and whether the composition/master sound recording is produced as work for hire (the most preferable for the developer), or is assigned or licensed.[543] If the composer's work is not work for hire, then the parties need to discuss the ways in which the music can be exploited in other formats besides the game and downloadable content, such as soundtracks and digital music services. If the composer retains ownership of the composition/master sound recording then the parties need to negotiate which rights will be granted by the composer. These include permitted uses, such as public performance rights involving the composition, territory, term, exclusivity restrictions, and the media (e.g., platforms, games, marketing materials

[541] A developer could consider hiring a composer to create original songs for a game. This scenario is becoming more popular with AAA developers/publishers but can be a complicated and time-consuming process when dealing with major artists because of the various parties involved as well as ownership and rights issues, including exploiting the music outside of the game.

[542] As discussed throughout the book, a party may try to limit their obligations under the representations and warranties by including additional language such as 'best of knowledge' qualifiers or limitations on territory or term.

[543] If a composer is hiring an orchestra or any other musician then they must enter into separate agreements with these musicians to ensure that the proper rights are acquired and can be assigned to the developer if the developer is to own all of the rights.

and social media) in which the composition/master sound recording can be used.

3. Compensation, which is usually a fixed fee, although composers might also try to negotiate for royalties and even a bonus,[544] especially if they are well known. The amount of compensation will generally depend on: (i) the popularity of the composer and compensation received in the past for similar work and rights granted; (ii) the ownership and exploitation rights; (iii) the amount of minutes of music to be delivered; (iv) the budget, and whether or not the composer will be responsible for covering the costs of additional musicians and singers as well as recording and studios costs, etc.; and (v) whether or not royalties are being paid. If royalties are being paid then the initial compensation tends to be lower.
4. The payment schedule, typically paid in installments based on the amount of music delivered other than a payment made upon execution of the agreement or commencement of services. If royalties or a bonus payment are part of the agreement, then the parties will need to determine how royalties and/or a bonus are calculated. Any royalty or bonus obligation would also require the developer to provide statements within an agreed-upon time frame and allow the composer the right to audit.
5. The delivery schedule, including what the composer is required to deliver, and the approval process involving submissions, which will include what happens if a deliverable is rejected and the reasons for rejection.
6. Representations and warranties including that the music is original; that its permitted use by the developer will not violate the rights of third parties; and that all rights have been properly obtained from anyone who may have contributed to the music (i.e., musicians, engineers, etc.).
7. Indemnification including what would be covered and how the process would work.
8. Grounds for termination including the right for the developer to terminate for convenience,[545] the right to cure, and recourse.
9. Credit which would cover the wording, where the credit would appear, size, length of time in the game and, if applicable, how credits would be handled for other musicians hired by the composer or developer. All other credit issues would be handled at the discretion of the developer and any credit would be subject to the developer using the music. Developers will also include language on how a problem would be resolved if an error was made with a credit (e.g., no injunctive relief).

[544] A bonus payment may be a good compromise if there is a difference between the two parties in terms of compensation. A bonus payment is typically triggered on the basis of the game achieving certain revenues. A composer will also want to negotiate additional compensation if the music is exploited on a soundtrack or licensed to a third party (e.g., if it used in a commercial or on a digital music service).

[545] If the developer is to terminate the agreement for convenience, the composer must make sure they are compensated for any work that has been accepted by the developer and for any deliverables being worked on, which might include full payment for the next milestone or a prorated payment based on the amount of work done on the next milestone. It is also possible for a composer to negotiate an additional payment representing a 'kill fee'. The parties would also need to discuss who would own the music, which might be different from what was originally negotiated in the agreement.

10. The developer's right to use the composer's name and likeness in marketing, publicity, and packaging materials, which may be subject to the composer's approval.
11. Confidentiality.
12. The right to assign, which will only be permitted for the developer.
13. The fact that there is no obligation to use the music or parts thereof, since the developer may not release the game or may only want to use some of the music.[546]
14. Limitations on composer's remedies. For example, the composer can only seek an action for direct damages rather than injunctive relief. In addition, a developer will typically impose a cap on damages tied to an amount received by the composer during a period of time.
15. Boilerplate language including how and where disputes get settled and the law that would be applied.

4.4.2 – Licensing Music: Master And Synchronization Rights

Developers may also elect to license pre-existing compositions and master sound recordings, which might include a popular song or 'library music'[547] for use in their game,[548] or downloadable content or marketing materials, including websites. When licensing music,[549] in most situations the developer needs to obtain both synchronization and master use rights to the music (i.e., the composition and the master sound recordings).[550]

Synchronization rights[551] allow for the composition to be synched to the game or any marketing materials. Synchronization rights are usually acquired from the composition's writer or music publisher and often include rights from several writers and publishers, as compositions usually have split ownership.[552]

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[546] Provided that the composer has met their obligations under the agreement they should receive their compensation whether the music is used or not.

[547] Music houses will provide the synchronization and master rights to their music, which can usually be licensed for any use.

[548] Licensed music will generally be synched to the visual elements in the game but it can also be included in game radio stations whereby a player can select from a host of songs to play covering a number of different genres. This feature most notably appears in driving games such as the *Grand Theft Auto* (which is credited with starting the trend and included licensed and original compositions) and *Forza Horizon* franchises, but has also appeared in a number of other genre type games including the *Fallout* games, *Mafia III*, and *Just Cause*. Yarwood, Jack, "Radio Ga Ga: An Exploration of Video Game Radio Stations", *egmnow.com*, December 23, 2019.

[549] When deciding whether to use previously recorded music, a developer needs to determine: (i) whether the music needs to be licensed (e.g., it might be in the public domain); (ii) what type of licenses are needed; and (iii) who owns the copyrights to the music, which can include multiple copyright owners such as the owners of the compositions and master recordings.

[550] Failure to obtain the necessary rights could lead to a claim of copyright infringement which, among other things, could lead to a game being removed from distribution and damages against the developer.

[551] As part of the synchronization rights the developer would also obtain public performance rights, which are required in the US if the music is performed publicly.

[552] For many licensees, one of the biggest obstacles in licensing music is finding out who owns the copyrights to the compositions and master recordings. Compositions are often owned by a number of authors and ownership can change, which sometimes makes it a challenge to find the right parties to negotiate the rights to a song. Unfortunately, there is no universal database with information covering copyright ownership. However, a good place to start in finding rights owners for a composition are the websites for the American Society of Composers, Authors and Publishers (ASCAP) and Broadcast Music Inc. (BMI), the two major music performing rights organizations in the

The master use rights allow for the original master recording of a particular artist to be used in the game or in any marketing materials. These rights are either owned by the recording company (i.e., the record label) or held onto by the artist. In some situations, it is possible to acquire just the synchronization rights to the composition and the developer would create their own master recording of the music by hiring artists to perform the composition. This may or may not be cheaper than acquiring the master use rights, although the original recording will usually bring additional value since it will be better recognized. In most situations, the owner of the synchronization rights (which could be multiple parties) and master use rights will be different companies (e.g., the publisher(s) and the record label), and therefore two or more negotiations will need to occur in order to obtain the music.

For any developer, one of the major factors involving licensed music will be the costs associated with the license, which will vary depending on the intended use of the music, the term**,** and the forms of exploitation by the developer. The developer will want to obtain the broadest rights possible, but with the request for more rights comes a higher price tag.

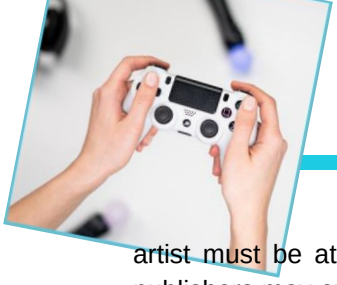
More specifically, some of the factors that might determine the costs of a licensed song include: (i) the popularity of the artist and song; (ii) the total amount of the song used in a game (e.g., 30 seconds or the entire song); (iii) how the song will be used and how many times the song will be used in the game; (iv) previous rates paid for the song; (v) the length of the term,[553] which has become more complex with downloadable content extending the length of games and competitive online multiplayer games having active communities even decades after their launch; (vi) whether the song can be included in a game and be broadcast as part of a live or on-demand streaming service; and (vii) whether the song will be used in marketing materials and what type of materials.

A song used in an advertisement (whether on television, the radio, online, or as part of other forms of marketing) will increase costs substantially if also used in a game. In some situations, a developer might license the rights to a song for marketing materials, such as a trailer or advertisement, which may or may not be part of the game.[554] Furthermore, publishers typically seek a most-favored-nation clause whereby the fees paid for a licensed song from an established

US. Each has its own database providing copyright information on millions of songs. See *www.repertoire.bmi.com* and *www.ascap.com/ace*. For British songwriters, see *www.prsformusic.com/works/searching-works*. The site *https://www.prsformusic.com/our-global-network/partners* links to performing rights organizations websites in over 80 countries, some of which have song repertoires on their websites.

[553] Previously, the length of a term was primarily based on the projected shelf life of a boxed product of a game. Typically, a developer would seek a short term of about two to three years for music in order to keep costs down. However, with downloadable content extending the life of games, determining a term has become an important point in an agreement. Developers should at the very least try to negotiate rights to an option that would allow them to extend the term for additional years at agreed-upon prices, depending on the use of the music. One of the problems connected to bringing older games back into distribution is that the licensed rights to the music have probably expired and therefore the developer would need to contact the owners of the music, which might be difficult, and negotiate for the rights. Otherwise, the developer would need to remove the licensed music from the game if they decide to distribute it.

[554] Other factors that may lower the overall costs for a developer when negotiating with a publisher include: (i) the number of songs licensed by the developer, whereby the more songs licensed results in a lower cost for each song, and (ii) the developer decides to feature a song from an upcoming group to help their promotion in return for a reduced fee. Furthermore, music owners may be more flexible on pricing since the worldwide reach of games can provide tremendous publicity value for an artist, and the ability to reach potential consumers unachievable in other ways.



artist must be at least as great as the fee paid for the master rights. Some publishers may even request parity with other licensed songs in the game.

The challenge for the developer is determining which rights they should pay for when signing the agreement, as failing to secure rights at that time may increase their costs at a later date. Pre-negotiating optional uses is a useful tactic, but the developer needs to consider whether paying more money for rights upfront (or specifying an allocated cost) will be better, even though there may be uncertainty as to whether certain rights will eventually be needed.

Typically, the owners of licensed music will provide their template agreements for synchronization and/or master use licenses. The main issues in the agreement will include:

1. Rights granted, including the ways and media in which the music can be used in context with the game (e.g., in-game, downloadable content, marketing and promotional materials which may be subject to additional fees depending on their use (e.g., television, websites, social media), platforms, and distribution formats, which may be specific or include any gaming device or means of distribution, including those that are introduced to the market during the term, and whether the rights are exclusive or non-exclusive.

2. Consideration and payment schedule. Typically, a developer will pay a flat fee for the rights, although for downloadable content it may be based on a percentage of revenue received for a song if that song can be downloaded on its own.[555]

3. The territory (which needs to be worldwide if the developer is seeking worldwide distribution) and term. The term can vary from a set number of years (with a possible option to extend) to the length of the game's distribution; alternatively, it can be perpetual. If a term is limited by a number of years and a retail version is being sold then the music licensors will allow for a sell-off period of remaining inventory for a limited time, depending on the length of the term and provided that certain preconditions are met. However, this would be a rare situation since the game would most likely be distributed digitally as well.

4. Music licensor's representations, warranties, and indemnification, which can be extremely limited depending on the publisher and record label.[556]

5. Royalties, if applicable.[557]

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[555] Brabec, Jeffrey, and Brabec, Todd, *Music, Money & Success: The Insider's Guide To Making Money In The Music Business,* 8th ed., , Schirmer Trade Books, 2018, p. 453.

[556] Record labels and publishers generally limit their representations and warranties and may only grant rights on a quitclaim or 'as-is' basis, especially for older music, thereby shifting the risk to the developer of the music. As a result, developers alternatively should try to obtain a representation that there has been no litigation regarding a particular song.

[557] Agreements that include royalty payments may provide a payment on each unit sold or downloaded and may also require a most-favored clause with other songs. One issue that needs to be considered is how royalties would be recognized for music that is part of a subscription service or is bundled with other songs as part of downloadable content. Developers should generally avoid paying royalties and instead insist on a flat fee for the rights, unless paying out royalties would reduce the upfront costs to obtain the rights and be economically advantageous. If royalties are to be paid then the developer should consider capping payments at a certain amount. If the developer agrees to pay royalties, then they will need to issue statements and may also be subject to an audit.

6. Approvals involving the use of the music from where it may appear to revisions made by the developer and/or game player. The developer will want to have rights to edit for any objectionable lyrics, rating purposes, content restrictions, and maybe to fit a particular scene in the game.
7. Developer's representations and warranties,[558] and indemnification.[559]
8. Ownership issues.
9. Grounds for breach and termination.
10. Delivery.
11. Rights to use the name of the artist or songwriter as part of packaging, marketing and any other materials.
12. Limitations on the use of the music including making any changes to the music, which may even involve a player being allowed to remix songs or using the name of the song as the title to a game.
13. Limitations on liability whereby the music licensors will usually limit it to the amount of money received for a license.
14. Credit and copyright notices.
15. Boilerplate language and issues dealing with how and where disputes get resolved, similar to other agreements discussed throughout the book.

4.4.3 – Music Libraries

A third alternative regarding music is licensing the use of music from stock music libraries, which provides music at reduced rates while usually maintaining very high quality.[560] In this situation, the stock music house provides both the master use and synchronization rights for music and tends to grant very broad rights for the music. Many developers will include stock music in their games in combination with licensed songs if music has not been composed for a game. This alternative can be very useful, especially for developers working on low-budget games.

Alternatively, the parties might consider a flat fee and pay additional fees in the event that the game reaches certain benchmarks such as sales numbers or revenue numbers. For instance, a bonus of $5,000 will be paid to the music rights holder if the game sells 500,000 units at the original suggested retail price (this option would not be applicable for free-to-play games) or generates an agreed-upon dollar amount in revenue which may be more applicable for free-to-play mobile games. If the parties elect to incorporate a bonus payment based on sales of the game, it is important the parties decide the pricing for games that will qualify as part of the bonus numbers. Selling games at 50% off the initial suggested wholesale price might not trigger a bonus payment. The developer will also need to be aware of any possible music fees other than fees associated with obtaining the master and synchronization fees. For example, are there any union fees that might be owed to musicians or reuse or residual fees? This might be the case when an original score is being produced using a live orchestra in the US or in some cases using an existing orchestral piece of music from a record label that utilized a live orchestra.

[558] The developer will often need to represent and warrant that the game and any marketing materials incorporating the music do not infringe on the rights of third parties and will also need to indemnify the music licensor for any breach of such representations and warranties.

[559] In addition to the language discussed in this chapter, the indemnity will also include language indemnifying the music licensors against any revisions, if allowed, made by the developer or any players to the original song.

[560] Some of the music library companies in the US include Associated Production Music (APM), Manhattan Production Music, Megatrax, Universal Production Music (UPM) formerly known as Killer Tracks, and Opus 1.

4.4.4 – Public Domain Music

A fourth alternative is using public domain compositions, which allows a developer to record their own version of a public domain composition. Public domain songs can be used by anyone to record since the copyright to the song has either expired or was never copyrighted. However, there are many risks and limitations with the use of public domain songs. For example, the fact that a composition is in the public domain does not allow a developer to use a third-party recording of a public domain arrangement of the public domain composition unless the developer obtains a master recording license from the owner of that sound recording. In addition, what might be in the public domain in the United States may still be protected under copyright in other countries, and therefore the developer must do the appropriate research to ensure that they are not infringing on the rights of the copyright owner.[561]

4.4.5 – New Opportunities: Virtual Concerts And Live Performances

Today, the popularity of music in games has grown to not only include scores from famous composers and soundtracks containing songs from popular groups, but also in-game concerts through the use of avatars. Although the idea of concerts in games first became popular early in the decade,[562] the potential audience reach throughout the world has grown substantially, along with the economic benefits. Today, some in-game concerts have been incredibly successful, generating huge audiences; in these scenarios, one appearance alone can outdraw audiences equivalent to an entire year of touring by an artist.

DJ performer Marshmello played an in-game virtual concert in *Fortnite Battle Royale* which, according to the developer Epic Games, attracted an audience of over 10 million people.[563] Travis Scott's 10-minute virtual concert, which took place in the same game at a later date, was even more impressive. According to Epic Games, 27.7 million unique viewers and 45.8 total viewers watched five shows which included the initial show and four replays spread over three days.[564] However, those numbers were later surpassed by Ariana Grande's *Fortnite* concert, which drew an incredible 78 million viewers.[565]

With huge numbers comes an opportunity to generate additional revenue and worldwide notoriety for the publisher, the developer and the musician. For most musicians who make most of their revenue from touring (other revenue is

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[561] Fishman, Stephen, *The Public Domain: How To Find And Use Copyright-Free Writings, Music, Art And More*, 6th ed., Nolo, 2012, pp. 87-126, pp. 297-314. See also "Public Domain Resources", *copyrightfree.blogspot.com*, January 11, 2008.

[562] According to Game Industry Biz, virtual concerts became popularized with *Second Life* in 2003. Ombler, Mat, "Are video games the future of live music", *gameindustry.biz*, June 10, 2020.

[563] The audience was even larger if you include other outlets which broadcasted the concert. Webster, Andrew, "Fortnite's Marshmello concert was the game's biggest event ever", *theverge.com*, February 21, 2019. The concert can also be accessed on YouTube.

[564] The initial performance was seen by over 12 million people and can now be accessed on YouTube. Hogan, Marc, "Where Can Virtual Concerts Go After Travis Scott's *Fortnite* Extravaganza?", *pitchfork.com*, May 5, 2020. Coverage of the concert was reported by over 9,000 media outlets. Ombler, Mat, "Are Video Games the Future of Live Music?", *gamesindustry.biz*, June 10, 2020. *Fortnite* wasn't the only game in town. Lil Nas X's virtual performances across four shows in *Roblox* drew 33 million. The music group American Football also played a recorded concert in *Minecraft*. Andrews, Travis M., "Thousands gathered Saturday for a music festival. Don't worry: It was in *Minecraft*", *washingtonpost.com*, April 15, 2020.

[565] Wickes, Jade, "Inside Ariana Grande's Fortnite virtual concert", *theface.com*, August 9, 2021; and White, Abbey, "How Epic Games Built "Fortnite" Rift Tour for Gamers and Ariana Grande Fans", *hollywoodreporter.com,* August 7, 2021. The concert can also be accessed on YouTube.

primarily generated from music publishing, merchandise, and streaming), virtual concerts can provide a valuable alternative, especially with the uncertainty of live concerts as a result of the COVID-19. Virtual concerts help to promote the musicians in a way that was similar in some ways to the functions of MTV and music videos in the 1980s, and can also lead to increased album and merchandise sales, as well as royalties from streaming. With *Fortnite*, Travis Scott introduced a whole line of merchandise based on his association with the game, including apparel, action figures, and even a nerf gun. According to a Forbes report, Scott grossed $20 million from the performance, which included sales of merchandise.[566] Furthermore, he saw an instant spike in listeners as one of the songs that debuted in the concert thereafter reached number one on the Hot 100 Chart in the US.[567]

The virtual concert raises a number of business and legal issues, including:

1. How does the developer split revenues with the musician from sales of merchandise? Do the parties enter into a separate licensing arrangement covering issues such as type of merchandise permitted, revenue splits, approvals, term, territory, and distribution channels?
2. How does the developer split revenues with the musician from sales of items sold as microtransactions?
3. Will the parties charge a fee in the future to attend a concert, and how will revenue be split?
4. Who covers the cost for development?
5. What rights, if any, does the developer have to use the music?

At present, only very few well-known musicians will have the opportunity to perform in games. Such performances may only work in the context of the most successful online games, and there are a number of issues that need to be addressed including costs, development, server, and technology capabilities, selecting musicians, and of course negotiating various rights agreements. Despite some hurdles, a growing trend of virtual concerts can be anticipated, with the ability to reach worldwide audiences at relatively low costs compared to concert tours.[568]

4.4.6 – Anticipating Costs And Time

Because certain licensed and composed music can be expensive, it is very important for the developer to determine anticipated costs for music in their game budget. In some situations, to balance the music budget, games may include licensed music from lesser-known or new songwriters or recording artists with little following at the time in which the game is in development, since the rights to their music will be at significantly reduced rates or even free in exchange for exposure for the group. In certain situations, the songwriters or recording artists themselves may be video game players, and being part of a game as well as the exposure is worth the trade-off in asking for minimum compensation. In addition to costs, developers need to allocate enough time if they are interested in

[566] Ziwei, Puah, "Travis Scott reportedly earned $20 million from 'Fortnite' event", *nme.com*, December 2, 2020.
[567] See also "RS Charts: Travis Scott and Kid Cudi's 'The Scotts' Explodes to Number One With Help From Fortnite", *rollingstone.com*, May 4, 2020.
[568] It may be only a matter of time before esports tournaments involving sports games incorporate virtual music concerts during half-time.

pursuing licenses, as multiple parties may have an interest in a piece of music and therefore the negotiation process may take longer than expected.

4.5 – Licensing Out IP

With the continuing worldwide mass appeal of video games accompanied by record numbers of players and fans interacting and watching others play, and growing interest in licensed products,[569] greater opportunities have emerged for developers to exploit their original IP outside of the video game category. Not only are games such as *Fortnite*, *Call of Duty*, and *Minecraft* drawing greater attention from licensees and retailers, but so are some of the old classic properties including *Sonic the Hedgehog*, *Pokémon*, *Super Mario*, and *Pac-Man*. According to License Global, a major licensing industry news source, licensing of video game IP has started to outpace traditional entertainment categories.[570]

While a few developers in the past have achieved tremendous success with the licensing of video game properties such as *Pac-Man* and *Mario*,[571] more and more properties are attracting the attention of licensees showcasing the continuing crossover between video games and consumer products. This group includes film production companies and studios,[572] television broadcasters, digital distributors,[573] advertising agencies,[574] as well as merchandisers licensing rights for various items such as apparel, costumes, figurines, board games, books, comics, slot machines,[575] theme parks,[576] school supplies, and even a hotel chain.[577] Not only has new IP attracted an audience, but also there has

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[569] According to a survey released by Licensing International, formerly known as the Licensing Industry Merchandisers' Association (LIMA), global retail sales of licensed merchandise and services reached $292.8 billion in 2019. The entertainment/character was the largest sector accumulating $128.3 billion in revenue and representing close to 44% of all sales of the different types of properties, followed by corporate brands with $61 billion. "Licensing International's 2020 Global Licensing Survey reveals that sales of licensed goods have climbed 4.5 percent", *licenseglobal.com*, June 8, 2020.

[570] "License Global's April issue highlights the rapidly expanding gaming sector within the licensing industry", *licenseglobal.com*, April 29, 2021.

[571] Parker, Garrett, "How Much is the Pac Man Franchise Worth?", *moneyinc.com*.

[572] According to the website Den of Geek, there were over 40 motion pictures based on video games in development at the end of December 2018. Byrd, Matthew, and others, "41 Video Game Movies Currently in Development", *denofgeek.com*, December 31, 2018. A few of the films made it to the big screen in 2019 and 2020 and were financially very successful, including *Angry Birds 2*, *Pokémon Detective Pikachu*, and *Sonic the Hedgehog*. See Tait, Amelia, "What happened to all the video games based on movies?", *newstatesman.com, June 14, 2017.*

[573] See Park, Gene, "Tired: The Marvel Cinematic Universe. Wired: The Video Game Cinematic Universe", *washingtonpost.com*, March 6, 2020; and Fahey, Rob, "The Witcher heralds an era of game Ips on TV | Opinion", *gamesindustry.biz*, January 24, 2020.

[574] See Bud Light Super Bowl XLIX "Coin" Ad – Pac Man (Full Length)", January 23, 2015 at *https://www.youtube.com/watch?v=w-7AacHGVR8.*

[575] In 2017, Bandai Namco internally developed and introduced video slot machines based on Pac-Man for casinos. Aljic, Admir, "Game maker Bandai Namco ready to join gambling market", *calvinayre.com,* April 26, 2019.

[576] Nintendo, working with Universal Studios, opened a reported $550 million theme park area called Super Nintendo World as part of Universal Studios in Osaka, Japan. AFP-Jiji Reuters, "Super Mario attraction opens at USJ in Osaka after postponements", *japantimes.co.jp*, March 18, 2021. It is one of the first major attractions in the world to be based on a video game franchise and other parks are scheduled to open in the near future in the US and Singapore. Albeck-Ripka, Livia, "Ride on Yoshi. Race in a Mario Kart. Try to Forget the Pandemic.", *nytimes.com*, March 18, 2021; and Yeo, Julia, "Super Mario creator confirms plans for Super Nintendo World to open in S'pore", *mothership.sg*, December 19, 2020.

[577] Atari is developing Atari themed hotels which will also serve as esports venues. Bryson Taylor, Derrick, "Atari, Video Game Pioneer, Plans to Open 8 Hotels to 'Eat, Sleep and Play'", *nytimes.com*, January 29, 2020.

been a resurgence of more classical properties, helped by the introduction of retro-game systems.[578]

The continued growth of esports has also created opportunities for a new category of video game licensing focused around team-related merchandise, similar to that of professional sports teams.[579] Importantly, esports team-related merchandise can also take the form of branded in-game items, which are generally presented as a way for players to support their favorite teams (esports teams usually being entitled to a significant share of the revenues coming from sales of their branded in-game items). In addition, the increased exposure of esports tournaments on the internet and television broadcasts provides partners with even more exposure.

Just like a film property that might have brand recognition which results in a built-in audience, provides instant credibility and makes it attractive for a video-game developer to create a game based on such property, a licensee also has the same interests in video-game property that has a known audience. In fact, many younger film producers and directors who are gaining more prominence in the film industry probably grew up playing video games, and therefore might show more deference to games than to other forms of IP. Furthermore, video games provide additional value that is unique in comparison to other forms of entertainment, as new content can be created quickly and can reach a mass audience through downloadable content. However, exploiting a property outside the video game market rarely happens overnight, and many successful programs take years to build up in tandem with the ongoing success of a video game franchise.[580] Some of the most recent successful game-based licensing programs have included *Angry Birds*, *Fortnite* and *Minecraft*.[581]

In many ways, the issues previously addressed in Sections 4.2 and 4.3 between a developer interested in licensing IP and a licensor are very similar, but with the positions reversed. Developers will need to negotiate:

1. The rights granted, including what is the licensed product (e.g., apparel, figurine, book), permitted distribution channels (i.e., retail, online), term and territory;
2. Desired release dates;
3. Advances/guarantees;
4. Royalties and how they will be determined (i.e., deductions);
5. Statements and audit rights;

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[578] In the last few years there has been a resurgence of retro-game consoles which include several games that were once popular on particular consoles. Some of the retro consoles have included the Sega Genesis Mini, NES Classic, SNES Classic, Sony PlayStation Classic, Atari Flashback (Atari 2600), and the C64 Mini (Commodore).

[579] According to a survey conducted by Licensing International, worldwide revenue from sports merchandise and services reached $28.9 billion in 2019. “Sales of Licensed Goods and Services Up 4.5 Percent”, *licenseglobal.com*, June 8, 2020.

[580] Traditionally, Licensees would commit to original licensed properties once a project was given the green light for a film or television show since that would give the property instant recognition and the likely support of a national marketing campaign, which in turn would help publicize licensed properties.

[581] *Fortnite* may have been an exception for which Epic Games was able to take advantage of the incredible initial success of the game and enter into licensing arrangements relatively quickly. The number of players of the game and its broad appeal to various age groups also attracted licensees to the property. Because Epic Games probably did not have the capabilities to undertake the opportunities, they may have hired an external agency.

6. Approvals;
7. Product liability insurance;
8. Manufacturing guidelines;
9. Various legal provisions dealing with IP, including ownership, protection and enforcement of trademarks and copyrights;
10. Representations and warranties, indemnification;
11. How and where disputes get resolved, and choice of law;
12. Termination; and
13. Boilerplate language.

While many of these terms will be similar in different licensing agreements, there will be some variation depending on the type of product that will either be manufactured or developed by the licensee. One of the most significant factors that can affect the structure of a licensing agreement involves production companies and studios interested in licensing IP for a possible motion picture or television series.[582] It is critical that a developer seeks proper advice from an experienced attorney that deals with film and television licensing, since these particular deals address issues that are unique to these mediums.[583]

For example, film licensing deals address issues relating to the procedures undertaken to get a film made. These can be time-consuming and do not offer any guarantee that a film will eventually be produced. Some of the issues include approvals which might be limited, ownership rights possibly involving new storylines and characters, how royalties are determined, and allowable deductions which are considerably more than those allowed under standard licensing agreements, and can greatly restrict a developer's opportunity to receive any back-end revenue.

Film Options

Production companies are reluctant to commit to actually making a film when an initial agreement is signed with a licensor because of high budgets and the uncertainty associated with obtaining financing and the desired talent. As a result, typically a production company will first enter into an option agreement, sometimes referred to as an option/purchase agreement, as it will specify a purchase price for the rights as well as a price for an option to purchase those rights within a specified amount of time. Generally, the option price is 10% of the purchase price, but it could be as low as nothing, and the option period is usually between one and two years, (typically 18 months). Simply put, the production company is

[582] A few video game publishers have established separate divisions to oversee development based on their IP, providing them with greater control over production but with greater risks and potential rewards. Sony created a new division in 2019 called PlayStation Productions to handle film and television productions based on Sony games. Fahey, Rob, "Putting PlayStation on the silver screen", *gamesindustry.biz*, May 24, 2019. Activision-Blizzard and Ubisoft also have film production divisions. See also, Shanley, Patrick, "Ubisoft Planning Animated TV Adaptations of Popular Games Franchises (Exclusive)", *hollywoodreporter.com*, October 10, 2019.

[583] This issue is addressed in greater detail in the WIPO publication "From Script to Screen". See Aft, Rob H., *From Script to Screen: The Importance of Copyright in the Distribution of Films*, WIPO, 2022.

buying time, and usually at a very low price. This is generally done because the production company wants to ensure that they can assemble an acceptable creative package (script, director, cast), secure the financing, and possibly find a distributor for the project.

Once the decision is made to proceed with the production, the producer exercises the option and pays the purchase price in accordance with the terms of the option agreement. Typically, the purchase price represents the greatest amount of money that a licensor will receive from the production company. A number of factors will determine the purchase price, including the rights being granted, the length of the term and, most importantly, how much interest there is in the property. The more producers interested in the property, the higher the likelihood that the competing parties will drive up its value. Even if the production company purchases the property, there is still no guarantee that the film will get made.

Turning a property into a film or television show can be a long, potentially frustrating process: even if a property is optioned, it can still take time for a production company to decide whether the project should move forward to principal photography. At the end of the option period, all rights should revert to the licensor (at no cost to the licensor and without having to return any monies), and the agreement is terminated. However, many option agreements contain renewal clauses that give the producer the right to renew the option in exchange for an additional payment, and/or upon completion of certain milestones (usually completion of a script, attachment of director or cast).

4.5.1 – Licensing Agents

For many developers, licensing may not be an area of expertise. Therefore, it might be advantageous to hire an agent who is knowledgeable about both the gaming and licensing industries. Even major publishers that have established properties will work with outside agents that may oversee their worldwide licensing programs or focus on specific territories.

Prior to hiring an agent, a developer needs to determine whether a particular agency will meet their needs. Some of the questions that should be asked include:

1. Is the agency familiar with the video game industry? What is the background of the agency's employees who will actually work on the licensing program, and are there any other projects that they may be working on at the same time?
2. Has the agency worked with video game publishers and developers? Are they currently working with any video game publishers and developers? How successful were the licensing programs in the various territories?
3. What services does the agency provide?
4. What type of relationship does the agency have with licensees, manufacturers, retailers and influencers?
5. What is the agency's revenue share on deals? If applicable, how do they deduct costs?

An agency should first advise a developer on whether the IP has the potential to be a merchandisable product based on the value and interest in the property, market conditions, competitive products, and industry trends.[584] If the property is merchandisable then an agency should devise a licensing strategy outlining opportunities and covering products with potential licensees in targeted markets. The value of the agency's services will also greatly depend on their relationships with licensees and retailers to discern interest in the developer's property. Without these relationships, it might be difficult for most properties to draw interest from licensees.

Assuming an agency is able to enter into agreements, the agency is responsible for managing the relationships among the various parties, including serving the interests of the developer and working with licensees and possibly retailers. Some of the responsibilities may include:

1. Seeking potential deals with licensees;
2. Negotiating agreements;[585]
3. Undertaking due diligence in determining that a licensee is financially sound and can meet their obligations of an agreement;
4. Reviewing the product, packaging, marketing, and business plans of the licensee;
5. Collecting payment and confirming the accuracy of those payments;
6. Remitting payment to the developer;
7. Creating a style guide together with the developer;[586]
8. Promoting the licensed product, which may include exhibiting at trade shows;
9. Confirming that the obligations undertaken by the licensees are fulfilled; and
10. Assisting the developer in combating potential infringements.

In hiring an agency, some of the most important contractual terms between the agent and the developer/licensor include:

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[584] Not all IP is worth introducing to a market immediately, and a bad launch could weaken a brand for a later and more beneficial release. In some situations, it might be better to launch a property slowly in specific markets in order to build recognition and value.

[585] The agent would negotiate deals with licensees although the terms of the deal should be subject to the Licensor's approval. Typically, the agent will have a template agreement that they will use when signing licensees with an additional attachment covering specific business terms of the deal such as the name of the property, licensed products, rights, term, territory, payment, and release dates. The Licensor should review the agent's agreement and approve the language to ensure that it is consistent with the Licensor's agreement with the agent and that there are no obligations imposed upon the Licensor that have not been agreed to by the Licensor.

[586] The style guide sets forth the guidelines on how the licensed IP should be used by a licensee in creating their products and accompanying materials. This provides for consistency involving the Licensor's IP among all licensed products. This will typically cover the specific designs, colors, sizes, characters, the rules related to dealing with characters, trademarks, storylines, and the use of legal notices on materials and products. Style guides will vary in terms of the amount of information provided, but more information usually leads to fewer problems with approvals. Battersby, Gregory J. and Simon, Danny, *The New and Complete Business of Licensing: The Essential Guide To Monetizing IP*, Kent Press, 2018, pp. 604-605.

1. The specific rights granted to the agent. It needs to be very clear what property the agent is representing and whether or not it includes derivatives.

2. Specific services and obligations of the agent and whether they are exclusive. An agent will want an exclusive deal, ensuring that they are the only party representing the property in a particular territory to avoid confusion among licensees on who they need to work with to obtain licensing rights. However, it is important for the licensor to determine, especially if they grant a worldwide license, that the agent has the capabilities to perform their services throughout the world. If not, then the licensor should limit the agent's rights to specific territories unless the licensor permits the agent to sub-license rights in certain territories.

3. The specific responsibilities of the licensor to ensure that the agent can fulfill their duties. For example, what type of materials need to be submitted to the agent so they can create promotional and marketing items? Also, which party would be responsible for creating a style guide if one has not already been created by the licensor?

4. The territory that will be represented by the agent. Also, a licensor needs to discuss whether the agent works with other companies within certain countries and how are they compensated. Does their payment come out of the agent's share?

5. For how long will the agent represent the property? A number of issues need to be addressed when discussing the term, which may include the right to shorten or extend it. In addition to terminating the agreement, if the agent materially breaches and fails to cure, a licensor might want to terminate the entire agreement or terminate rights for certain territories if the agent is unable to secure a minimal amount of revenue for a particular region or country. At the same time, an agent may try to negotiate an extension of the term if they have achieved certain minimal revenues for the licensor. For example, if an agent secures $500,000 in revenue for the licensor,[587] they therefore have the option to extend the term, typically under the same terms and conditions of the current deal.[588]

6. Dealing with a potential licensee. A licensor must negotiate the right to approve any deal considered by an agent. They want to have approval of the financial terms of the deal as well as approval of the licensee, to ensure that they are satisfied with the quality of the products manufactured by the licensee. The amount of time to approve a potential deal will need to be negotiated, and the licensor should include language indicating that if they fail to respond within the allocated time then the deal will be deemed disapproved. However, a procedure should be worked into the agreement that allows the agent to resubmit for the licensor's feedback. Otherwise, without any feedback, the agent is unable to perform their duties nor get the value of the deal.

[587] If the parties were to agree to this type of language, they would also need to decide whether the agent can pay any shortfall to secure an option, or whether an option can only be secured using revenue derived from licensees.
[588] It is important to factor in the business relationship: if it is not ideal, then the licensee may choose to work with another agent.

Prior to entering into any deal with a licensee, it is advisable for the licensor and agent to consider establishing financial parameters that may include minimum guarantees and royalty rates for potential deals. Although every deal is different, and economic terms could depend on other contractual factors, setting minimums can be helpful in quickly determining whether a potential deal would be considered by a licensor.

7. Information on the agent's personnel. A developer might consider including a list of the personnel who will actually work on the licensing program. One of the main reasons a licensor typically enters into a deal with an agency is based on the personnel. If a licensor decides to enter into a deal with an agency because of particular person or personnel, then they should ensure that those people actually work on the property in a continuing and meaningful way. Otherwise, the licensor may want the right to terminate the agreement.

8. Financial matters. The fee that the agent receives for their services and how the fee is determined are two of the most important points in deciding on an agency. Typically, the agent will receive a fee based on revenues received from deals that they have entered into on behalf of the licensor. This would include any advances, guarantees, and royalties paid by the licensee.[589] It is possible that the fee may vary depending on the type of deal that the agent enters into with a licensee. For example, a deal for a television series might be higher than a deal for apparel.

   One of the major negotiating issues involves whether an agent should receive their fee or part of their fee when a deal is signed after the term has expired or terminated, but based on a deal initiated by the agent.[590] How this issue is resolved will primarily depend on the reason for the agreement ending and what services have been performed for a particular deal during the term.

   The parties will also need to negotiate the parties' responsibilities covering costs incurred in promoting the brand. Such costs may include expenses associated with creating materials, appearances at trade shows, and travel. In most situations, the agency would pay for these expenses. However, the parties would need to negotiate whether those expenses are the sole responsibility of the agency or recouped from revenues, or a combination of both depending on the deduction. If costs are to be deducted, then the licensor should have approval rights and may also ask that costs be capped. Since revenue will be paid by the agent to the licensor based on any third-party licensing deals, the agreement must include language about statements and audit rights covering issues similar to those discussed in the licensing section.

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[589] One issue that may come up in relation to an agent's compensation is whether an agent should be further compensated if they are able to secure a marketing commitment from a licensee. Hopefully, a guaranteed marketing spend by the licensee would help increase sales, which would translate into more revenue for the agent. However, what happens if the licensor wants to take a smaller advance payment for a bigger commitment in marketing?

[590] In this situation, the agent has negotiated a deal during the term, but the deal is not signed until after their term has expired. Therefore, the parties would need to negotiate the compensation that the agent would be entitled to even though they would not be performing any services in administering the deal. There are also situations in which the agent has negotiated and administered a deal, but the deal continues after the agent's services have expired. Typically, in this situation, the agent would still be entitled to a fee.

In addition to the above terms that should appear in an agreement, the parties also need to discuss various legal issues covering representations and warranties, indemnification, how and where disputes are settled, termination, and other boilerplate provisions covered throughout the book.

4.6 – Product Placement: A Different Form Of Licensing

There are also other types of licensing situations that can be advantageous to both Licensor and Licensee (developer), but the license is generally smaller in scale and can take the form of a product placement, cross-promotional[591] or free license.[592] In the product placement situation, the Licensor pays or provides some other form of compensation to the Licensee for the licensed IP (usually in the form of a trademark or product) to appear in a game.[593]

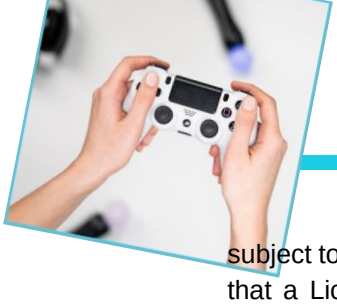
For the Licensor, the appearance of their brand's mark or product in a game may provide a marketing opportunity to reach an audience including a demographic that may have been difficult to attract in the past. With popular games potentially played and watched by millions of people throughout the world, brand recognition opportunities can be substantial for a Licensor, involving numbers that would probably be difficult to match through other forms of advertising for their investment. In addition, compared to someone watching television, who may be doing other things simultaneously, a person playing a video game is a more captive audience given that their focus is solely on playing.

While product placement agreements have some similarities to a licensing agreement, certain terms may vary, including those dealing with performance guarantees by the Licensee and consideration. One major concern for the parties is ensuring that the use of product placement complies with any advertising regulations, especially with regard to children.[594]

The basic terms for a product placement agreement typically include:

1. Licensing rights. This should cover the licensed rights granted by the Licensor for use not only in the game but also for any other materials created involving the exploitation of the game, such as marketing materials (if this is of interest to the Licensor). In addition, the Licensee requires the right to manufacture, distribute, market and sell the game, any additional content, and marketing materials by any and all means known at the time of signing, as well as new mediums later devised

[591] In a typical cross-promotion opportunity, the developer incorporates the Licensor's brand into the game and in return, the Licensor promotes the game with their brand. For example, a company that manufacturers basketballs grants a Licensee the right to use the name of the manufacturer on the balls in the game and in return, the ball manufacturer attaches a tag about the game with the basketball at retail or cross-promotes the game on their website and social media.
[592] If the Licensee is unable to enter into any of the other types of licensing agreements then there is the free-license scenario whereby the Licensee receives permission to incorporate the Licensor's IP but no money or cross-promotional opportunities are exchanged. This is done to provide realism in the game in exchange for providing branding opportunities for the Licensor. For example, a stadium's name and design are provided to the developers creating a sports game (e.g., Oracle Park, home of the San Francisco Giants US baseball team).
[593] For an early history of product placement, see Glickman, Len, and Kim, Anita, Product Placement and Technology, Developments, Opportunities, And Challenges, *Entertainment and Sports Lawyer 1*, Spring, 2012.
[594] See Section 10.4.



subject to any agreed-upon approval rights by the Licensor. It is possible that a Licensor may request exclusivity in the game for their product category. However, that might depend on the type of game developed and whether that would interfere with the realism of the game as well as the compensation paid by the Licensor.

2. Territory and term. The Licensee will want to have worldwide rights and a term that would allow the Licensee to exploit the licensed property for as long as the game is in distribution, in order to avoid the possibility of having to remove it from the game. A Licensee should ask for worldwide rights even if they initially plan a limited territorial release, since their distribution strategy could change, and it is typically easier to ask for rights upon the commencement of a deal instead of negotiating later. In most situations this would be beneficial for the Licensor as it would provide more exposure, but the Licensor needs to confirm that they can license the rights in the additional territories.

3. Payment. There are a number of ways in which the Licensee can be compensated for the product placement arrangement.[595] One scenario is for the Licensor to pay the Licensee a fixed fee, which is paid pursuant to an agreed-upon payment schedule. The payment schedule might involve payments upon signing and upon the release of the game. Another possibility is that some money may be exchanged, and the parties also agree to cross-promote one another's products. For example, the Licensee would include the licensed property in the game and the Licensor would promote the game with their product and related materials. A third possibility may only involve a cross-promotional relationship.

4. Use of the licensed property. The parties will need to agree on how the licensed property will be used in the game and, if applicable, related materials. Depending on the consideration paid by the Licensor, the Licensor should ask that they receive some type of guarantee that their brand will appear in the game for a certain period of time and, if possible, in certain scenes. For sports games, there is the possibility of an oral call-out by the announcers during a game. The Licensee will also want to include language indicating that they have no obligation to include the licensed property in the game. This may occur for a number of reasons, including because the licensed property is no longer associated with a property (e.g., an advertiser no longer advertises in a stadium), changes in the game, and approval issues. In this situation, the licensee would not be in breach of the agreement provided that they return any consideration they may have received as per the agreement.

5. Approvals. Whenever dealing with trademarks, the owner of the trademarks must include language in the agreement allowing them to approve materials to protect the quality of their brand. Although this is extremely rare, failure to do so has led some courts in the US to rule that

[595] How much the Licensor pays typically depends on a number of factors, including the popularity of the game in development, distribution plans, how much properties have been paid for in similar games, and the amount of exposure for the licensed IP.

a trademark has been lost.[596] As a result, Licensees should expect some form of approval language, although language will vary depending on factors such as which materials need to be submitted to the Licensee, the time period for approvals, and what happens if a submitted item is not approved.

Typically, the Licensor should ask for approvals regarding the game including the story, gameplay, and rating, and how their IP will be used in the game. The discussion about the game should occur even before a deal is done, subject to a confidentiality agreement,[597] to confirm that there is no issue with the brand's association with the game. For example, a brand involving children's products would not want to be in a game that might be violent. As a result, while a story for a game would probably not be complete when discussions between the parties begin, the Licensee should be required to make a representation and warranty on the type of game and rating the Licensee would hope to obtain from the various ratings boards around the world. Furthermore, a Licensor may also request language indicating that the game and any other materials will not damage the reputation of the Licensee.

6. Legal issues. Since a product placement agreement involves the use of IP, the Licensee should request that the Licensor represents and warrants that the IP will not infringe on the rights of third parties, and is either owned by the Licensor or that it has the right to properly license the IP pursuant to the terms of the agreement. In the event that there is a subsequent issue, the Licensor should also indemnify the Licensee against possible infringement claims by third parties involving the IP.[598] At the same time, the Licensor will request reciprocal representations and warranties that the game and materials associated with the game do not violate the rights of third parties and will need to indemnify the Licensor against any claims.

Product placement can be a sensitive issue in some jurisdictions, where it could be considered surreptitious advertising and therefore be prohibited. That is why, outside of the United States, the Licensor will typically request that the Licensee also represents and warrants that they will comply with all applicable rules on advertising and product placement. In addition to representations and warranties and indemnification, the parties will need to agree on how a dispute will be resolved, what law will apply, where the dispute will be resolved and remedies in

[596] Licensing without supervising the quality of the trademarks is often referred to as a 'naked license', and in the US could lead to its abandonment. As a result, the trademark owner must assure that their licensed trademarks maintain a certain consistent level of quality (although there is no established level). If the Licensee does not maintain the same type of quality as the licensor then consumer expectations involving products might not be met. Therefore, it is important for the licensor to maintain approval rights and supervision can vary depending on factors such as product and costs. Schechter, Roger and Thomas, John, I*ntellectual Property: The Law of Copyrights, Patents and Trademarks*, Thomson West, 2003, pp. 781-785.

[597] The parties will want to sign a confidentiality agreement if information about the game is being disclosed prior to its public release. Also, it is possible that the Licensor is introducing new IP as part of the game and therefore want it to remain confidential until the time of its release.

[598] In some situations in which a Licensor is only receiving publicity for their brand, they may only provide their IP 'as is', and thereby make no representations and warranties nor agree to indemnify the Licensee. While these situations may be rare, a Licensee may be reluctant to include the IP in the game although they would need to evaluate the risk. If the Licensor has not been sued for an IP claim and they have properly registered their copyright or trademark then the Licensee may consider it a small risk.

the event of a breach.[599] This decision can have significant economic consequences in the event that a party has to defend or pursue a case in a different state or country.[600]

[599] Licensees should include language indicating that if they were to breach the agreement, then the only remedy for the Licensor would be monetary damages, prohibiting the Licensor from seeking injunctive relief and other types of damages.
[600] See Chapter 11 on legal issues typically addressed in an agreement.

CHAPTER 5

ACTOR-TALENT AGREEMENTS

5.1 – Introduction

The use of actors and sports athletes in games and promotional material has evolved considerably since the days of the Atari 2600, when only a person's name and picture might be used to package and market a game. Developers would either sign athletes for sports games, or actors for games based on movies or television shows. At the time, graphics were too simplistic to capture a person's image, sometimes only consisting of a straight line. With advances in technology developers began creating realistic renditions of a person's likeness: synchronized their voices with characters and motion captured them to incorporate their signature moves, whether scoring a goal in a soccer game, performing at a concert, or jumping between buildings in a single bound.[601] Today, developers are increasingly relying on actors to provide a variety of services. This chapter will examine a number of the business and legal issues in hiring actors for games.[602]

5.2 – Who Negotiates The Deal?

When negotiating deals with actors,[603] determining who should negotiate on their behalf can present a challenge. First, is there a relevant union and is the actor a member? [604]

[601] See GameSpot Staff, "33 Hollywood Actors Who Appear in Video Games", *gamespot.com*, April 6, 2020.
[602] References in this chapter to actors' unions that have entered into agreements with video game companies mainly concern the Screen Actors Guild - American Federation of Television and Radio Artists (SAG-AFTRA).
[603] A developer entering into an agreement with a well-known actor might need to sign an agreement with the actor's corporate entity, or "loan-out" company, which controls the right to the actor, and primarily provides the actor with tax advantages and reduces their personal liability. In such cases, the actor would similarly need to sign an inducement agreement, guaranteeing that they will comply with the loan-out agreement and would bear responsibility if the loan-out company breached the agreement. In the event of such a breach and, in the absence of an inducement letter, the developer would have to sue the loan-out company, which may not have any assets. Appleton, Dina and Yankelevits, Daniel, *Hollywood Dealmaking: Negotiating Talent Agreements for Film, TV, and Digital Media*. 3rd ed. Allworth, 2018, p.180.
[604] It is recommended that you contact the actor's union (assuming one exists) in the country that you wish to produce a game if you decide to use union talent to verify an agreement covering the video game industry. Alternatively, a developer could also contact counsel knowledgeable about talent unions.

Second, is the actor negotiating alone, or are they represented by a talent agency,[605] agent, and/or an attorney? Third, is the actor a minor?[606]

While most of the world's actors' unions represent their members in the motion picture and television industries, at the time of writing, very few do so in the video game industry.[607] Consequently, most video game actors have to negotiate directly with developers. The complexity of these negotiations can vary considerably depending on the actor and whether they are represented by an agency, an agent and/or lawyer or negotiate on their own behalf. Negotiations with prominent actors will most likely involve the most time in negotiating and drafting an agreement since they will involve clauses unique to that deal in comparison to an actor with a small role representing themself who will sign the developer's form agreement with few if any, revisions.

For those actors that are members of SAG-AFTRA, the union has created template contracts (or performer agreements), establishing minimum terms and conditions between the union and developer signatories[608] that are signed by many actors and developers. These minimum terms and conditions, including payments, working conditions and health benefits, have been negotiated between the union and video game companies.[609] Actors who are union members cede a certain amount of control to the union, which then negotiates certain rights on their behalf.

Depending on the situation, the union actor and a SAG-AFTRA developer signatory will either: (i) add additional terms to the SAG-AFTRA performer agreement which may reflect better terms for an actor such as compensation, and address matters that may not be covered in the union agreements including

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[605] Some actors, whether represented by a union or not, hire talent agents to assist them to negotiate deals with developers. The biggest such agencies in the United States include William Morris Endeavor, United Talent Agency, International Creative Management Partners, Paradigm, Gersh, Creative Artists Agency and Agency for the Performing Arts. Actors may equally be represented by smaller agencies, or agencies specializing in specific services, such as voice-over, or may represent themselves.

[606] Developers hiring minors (under 18 years of age in many jurisdictions), whether for voice-over or as an esports player or for any other service, must be aware of any relevant national or state regulations and limitations. In the United States, protections for minors have been enacted to prevent economic and employment exploitation, covering areas such as working conditions, compensation, and the legal capacity to enter into binding minor contracts. In the United States, while minors do not usually have such legal capacity, some states, including California and New York, limit minors' rights to disaffirm signed contracts. There are additional guidelines on minors who are SAG-AFTRA members. For instance, the SAG-AFTRA Interactive Media Agreement (IMA) requires that a parent must be within sight and sound of a minor subject to production requirements and, if the minor needs to travel, the parent must be provided with the same transportation, lodging, per diem allowance and meals (at the same time) as the minor. Developers must also be aware that SAG-AFTRA rules apply whether a minor is used in a television commercial or online.

[607] With a few exceptions, actors' unions worldwide have yet to be engaged with video games as they have been with motion picture and television. By way of example, SAG-AFTRA and the Alliance of Canadian Cinema (ACTRA), are the only two actors' unions in the Americas with agreements with the video game industry. At the time of this writing, the British actors' union, Equity, has had preliminary discussions with video game companies, but does not have a collective bargaining agreement. Expect unions to be more involved in the years ahead.

[608] For purposes of this chapter, the party entering into a performer agreement with an actors' union will be understood to be a developer. However, signatories to such agreements can be developers, publishers, or producers.

[609] At the time of writing, the following companies were signatories to the SAG-AFTRA IMA: Activision Productions Inc., Blindlight LLC, Disney Character Voices Inc., Electronic Arts Productions Inc., Formosa Interactive LLC, Insomniac Games Inc., Take 2 Productions Inc., VoiceWorks Productions Inc. and WB Games Inc. McNary, Dave, "SAG-AFTRA Extends Video Game Contract to 2022" *variety.com*, November 5, 2020. However, other publishers, developers, and producers have also entered into deals with SAG-AFTRA without signing the IMA, and instead sign alternative union agreements which incorporate many of the IMA terms.

the actor's conduct, additional representations and warranties,[610] or (ii) negotiate a deal using a developer's agreement incorporating the minimum terms and conditions of the SAG-AFTRA deal and depending on the actor, more favorable financial terms than the union minimums.

Signatories to SAG-AFTRA agreements hiring union talent must satisfy SAG-AFTRA's minimum requirements. SAG-AFTRA members cannot waive these benefits, but can negotiate better terms. Furthermore, union agreements take precedence over any conflicting provisions in alternative agreements signed between developers and actors.

Dealing With Athletes In The United States

Deals with athletes in the major American sports leagues involve negotiating with a union, team, agent, or a combination thereof. While an athlete's rights are represented by both a union and an agent, depending on the desired use and number of athletes requested for a project, a developer may not necessarily have to deal with a union.

If the game is based on active rosters and teams, the developer should negotiate with the players' union. A license involving a minimum number of players set by the union is known as a group license. The advantage for developers dealing with US sports unions is that they only need to deal with one party to obtain the rights to use the athletes in the game.[611] However, the licensing rates are expensive.

While the developer would not be required to negotiate with the union if the number of players was below that set threshold, the union may have to approve any deal signed between the union and the athletes' representatives or agents. These deals are known as highlight agreements, as the athletes concerned feature in the game more prominently than other athletes. A developer may want a specific athlete to be the face of the game, for example, by featuring them in a commercial, on packaging, or in advertisement materials. Like in the case of an actor agreement, the parties must negotiate terms and conditions, such as the services provided, when such services will be performed, compensation (usually a one-time fee), exploitation rights, term, exclusivity, ownership rights, approvals and legal issues, such as representations and warranties, indemnification, termination, confidentiality, and where and how disputes are settled. It is important to note that the right

[610] Some SAG-AFTRA signatory developers that draft their own agreements and incorporate SAG-AFTRA's terms will forward the agreements to SAG-AFTRA for their review to confirm that the language in the agreements that deal with specific SAG-AFTRA terms are consistent with the applicable SAG-AFTRA agreement. Some developers may feel this is beneficial since an inconsistent provision could cause problems later while others may not feel comfortable sharing certain information even with a confidentiality obligation. If a signatory wants their agreement reviewed by SAG-AFTRA then then need to make sure they work into their schedule enough time for SAG-AFTRA to review and provide feedback.

[611] In very rare situations, an athlete may elect to "opt-out" of a union's licensing deal and therefore negotiate separately with a licensee to use their likeness. Michael Jordan and the baseball player Barry Bonds were two athletes who elected to opt-out of the union deal, thinking that they might make more money negotiating a deal on their own. As a result, if you wanted to make a basketball game with all the players and wanted to include Michael Jordan, the developer would need to sign two agreements for them to appear in the game: one with the player's union to obtain the rights to the players; and a separate agreement with Michael Jordan to include him in the game. See https://www.espn.com/blog/playbook/tech/post/_/id/4185/michael-jordans-erratic-video-game-history; and https://www.quora.com/Why-has-MLB-The-Show-2006-2018-not-list-Barry-Bonds-as-a-record-holder-in-their-list-of-records-and-accolades.

to use an athlete in marketing materials does not include the right to use logos and other indicia of the team. These rights must be negotiated separately with the team or league.

5.3 – The Most Common Terms In The Agreement

Whether providing services such as voice-over,[612] motion capture, or the right to use a talent's likeness in a game or marketing materials, the developer will typically need to enter into an agreement with the talent to secure these rights.[613]

Agreements vary depending on, for example, whether the actor is a union member, the rights and services requested, the actor's popularity, and the parties' leverage. Certain contractual terms should be included in all agreements, such as the rights granted and how they can be exploited, ownership, compensation, approvals, representations and warranties, indemnification, confidentiality, and how and where disputes are settled.

Many of the principal terms included in actor agreements discussed below appear in performer agreements entered into by actors who are SAG-AFTRA members. In accordance with SAG-AFTRA rules, these terms are mandatory and developers cannot negotiate terms below the minimum requirements. However, the parties can negotiate terms above the minimum requirements. An actor may receive, for example, compensation higher than the minimum. Unless stated otherwise, the following contractual terms only involve those between a developer and a non-union member.

5.3.1 – Services And Rights

For the developer, the rights obtained and services performed are among the most important aspects of the agreement. The agreement should include provisions on the services to be provided by the actor, which might include voice-over, motion capture, and active marketing obligations (i.e., appearances) and specify that all services would be performed subject to the developer's instructions, artistic taste, and judgment. In this part of the contract, developers will need to outline a schedule when services (whether for voice-over or

[612] Given the importance of localizing games, more developers are using voice actors for languages other than the traditional EFIGS languages. For some games, well-known actors in a particular country have been used to provide the localized voice over. See *https://genshin-impact.fandom.com/wiki/Voice_Actors* for a list of voice talent covering Japanese, Chinese and Korean translations for *Genshin Impact*. Games based on licensed property, namely, film, that use alternative talent rather than the original film actors' voices, are subject to the licensor's approval.

[613] See Section 2.5 on publicity rights. Certain licensing agreements involving a property such as a motion picture may include rights to an actor. However, if the actor is a member of a union and services are required, a separate agreement might still be needed to cover additional union issues (e.g., working conditions). Studios and production companies realize the ever increasing value of tying films to video games and thus include rights to actors in licenses to make them more attractive although this may increase the licensing fee. If the actor's rights are included in the license agreement, it is important to negotiate which rights are included therein and whether they cover services required for the game's development, such as voice-over. In the event that rights to an actor are not included in the licensing agreement, the licensor should work with the developer to secure those rights, and a separate agreement must then be signed with the actor.

marketing) will be performed and should include days (costs could increase on weekends), and times (costs might be higher for evening sessions), and location which may vary depending on the services being provided. A developer should also be aware that they will most likely be responsible for travel, and accommodation expenses for certain actors required to travel to a location. Typically, all of these issues would be part of the negotiations subject to union requirements, if applicable. [614]

At times scheduling an actor's services can be trickier than it appears, if an actor is providing services for other companies including possibly working on a motion picture, then there could be scheduling conflicts-sometimes unexpectedly. At the same time, a developer has to balance their development schedule and studio time, which may involve renting space to record voice-over or motion capture. Failure to consider all these different factors and provide for backup plans can be costly for a developer, even if the actor may have caused the problem. Some agreements may include language that if there is a conflict with scheduling that the developer would have first priority in the use of the actor's services.

Depending on the types of services a prominent actor provides, a developer may request that the services and rights granted be exclusive to the video game category for an agreed period. For example, a developer may require that an actor's likeness can only be used in the developer's game for one year from the game's release.[615]

Depending on the role played by the actor, rights might consist of the proceeds from using the actor's likeness, voice, motion capture moves, or a combination of these in the game and any additional content. The developer will also want to exploit the rights for marketing and publicity materials, such as trailers,[616] packaging, and for advertising, including for print, broadcast, and online media. Furthermore, a developer may request the right to link to the actor's social media accounts.

The parties must also negotiate how the rights granted by the actor to the developer can be exploited: through which platforms, where, and for how long. With digital media now providing unlimited worldwide distribution, developers should seek to obtain worldwide rights to distribute their games by any future or currently available means, including by disc, download, or streaming. Likewise, they should seek to secure the right to exploit the game perpetually on all currently available platforms, including consoles, PCs, and mobile devices, and on any platforms developed in the future.[617] A developer does not want to be in a situation where the ways in which they can distribute a game is limited because the developer did not foresee new forms of distribution. Should it not be possible to negotiate a perpetual license, the developer should try to negotiate the right to renew the license upon set terms. As with any type of agreement, the more rights a developer seeks, the higher the fees for the developer. Furthermore, the

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[614] Depending on the recognition of an actor, a developer may also need to factor in costs associated with an actor's appearance whether dealing with make-up artists and hairdressers.

[615] To avoid an unlimited exclusivity period, especially if the game is delayed, an actor may want to add an outside date.

[616] THE SAG-AFTRA IMA contains specific rules on additional payments for union actors featured in trailers. If a trailer or teaser exceeds 12 minutes in length the actor is entitled to compensation in addition to the payment received for performing in the scenes used in the trailer.

[617] This request will be subject to any underlying license for a game. For example, if a game is based on a licensed property such as *Spiderman* then the actor's rights will only be needed for the length of the underlying license. Even if a developer does not intend to exploit a game on a particular platform, it should be noted in the agreement that the developer has the right to market on that particular platform.

developer should opt for a pre-determined fee based on the amount of work required to use the actor's services for derivative works, such as sequels and downloadable content. This is especially important when an actor's voice becomes associated with a character in a game.

5.3.2 – Ownership

The developer needs to own all the rights to the services the actor provides for the game. In the United States, this ownership is covered by a "work for hire" agreement, provided that certain conditions are met.[618] If the services provided do not qualify as work for hire, provisions should appear in the agreement assigning the rights to the developer. Furthermore, any marketing materials (which may be subject to approval rights) created by the developer and incorporating the actor's services should be owned by the developer, although they can usually only use these materials to promote the specific game. If the rights are obtained pursuant to a work for hire agreement, the developer, as copyright owner, is entitled to exploit the actor's proceeds by any means in perpetuity, subject to any negotiations and, if applicable, union restrictions.

5.3.3 – Compensation And Credit

This is probably the most challenging issue to negotiate and depends primarily on whether the actor is a SAG-AFTRA member, and whether they are well-known, as they would want to be compensated above the union minimums.

The amount of compensation is determined by a number of factors, besides whether the game falls under the SAG-AFTRA agreement, such as the actor's popularity, the rights requested by the developer, the services to be performed, the length of term, and exclusivity. Like in the movie industry, the higher the budget and projected revenues, the greater the likelihood the actor will ask for higher compensation.

Most deals involve a one-time fee, paid in installments, based on the progress of the project. For example, an agreement may involve three payments: the first due upon signing the agreement, the second upon performance of the services and the third upon release of the game, subject to an outside date, where permitted by union agreements, some of which require payments to be made within a set time frame after the rendering of services. This is all negotiable, except for actors who are SAG-AFTRA members and unless payment is provided earlier than required by the SAG-AFTRA agreements. While developers should try to backload payments, the possibility of doing so depends on the actor's leverage. Actors may seek royalties if they perform services for the game and play a critical role, rather than simply licensing their name and likeness. If the parties agree to royalties, they will need to negotiate the royalty amount and calculation method. Unless paying royalties results in a lower fee, developers should try to avoid doing so, as it involves issuing statements and granting audit rights, among other things, as well as a further financial commitment. If royalties are paid, the developer should consider capping the amount. Alternatively, the developer could include a bonus provision, whereby

[618] See Section 2.2 on work for hire. The SAG-AFTRA IMA may limit the re-use of materials unless additional compensation is paid to the talent. See the section on Limited Integration under the SAG-AFTRA IMA.

they pay the actor additional compensation if the game generates a set amount of revenue, instead of paying a higher fee or royalties.

For well-known actors, they typically require the entire payment, even if the game is not completed, whether their services were provided or not, unless they have breached the agreement. The actor may justify this position by noting that they may forego other job opportunities to work on the game. Developers may then seek to counter this requirement by establishing an alternative settlement amount, by means of a liquidated damages clause, for example.

When negotiating compensation, it is essential that the parties address whether any additional payment will need to be paid for services other than those performed specifically for the game (i.e., voice-over, motion capture). For example, if the developer wants to use scenes from the game in a television commercial or create marketing materials using the actor's likeness or wants the actor to appear at trade events. Would these costs be included as part of the overall fee, or will they be additional costs?[619] All of this should be spelled out in the agreement. In some situations, a developer may not know what they want the actor to do, possibly a year or two from the signing of the agreement, and therefore faces the challenge of dealing with unknown variables. As a result, a developer may want to include options in the agreement that will allow them to decide at a later date if they desire to use the actor's services and would also lock in a price for those services to avoid uncertainty.

The parties will also need to negotiate the actor's credit in the game and any other materials, and that will mostly vary depending on the actor's reputation and their role in the game. As games take on greater significance, actors will want to receive more prominent credits realizing an attachment to a successful game will increase their market value and prestige similar to starring in a well-received motion picture. At the same time, developers will want to promote well-known actors since this allegedly will help market a game. As a result, it would appear that providing credits for well-known actors should not be a problem. However, the issue becomes a little more challenging when a game may employ a number of well-known actors. A developer, therefore, needs to be careful when negotiating the type of credit provided to the actor, its placement,[620] size and even the length of time of a screen credit. For other actors, the discretion of the type and where the credits appear typically will be at the developer's sole discretion.

Agreements generally also include clauses on the eventuality that a developer makes a mistake in a credit, specifying that the actor's only remedy would be direct damages, thereby prohibiting them from terminating the agreement or seeking an injunction to prevent the continuing distribution of the mistaken item. Developers usually agree to correct any mistakes for all future releases of the item.

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[619] If the developer has the right to license the actor's likeness for potential merchandising opportunities (assuming the game is not based on a licensed property), the parties will need to discuss how the actor might be compensated. It is unlikely that an actor would not request additional compensation. See Chapter 4 on licensing.

[620] This would include in the game, marketing materials and social media.

5.3.4 – Conduct

One unique provision that may appear in an actor's agreement is a morals clause.[621] A developer may request the right to terminate the agreement if the actor's conduct, even if it has nothing to do with their work on the game, is detrimental to the developer or to the game. This can be a difficult clause to negotiate and introduce into an agreement, since actors may feel that it is insulting. Yet it is also important for developers to protect their image and to be able to cut their losses if a scandal jeopardizes the game's potential success or results through negative consumer feedback. Therefore, to avert any potentially uncomfortable situations, developers should investigate the prior conduct of their talent by carrying out some initial internet research, while being careful to only use reliable sources. Morals clauses may provide for the termination of the agreement in the event of the actor engaging in unsavory conduct, particularly any criminal or morally reprehensible behavior. Developers usually define such conduct in broad terms, while actors seek to remove the clause or limit the definition. In addition, the developer should not only consider conduct during the term of the agreement, but also any act occurring prior to the agreement that reflects negatively on the talent, but that is not revealed until during the term of the contract or after the game's release.

Moral clauses should also provide for the possibility that the event triggering the termination occurs after the actor has performed their services, and before or at the time of the game's release. If the game has already been released and, assuming the actor has been paid, what would be the remedy, if any, for the developer? How would the parties deal with a situation where the developer has been harmed by bad publicity or a loss of sales, or had to incur costs to remove the actor from the game or marketing materials, bearing in mind that it may be impractical to remove the actor, depending on their presence in the game?

5.3.5 – Approvals

Like with most licensing agreements, under which licensors require that their prior approval be given for all uses of their licensed property, actors, particularly those who are well-established,[622] may seek to obtain similar rights before materials are publicly released. How the actor appears in materials, what materials are used and how they are used might all be subject to negotiations. An actor's approval rights will most likely be very limited however, and whether an actor can negotiate them mostly depends on their status. A well-known actor may request very broad approval compared to a day player who might have no approval rights. If approval rights are granted, the agreement will need to include provisions covering the process by which materials are approved. This is important, since delays in approvals could impede the release of the game and marketing materials.

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[621] Morals clauses, which originated in Hollywood contracts under the old studio system, meant that actors could be fired for engaging in improper conduct on and off set. This was especially significant during the anti-communist scare in the United States during the 1950s. Crowell, Thomas, *The Pocket Lawyer For Filmmakers: A Legal Toolkit for Independent Producers*. 2nd ed. Focal Press, 2011, p. 221.

[622] Licensors, sports leagues and player associations, as part of their licensing agreements, request approval rights that include the teams' or unions' trademarks or other indicia in the materials including the use of a player's likeness. Therefore, a developer may need to factor in the additional time required to seek approval from the appropriate licensors.

These provisions vary among agreements and may or may not include approval of all uses. If approval rights are granted, the developer will likely impose certain limitations. One such way is to seek pre-approval of marketing materials that can be used continuously without the need for additional approvals, provided the materials are not substantially altered. Furthermore, if the actor fails to respond within a certain period, which may vary depending on the items that need approval, the item would be deemed approved. The developer should include provisions indicating that certain publicity or marketing opportunities that arise may require swift approval so as to not be lost, and accordingly the actor agrees to respond within a shorter time period, perhaps 48 hours. However, an actor may require that if no response is provided during the set time period, the materials be deemed disapproved.

It is also important to stipulate that, once materials have been approved, they cannot then be disapproved, unless they have been substantially altered. Otherwise, a developer could, on the basis of prior approval, move forward with the development of their game and marketing materials only to have to later revise them, costing them time and money. If materials are disapproved, the actor must provide the reasons thereof within an agreed time period so the developer can make the necessary corrections for approval.

An actor may want to share with the public materials developed for the projects they are working on. Provided that they coordinate with the developer's marketing and publicity efforts; this can be beneficial for the developer, as it increases the game's visibility. With social media, it is easy to reach a huge number of people across the globe. However, the developer should make sure that the materials are released subject to the developer's prior approval, in order that no materials are released prematurely.

5.3.6 – Termination

Another key point in negotiations between an actor and developer centers on the right to terminate an agreement for an uncured breach. The grounds for termination and its timing must be established, as well as the possible remedies for the non-breaching party. For the developer, the possibility of terminating an agreement could be allowed if the actor fails to provide their services, materially breaches any of the representations or warranties, or conducts themself in a way that violates the morals clause.

Conversely, an actor could seek termination if the developer fails to pay, violates terms and conditions under the guild or union agreements, or materially breaches a representation or warranty. However, even if a developer fails to cure a material breach, the developer should insist on provisions stipulating that, if the actor's services have been provided and are included in the game, the actor would only be entitled to direct monetary damages and would not be entitled to prevent the distribution of the game or marketing materials by seeking injunctive relief.[623] Agreements also usually contain provisions limiting the developer's liability. Monetary compensation should be capped at a set amount, which might be based on the agreed amount of compensation, although it becomes more complicated if the actor was entitled to royalties.

[623] For more information about injunctive relief in the United States, see Section 3.2.18.

In the event that either party breaches the agreement, the breaching party will have the opportunity to cure the breach within a certain time period. However, given that a cure might not restore the parties to their positions prior to the occurrence of the breach, the applicability of a cure period depends on the nature of the breach.

5.4 – SAG-AFTRA: A Closer Look

In the United States, most professional actors are members of SAG-AFTRA which is the most active union involved in video games throughout the world and has the most active number of members.[624] It's jurisdiction extends only to activities within the US where a SAG-AFTRA performer is engaged, but also includes when an agreement with a SAG-AFTRA performer originates from the US.[625]

If a developer would like to use SAG-AFTRA talent in a video game, they must first become a signatory to and abide by one of SAG-AFTRA's three interactive agreements.[626] These agreements include the SAG-AFTRA Interactive Media Agreement (IMA),[627] the SAG-AFTRA Low Budget Interactive Agreement (LBA), and the SAG-AFTRA Interactive Localization Agreement (ILA).[628] Each agreement incorporates the terms of the IMA and any subsequent amendments, and each also contains additional terms unique to their agreement such as

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[624] Actors in "right to work" states, where non-union work may be more prevalent, may find a number of opportunities without joining SAG-AFTRA. However, actors may decide to become SAG-AFTRA members if they work on a production in a state such as California where developers are more commonly SAG-AFTRA signatories.

[625] The IMA also notes "or anywhere else in the world for which the Performers are engaged in the United States by Employer." This would include situations whereby an actor may be hired in the US, contracted in the US, or the deal is negotiated with their US agent, but the performance takes place outside the US.

[626]Alternatively, some developers may hire an actor through a 3rd party which is a signatory to the SAG-AFTRA agreement while the developer remains a non-signatory. Furthermore, a developer can enter into a one-production only (OPO) agreement with SAG-AFTRA whereby they commit to abide by the SAG-AFTRA agreement entered into for a specific project. Currenty, there is no limit on the amount of OPO agreements a developer can enter into with SAG-AFTRA. In this scenario, a developer could develop games with union actors under the OPO agreement and develop other games without union actors provided those games do not employ SAG-AFTRA members. SAG-AFTRA can involve a number of agreements and amendments which can be challenging to navigate and therefore it may be worth speaking with counsel experienced in this area to understand the obligations required by the union. Additionally, you may contact SAG-AFTRA directly to discuss and clarify the procedure to follow if you would like to hire union members in the United States. A party seeking to hire a SAG-AFTRA actor must also provide the union with various paperwork for its approval before engaging in the production. Some of the paperwork includes information about the company, production and a list of actors to confirm that they are union members.

[627] See https://www.sagaftra.org/production-center/contract/820/ for links to the various SAG-AFTRA agreements. The IMA agreement has been amended by the SAG-AFTRA 2017-2020 Memorandum of Agreement *https://www.sagaftra.org/files/2017SAG-AFTRAIMAMOAwSchA_final.pdf and* the 2020 Extension Agreement *https://www.sagaftra.org/files/2020SAG-AFTRAIMAExtension.pdf*.

[628] The ILA, which is a temporary agreement and is scheduled to be renewed on November 13, 2022, covers actors providing dubbing, or localizing English language soundtracks, for games originally produced in a language other than English. Actor's pay under the ILA is slightly higher than the IMA, but allows for integration and reuse rights for future games without any further compensation. If a developer is a SAG-AFTRA signatory, they must first seek approval from the union to determine if they are eligible to sign the ILA. SAG-AFTRA will check that: (i) the game was scripted in a language other than English; (ii) the English recording is synched to a finished visual product; and (iii) the IP owner is based outside the United States. Releasing a foreign version game prior to undertaking any localization for an English version of the game would qualify under the ILA. If a game does not qualify, the IMA would need to be signed to use SAG-AFTRA performers. The ILA incorporates the terms in the IMA and all subsequent amendments.

financial terms[629] and re-use fees. For many developers costs to hire union actors will increase the game's budget compared to a non-union production because of minimum requirements involving payments and other benefits. The trade off however is that the pool of union talent consists of the most experienced and professional actors. [630]

One of the most significant terms in the SAG-AFTRA agreements establishes certain hiring requirements for games employing union talent.[631] On the one hand, according to SAG-AFTRA's Global Rule One, SAG-AFTRA members can only enter into a deal with a developer if the developer is a signatory to a SAG-AFTRA agreement.[632] On the other hand, besides a few limited circumstances, signatory parties to the SAG-AFTRA agreements generally engage union members.[633] As per the SAG-AFTRA agreements, absent an exception, a signatory must employ union members during the term of their agreement with SAG-AFTRA. One possible exception is when a signatory can employ a non-union member under the Taft-Hartley Act.[634] In this situation, the actor possesses unique talents for a particular production that could not be provided by a union member[635] and agrees to apply for SAG-AFTRA membership within the allotted time period after the beginning of employment. The developer would then submit a Taft-Hartley form to the union detailing the actor's employment, the production, and the reasons why the actor is necessary for the game.

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[629] For instance, the LBA provides performers with additional payments (capped once it reaches a certain amount) using a sliding scale based on the number of unit sales of a game. For example, a game that sells over 500,000 units would entitle a performer to an additional payment of $225.50 based on the LBA in effect at the time of writing. If the same game was to sell 1 million units, then the performer would be entitled to another $225.50, etc. Since business models will vary among games and one based on unit sales might not be appropriate, the developer and the union would need to determine a different form of contingent compensation.

[630] The decision to become a signatory should be discussed with counsel to weigh your options for using talent. Many voice over recording studios may also be able to provide insight into union productions.

[631] Under the IMA, talent includes voice-over, (which may include singers and atmospheric voices) on-camera (which may include performance motion capture, stunt performers, stunt coordinators, singers and dancers) puppeteers and background performers. See *https://www.sagaftra.org/production-center/contract/820/getting-started*. Prior to joining the union, an actor must first submit various forms to see if they qualify for admission and upon acceptance, must pay initiation and on-going yearly fees.

[632] A rarely used exception to this rule which originates from a US Supreme Court decision and is applicable to any union member no matter what their employment, is when that union member requests "financial core status". In this situation, as it relates to SAG-AFTRA, a union and non-union member can work on both SAG-AFTRA and non-union projects. if they declare financial core status and abide by certain rules. Actors may declare financial core status as a dues paying nonmember of SAG-AFTRA, or if already a member, resign and seek financial core status. Actors who declare financial core may enjoy more flexibility to do union and non-union work but would lose certain rights and benefits offered by SAG-AFTRA, including voting and running for union office, to name a few. There are benefits and drawbacks in deciding whether to declare financial core status, so it is highly recommended that an actor seek legal counsel specializing in this area to discuss the consequences. Additionally, developers in "right to work" states may have additional flexibility when engaging union and non-union talent.

[633] US labor law prohibits SAG-AFTRA from preventing non-union members from participating in a union project, or requiring that actors auditioning for a role already be SAG-AFTRA members to be hired (although nonmembers can be required to pay initiation fees and membership dues within a certain period after employment).

[634] The Taft-Hartley Act is a US federal statute passed in 1947 that among other things places limits on unions by prohibiting unions from requiring workers in a unionized work place to join a union. See National Labor Relations Board, "1947 Taft-Hartley Substantive Provisions", *nlrb.gov*.

[635] Another example would be a well-known person who portrays themself (i.e., a musician plays herself as a singer in a game). See *https://www.sagaftra.org/what-taft-hartley-report* for other possible reasons why a non-union member may qualify for work on a SAG-AFTRA production, but certain qualifications may apply. If a non-union actor is hired instead of union actor who could play the role in a game, then the developer could be subject to a fine by the union. See Preference of Employment in the IMA where the IMA requires developers to give "preference of employment" to performers under certain conditions who live within a defined geographic proximity to the site of the production.

The SAG-AFTRA agreements which are scheduled to be renegotiated in November 2022, require signatories to pay talent the union's minimum wages, referred to as "scale",[636] pension and health benefits and, if applicable, overtime pay, and bonus payments based on number of sessions worked on a project in which the actor's performance is used.[637] The various payments may vary depending on the applicable agreement, which could be based on budget or localization services, as well as the role played by the talent. For example, in 2018, SAG-AFTRA sought to incentivize low budget games developers to use union talent, by creating an agreement with lower minimum wages for games with budgets below $1.5 million.

In addition to payment requirements, including when payments need to be made, SAG-AFTRA also requires signatories to disclose certain information about a production before an actor agrees to participate and adhere to specified working conditions. Under some such conditions, developers must notify actors on the length of their possible role, disclose a project's code name (instead of its real name to protect confidentiality), its genre, whether the game is based on previously published intellectual property (IP), and whether the performer.is reprising a prior role. Furthermore, to help actors decide whether to accept a role, developers must also inform them whether: they will be required to use any unusual terminology, profanities or racial slurs; memorization will be required; there will be content of a sexual or violent nature, and whether stunts will be required.[638]

5.5 – The Growing Role Of Actors And The Importance Of The Actors Unions

As games employ more professional talent, the role of unions will most likely become more prominent and developers will thus need to gain an understanding of the rules and regulations to which union actors are subject around the globe. As revenues increase in the game industry, it is to be expected that established unions will seek to negotiate higher pay and benefits.[639] Finally, as games become even more prominent in society and more well-known actors become involved with games, many terms contained in film and television union

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[636] The minimum payment requirements apply, whether an actor is providing voice-over, motion capture or appearing in a television commercial for a game, and will vary depending on the services provided.

[637] At the time of writing, pension and health benefits was an additional 16.5% of the talent's wages. The bonus payment, which is due no later than the game's release date, is based on the number of sessions worked on each game, beginning with a $75 payment on the first session and totaling $2,100 after 10 sessions worked. See *https://www.sagaftra.org/files/2017SAG-AFTRAIMAMOAwSchA_final.pdf*.

[638] What the SAG-AFTRA agreements define as "vocally stressful sessions" in voice-over work provide one example of limitations imposed on working conditions using SAG-AFTRA talent. Under the IMA, these sessions are limited to two hours per day (payment is for four hours, however) and are defined as "any work that risks damage or undue strain to the Performer's voice which may be due to prolonged requests for the actor to enact: yelling/shouting/screaming, fighting sounds, death sounds, battle cries, complicated creature sounds, unnatural vocal textures, extensive whispering, high pitched vocal sounds, or any other voice/sound that is difficult/challenging for the performer to deliver". This clearly illustrates the importance for a developer to fully understand the regulations involving actors in advance, to avoid development delays and unexpected costs. See *https://www.sagaftra.org/files/2020InteractiveLocalizationAgreement.pdf*.

[639] The longest strike in SAG-AFTRA's history involved a dispute over benefits between the video game industry and voice-over talent. Handel, Jonathan, "SAG-AFTRA Video Game Strike Ends", *hollywoodreporter.com*, September 25, 2017.

agreements (whether involving compensation, working conditions, approvals, etc.) will likely migrate more and more to video game actor agreements.

CHAPTER 6

VENDOR AGREEMENTS – INDEPENDENT CONTRACTORS

As the development and exploitation of games has become more complex, many developers, whether major publishers or small mobile developers are increasingly relying on third parties to help with various aspects of their games. This can range from development aspects, such as providing additional artwork, programming, music, storytelling, motion capture, and voice-over, to distribution and marketing, including producing a trailer, organizing an event or even hiring an influencer to help promote a game or esports competition, or hiring a sales agent for a particular territory. These third party vendors can provide the required expertise and assistance in a particular area at potentially lower costs, and if done correctly, enable the developer to own the proceeds of the vendor. The vendor is usually hired as an independent contractor, thereby creating a relationship different from that of an employee, and with, it different rights, responsibilities, and limitations that are imposed on the hiring entity and the vendor.[640]

In some jurisdictions, the developer must enter into a written agreement with the person, whether they are deemed an employee or independent contractor, for the parties' rights and responsibilities to be enforceable. Moreover, this ensures that both parties understand their responsibilities, and establishes ownership and the amount to be paid in compensation or salary to the vendor or employee for their services. This chapter illustrates the main points from a US perspective while many of the key legal considerations regarding this type of agreement are relevant from an international perspective, readers must be aware that laws and regulations might differ substantially between jurisdictions.

When hiring employees, the employment agreement should cover, at the very least: ownership matters, namely, of an employee's work product; responsibilities; salary; rules of conduct, which can cover the treatment of fellow employees, to restrictions on social media involving the developer: confidentiality, which should include the handling of trade secrets, and a representation that the employee will not use any confidential information or trade secrets of others during their employment and for a limited time thereafter.[641]

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[640] Are esports athletes deemed to be employees or independent contractors? See Winn, Audrey, "League of Legends gamers could become California's newest workforce", *qz.com*, January 9, 2020. According to an article on the *Quartz* website, while League of Legends players are not deemed to be employees of the teams that hire them according to their agreements, this could conflict with CA law. See also Hankins, Patrick, "Here Comes a New Challenger! Esports and California AB 5", *Marquette Sports Law Review*, vol. 31, (2020). p.129.

[641] See *ZeniMax Media Inc.* et al. *v. Oculus VR, Inc.* et al., Civil Case No. 3:14-cv-01849-P (2017), where ZeniMax sued Facebook for trade secret violations, a breach of confidentiality, and copyright

Compared with employment agreements, vendor agreements include more detail in certain areas, and additional provisions. Some of the major points in the vendor agreements should include:

- the services to be provided by the vendor;
- obligations and responsibilities of each party;
- the developer's ownership rights;[642]
- payment amount and when payment will be made;
- the delivery schedule, listing what will be delivered and when (this can be both physical assets and services to be performed);
- acceptance of materials;[643]
- representations and warranties focusing primarily on intellectual property (IP) provided to either party and that it is original, has been licensed properly, or is in the public domain;
- indemnification covering claims by third parties against the improper use of IP, trade secrets, and confidential information; and
- legal issues, such as limitations of liability, confidentiality, termination, boilerplate language, the legal status of the vendor as an independent contractor, and how and where a dispute will be settled as well as which law governs.
- credits.[644]

Most companies draft a form agreement that includes the above terms, as well as an attachment or appendix covering specifics to the deal. The form agreement provides the developer with consistent terms when dealing with various vendors, especially when a number of agreements need to be signed for several games. Agreements can of course still vary, depending on the facts, and the parties' leverage.

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infringement involving the Oculus Rift headset. Although the jury did not find a trade secret violation, it did find for the other causes and the court awarded ZeniMax $250 million. The parties, however, settled out of court. See Matney, Lucas "Facebook Settles Oculus VR Lawsuit with ZeniMax", *techcrunch.com*, Yahoo, December 12 2018.

[642] While some jurisdictions adhere to a "work-for-hire" doctrine, others do not allow freelancers to assign all or certain rights and, where such assignment or rights is allowed, the formal requirements differ. These differences are often solved in practice through the transfer of rights, unless this is forbidden by law or broad exclusive licenses. Some countries also grant extra protection to artists, such as active exploitation, best seller clauses, and reporting requirements.

[643] The agreement should contain the procedure for accepting the vendor's material, including the time period within which the developer can review the materials. The agreement should also specify the procedure for resubmitting the material if the developer rejects the material. Failure by the vendor to deliver acceptable materials could result in termination. However, this can be a delicate matter with regard to independent contractors, due to the oversight involved, which could determine whether the vendor is deemed to be an employee or an independent contractor.

[644] The recognition that an employee or a vendor should receive for working on a game has drawn an increasing amount of attention in recent years. This is due to the fact that credits are usually given at the developer's discretion, yet, when an employee or vendor has worked on a successful game, credits can help to improve future career opportunities - a fact long recognized by actors' unions and US courts when dealing with credits in the film industry. Most agreements provide the developer with wide discretion to determine whether to give a credit, as well as its type, placement, and size. Vendors and employees generally have to negotiate to receive a credit, which can be challenging, and they should be aware that receiving one will most likely be subject to certain pre-conditions, including remaining on the project from their recruitment until the project's completion. Given that some games' development cycles last several years, this is a major issue for many employees and vendors who have to leave before the project's completion, because they are replaced, were only hired for a limited period, or move onto another opportunity.

The specific matters in the attachment typically cover: (i) the services to be performed and their delivery schedule; (ii) if applicable, an asset delivery schedule covering what is to be delivered and when; and (iii) a payment schedule. For example, an attachment signed with a public relations firm might include, among the services to be provided: writing and issuing press releases, contacting media outlets, and dealing with influencers and the press, along with the delivery dates and payments associated with each service.

Two critical points to consider when dealing with independent contractor agreements involve ownership, and the vendor's legal status, namely, whether they can, in fact, be deemed to be independent contractors. In the United States, certain pre-conditions must be satisfied in both cases, in order for a work to be considered a work for hire, and for a person to qualify as an independent contractor.

As mentioned previously, under US law, an employer can own the work created by an employee provided it is done within the scope of their employment [645] or as an independent contractor under a work for hire pursuant to a written agreement. Otherwise, the author of the work would be considered the owner of the copyrighted material.[646] In order for the work to be deemed a "work for hire", the agreement must be in writing and signed before work starts and the work must fall within one of nine categories of service.[647] While audiovisual works, which include video games, are among the nine categories, software is not, and falls instead under the category of literary works for copyright purposes. This poses a potential issue as to whether creating software qualifies as a work for hire.[648] Some courts have ruled that it does, but did so by ruling that software creations are both "contributions to collective works" and "compilations".[649]

Due to the potential uncertainty as to whether services performed can qualify as a work for hire and the fact that jurisdictions may not recognize the concept, it is critically important that the agreement also contains provisions stipulating that the vendor assigns their rights to the developer. The assignment of rights transfers the vendor's rights to the developer, although an assignment could pose a number of long-term problems in certain jurisdictions. Under US copyright laws, authors, under certain conditions, have the right to reclaim their copyrights in what is known as the termination of transfers.[650] In this situation, if the author's

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[645] See *Mattel, Inc. v. MGA Entertainment, Inc.*, 616 F.3d 904, United States Court of Appeals for the Ninth Circuit 2010, involving the creation and ownership of the Bratz line of toy dolls.

[646] Dannenberg, Ross and Dravenport, Josh, "Top 10 video game cases (US): how video game litigation in the US has evolved since the advent of Pong", *Interactive Entertainment Law Review*, (2018), vol.1, pp. 89-102.

[647] United States Code, Title 17, Sect. 201.

[648] United States Code, Title 17, Sect.101.

[649] Rutkowski, Chad A., "Can Software Be Created as a Work-for-Hire?" *lexology.com*, 2016.

[650] United States Code, Title 17, Sects 203, 304(c). See Johnson, Ted, "Legal Landmark: Artists Start to Reclaim Rights to Their Music", *variety.com,* Penske Media Corporation, April 16, 2013. This has become relevant in the age of new distribution formats, as copyrights can be more easily exploited through new media worldwide. Content that might not have previously generated much revenue years after its initial release due to distribution limitations imposed on physical goods can now generate greater revenue. The music industry has seen a number of artists claims ownerships of some of their original music, including Don Henley of the Eagles, Tom Petty, Bob Dylan, Blondie, Fleetwood Mac and film composer, Ennio Morricone. However, while the legislation initially focused on musicians, the right can apply to other media forms besides, such as film and video games. See "Little-known aspect of US copyright law means creators can reclaim their work: when franchises get 'terminated'', *thenextweb.com*, Financial Times, November 9, 2019 regarding the motion picture industry. See also Jefferson, Richard B., "The Music Professionals Guide to Copyright Termination Rights", *lawyersrock.com*, October 1, 2017 with regard to music rights. The video game industry's

rights were assigned and not provided as a work for hire, the author, after 35 or 40 years (depending on when the grant was made) and, provided they serve notice of termination to the current rights holder, can reclaim ownership of their copyright within very specific time frames.

If there is no written agreement, it is highly possible that a vendor could own the source code. And, while the developer may have an implied license for the specific project, a developer would have to license the rights back from the vendor for any future project.[651] This is a painful position for the developer, especially when there is uncertainty as to whether a license can be obtained and how much it will cost. However, such a situation can be avoided by ensuring that an agreement is properly drafted beforehand.

Another concern for a developer is determining whether an individual who is an independent contractor on paper is deemed to be an independent contractor under the laws of the United States. The language used in a contract may not stand up to close scrutiny under the various state employment laws.

In the United States, provided certain conditions are met, an individual, that is, a vendor, can almost always be hired as an independent contractor rather than as an employee.[652] This provides benefits for the developer, who is not then required to take on responsibility for taxes and worker benefits, such as sick leave, and unemployment and disability insurance. Likewise, it allows the vendor to work on various projects for different companies and have greater control over their projects, although they are not entitled to the benefits they may receive as an employee.[653] However, there are also limitations to this possibility, including regarding the amount of oversight a developer can maintain on a project. The line can easily be blurred and can vary by state, or by national jurisdiction. Developers therefore need to be careful that they label vendors accurately, otherwise they can be subject to various fines and back taxes. In addition, a vendor who was misclassified can file claims against the developer to seek back pay to cover any time not compensated for, such as overtime, meals, and rest breaks.

Recently, the distinction between an independent contractor and employee has taken on greater significance with the growth of the gig-economy[654], illustrated by companies, such as Uber and Lyft, whose business models rely on

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future in this regard is unknown, since earlier games were not as content intensive as they are today, although source code could pose a problem for some earlier games if the work was assigned. It would appear that it would not nearly be as easy to exploit an author's rights in video games and films as it is in music. Therefore, a license for a film production company or game developer to retain the rights might suffice. Since this is a relatively new area of potential controversy with specific procedural issues and restrictions, including derivatives, it is advisable to contact a lawyer with expertise in copyright and familiarity with termination of transfers.

[651] Dannenberg, Ross and Dravenport, Josh, "Top 10 video game cases (US): how video game litigation in the US has evolved since the advent of Pong", *Interactive Entertainment Law Review*, (2018), vol.1, pp. 89-102.

[652] See *S.G. Borello & Sons, Inc. v. Department of Industrial Relations*, No. S003956, Supreme Court of California, 1989. Furthermore, the Internal Revenue Service has adopted a test to determine whether a person qualifies as an employee or independent contractor. See IRS, "Independent Contractor (Self-Employed) or Employee?", *irs.gov*, "Independent Contractors IRS 20-Factor Test", *regent.edu.* Failure to classify a person properly can result in civil penalties; criminal penalties may apply if the misclassification was intentional. See Messina, Frank, "Employee Versus Independent Contractor: The IRS and Department of Labor's Focus on Worker Classification", *cpajournal.com*, January 2019.

[653] Independent contractors cannot claim unemployment insurance from the hiring entity, nor are they entitled to the minimum wage. These issues were addressed by California's Assembly Bill 5.

[654] A gig-economy is characterized by temporary jobs and companies' tendency to hire independent contractors and freelancers instead of full-time employees. See Brock, Thomas, "Gig Economy", *investopedia.com*, February 4, 2021.

independent contractors to move passengers around. This issue has drawn even more attention, as a result of California's Assembly Bill 5 (AB5), which came into force in 2020 and is the strictest law in the United States regarding the classification of workers as independent contractors. Under this law, the state imposed a test adopted from a California Supreme Court decision[655] to determine whether an individual is an employee or independent contractor, the burden being on the hiring entity to show that the person meets the requirements to be deemed to be an independent contractor. The person is assumed to be an employee under the law unless proven otherwise by the hiring entity. For a person to be considered an independent contractor, the hiring entity must complete what is known as the "ABC test" and show that:

1. The person is free from the control and direction of the hiring entity as regards the performance of their work, both in the work contract and in fact;
2. The person performs work that is outside the usual course of the hiring entity's business; and
3. The person is customarily engaged in an independently established trade, occupation, or business of the same nature as that involved in the work performed.656

If the hiring entity cannot demonstrate one of the above factors, the person would be considered an employee unless they are covered by one of the exemptions under the law. Under AB5, there are a number of professions that are exempt, which may be relevant to the video game industry, including marketing professionals,[657] graphic designers, fine artists, still photographers, and freelance writers, as defined by the bill and who work under a written contract that specifies certain terms, subject to prescribed restrictions.[658]

In 2020, more exemptions for workers were added to AB5 with the passing of Assembly Bill No. 2257. Under the bill, translators, editors, content contributors, narrators, producers, illustrators, musicians, and music professionals, such as recording artists, songwriters, composers, record producers, vocalists,[659] and engineers, whose work is primarily original and inventive are now exempt.[660]

While an individual may be covered by one of the exemptions, they are not automatically deemed an independent contractor. Instead, a hiring entity would need to apply the so-called Borello test, which was used prior to the adoption of

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[655] See Dynamex Operations West Inc. v. Superior Court of Los Angeles, *4 Cal. 5th 903, Supreme Court of California, 2018.*

656 *Assemb. Bill 5, 2019 (Ca. 2020).*

[657] A marketing professional can qualify, "provided that the contracted work is original and creative in character and the result of which depends primarily on the invention, imagination, or talent of the employee or work that is an essential part of or necessarily incident to any of the contracted work. Assemb. Bill 2257, 2020 (Ca. 2020).

[658] Id.

[659] "Musicians and vocalist who are not royalty-based participants in the work created during any specific engagement shall be treated as employees solely for purposes of receiving minimum and overtime wages for hours worked during the engagement." The bill also excludes from the exemption musicians performing for a symphony orchestra, at an amusement park or in a musical theatre production. Cole, Aaron H., and Luster, Julia A., "AB 2257 Enacts Significant Changes to AB 5 on Classification of Workers as Independent Contractors", *The National Law Review*, vol.11, ser. 319, November 15, 2021.

[660] Assembly Bill 2257, 2020 (Ca. 2020).

the ABC test. The Borello test considers more factors, possibly making it easier to qualify as an independent contractor.[661]

Another important provision of the law is that it gives the California Attorney General's office, local prosecutors, and cities in the state the right to sue companies for violating the law and the right to seek injunctive relief, to prevent employees from misclassifying.[662]

The various tests involving independent contractors are very fact specific. AB5 is still relatively new and in a state of flux, with new legal challenges, additions to the list of exemptions, and questions will take time to clarify. Developers wishing to hire in California need to monitor the various laws, which will continue to evolve over the next few years.

[661] The Borello test considers the following factors:

(a) The individual (defined in this subdivision as an individual providing services through a sole proprietorship or other business entity) maintains a business location, which may include the individual's residence, that is separate from the hiring entity. Nothing in this subdivision prohibits an individual from choosing to perform services at the location of the hiring entity.

(b) If work is performed more than six months after the effective date of this section, the individual has a business license, in addition to any required professional licenses or permits for the individual to practice in their profession.

(c) The individual has the ability to set or negotiate their own rates for the services performed.

(d) Outside of project completion dates and reasonable business hours, the individual has the ability to set the individual's own hours.

(e) The individual is customarily engaged in the same type of work performed under contract with another hiring entity or holds themselves out to other potential customers as available to perform the same type of work.

(f) The individual customarily and regularly exercises discretion and independent judgment in the performance of the services.

See *S.G. Borello & Sons, Inc. v. Department of Industrial Relations, No. S003956, Supreme Court of California, 1989.*

[662] In May 2020, the California Attorney General sued Uber and Lyft, claiming the companies wrongfully classified their drivers as independent contractors, rather than workers, which is a violation under California's Assembly Bill 5. However, before a court could decide the merits of the case, the voters in California supported a proposition that allowed the drivers to be classified as independent contractors, thereby making the lawsuit moot. In California, a proposition allows voters to change the state's constitution, or other state laws, and overturn previous legislatively enacted laws. See Legislative Analyst's Office: The California Legislature's Nonpartisan Fiscal and Policy Advisor, "Ballot Initiatives and Propositions: Voter Initiatives", *lao.ca.gov*. However, a California court subsequently ruled that sections of the proposition were unconstitutional since it violated the state's constitution. At the time of writing, the decision is under appeal. See Siddiqui, Faiz, "California judge rules unconstitutional the measure classifying Uber and Lyft drivers as contractors", *washingtonpost.com*, August, 20 2021. How important was Proposition 22 to ride-hailing and delivery apps? According to the Washington Post newspaper, Uber, Lyft and DoorDash spent more than $200 million on Proposition 22 challenging AB5. Faiz Siddiqui and Nitasha Tiku, "California Voters Sided with Uber, Denying Drivers Benefits by Classifying Them as Contractors", *washingtonpost.com*, November 4, 2021.

CHAPTER 7

CONSOLES

7.1 - Introduction

One of the most important relationships that a publisher or developer forms is with the platform owners that manufacture game consoles and provide the software[663] and hardware tools necessary for publishers and developers to develop and publish their games, whether a retail or digital version, on each respective platform.

The console manufacturers ("CM"), of which three dominate the market, are usually referred to as first parties. Since the introduction of Microsoft's Xbox in 2001, the primary CMs have been Nintendo, Sony, and Microsoft. Nintendo has been in the industry the longest, having entered in the late 1970s. It competed primarily with Sega until 1994, when the PlayStation was introduced in Japan. That would be the first time that three major console manufacturers would compete for market share. Sega would eventually leave the console market in 1998, due to disappointing sales with the Dreamcast console. However, only a few years later in 2001, Microsoft would introduce the Xbox. At various times, different manufacturers, including Sega, have led yearly worldwide console sales driven by the hardware and games developed for their consoles.[664]

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[663] Software tools can consist of object code, source code, libraries, and firmware.

[664] See van Dreunen, Joost, *One Up: Creativity, Competition, and the Global Business of Video Games*, Columbia Business School Publishing 2020, pp. 36-37, which charts sales of the worldwide console gaming market from 1984-2018. A few historical facts about each CM and their significance in the industry: Nintendo, the only company of the three whose primary business today is video games, manufactured its first console, called Color TV-Game, in 1977, with distribution limited to Japan. Six years later, it introduced in Japan the Nintendo Entertainment System (NES), originally known as Famicom followed by a US release two years later. Many believe that the 8-bit system saved the video gaming industry, which was near collapse in the early 1980s, with groundbreaking games, such as *Super Mario Bros.* and *The Legend of Zelda*. Nintendo's hand-held video game device, the DS, is the most successful line of handheld dedicated video game devices in terms of sales, with over 154 million units reported sold. "Global unit sales of Nintendo DS as of November 2021, by region", *statista.com*, November 10, 2021. Nintendo's Wii console, introduced in 2006, helped expand the video game audience with its motion-sensing technology. Sony entered into the video game console market in 1994 in Japan with the introduction of the PlayStation after Nintendo abandoned a partnership with them to build a CD-ROM drive for Nintendo's SNES. Sony would soon become the leader among the console manufacturers, and its early success was attributed to a number of factors, including the introduction of 3D graphics, the use of a CD instead of cartridges used by Nintendo, which allowed for more memory for games, and a reduction in manufacturing costs, helping entice developers, strong third party developer support, and strong brand and infrastructure in manufacturing, marketing, and distributing products. The PlayStation sold over 100 million units, followed by the PS2, which would become the best-selling console in history, selling over a reported 158 million units. "Global unit sales of PlayStation 2 as of August 2021, by region", *statista.com*, August 11, 2021. Microsoft entered the console business in 2001 with the Xbox, later adding Xbox Live, an online gaming service that allowed subscribing end-users to download content. Microsoft has been at the forefront of online and cross-platform play. For further information on the various CMs, see Harris, Blake, *Console Wars: Sega, Nintendo, and the Battle That Defined a Generation, Dey St, 2014*; Sheff, David, *Game Over, Press Start to Continue: How Nintendo Conquered The World, Cyberactive Media Group, 1999;* Takahashi, Dean, *Opening the Xbox; Inside*

According to Newzoo, revenue from console distributed games, which includes both retail and digital, will account for $49.2 billion in 2021 and represent the second-highest revenue generated platform, only behind mobile.[665] Although more consumers are playing games using alternative platforms, consoles still remain extremely popular, most notably in the United States and Europe. A 2020 report by the Entertainment Software Rating Board (ESRB) indicated that 73% of gamers own a console device in the United States.[666] With the releases of the PS5, Xbox Series X, and the continuing success of Nintendo's Switch,[667] as well as the growing popularity of subscription based services, publishers will continue to derive a significant amount of their revenue from products distributed on these platforms, even if an increasing amount of revenue will come from digital sales as compared to retail. In addition, a growing number of independent developers will likely distribute their products digitally through the CMs' online distribution channels, thereby providing them with access to a huge installed base of gamers. As a result, understanding what a party is required to do in order to publish and develop games for a console platform, and the legal and business issues involved in any relationship with the CMs, is essential for a publisher.[668]

This chapter will briefly examine some of the significant business and legal issues[669] involving the CMs so that publishers are aware of some of their basic obligations and liabilities.

7.2 – Agreements: Development And Hardware Tools

As the gatekeepers to their proprietary systems, the CMs have each established their own procedures and guidelines, although these are similar in many respects, as they permit parties to publish and develop games for their platforms.[670] Some of the rights, procedures, and guidelines that may be updated continuously will vary, depending on whether the party is distributing a retail or digital product. In addition, publishers will need to sign separate agreements with each CM. However, unlike in the past, publishers will only need to enter into one master agreement with each CM, covering the different worldwide territories although each CM agreement applies in certain situations different terms for a specific region. For example, an agreement may use different language when

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Microsoft's Plan to Unleash an Entertainment Revolution, Prime, Prime Publishing, 2002; Pettus, Sam, *Service Games: The Rise and Fall of Sega*, 2013; and Geeks Line *The PlayStation Anthology, Geeks-Line, 2015/2017*.

[665] Wijman, Tom, "Global Games Market to Generate $175.8 Billion in 2021; Despite a Slight Decline, the Market Is on Track to Surpass $200 Billion in 2023", *newzoo.com*, May 6, 2021.

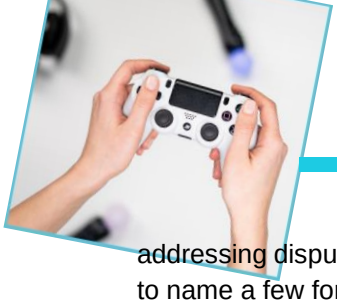
[666] "2020 Essential Facts About the Video Game Industry", *theesa.com.*

[667] In 2020, Nintendo sold 26.3 million Switch consoles: the highest yearly number of sales for any console in Nintendo's history. Batchelor, James, "Ampere: PS5 and Xbox Series X|S sales in line with, not ahead of, previous gen", *gamesindustry.biz*, February 11, 2021.

[668] With the growing importance of downloadable games through the CMs' digital distribution platform, and the recognition of the growing importance of independent developers, it is expected that procedures, barriers to entry, legal issues and guidelines established by the CMs will continue to evolve to deal with the changing video game landscape. All three CMs have increased outreach efforts to the independent development community, but is still a greater challenge to distribute digitally compared to other digital platforms such as Steam and mobile.

[669] Privacy rights, IP, end-user created content, content regulation, and monetization policies, including those involving virtual currency, are some of the potential areas that might take on greater legal relevance in the future.

[670] See the following platform manufacturer sites regarding information for developers and publishers: *https://developer.nintendo.com/* *https://partners.playstation.net/* and *https://www.sie.com/en/blog/how-to-pitch-your-game-to-playstation/*; *www.xbox.com/en-US/developers?xr=footnav*; *http://www.xbox.com/en-us/ developers/id*; and *http://msdn.microsoft.com/en-us/aa937791.aspx.*



addressing dispute resolution, replication issues, limits of liability, and approvals, to name a few for North America, Asia and Europe. [671]

Subject to satisfying the pre-requisites established by each CM, both a publisher and developer can enter into agreements with the CMs to create games for a particular platform. However, traditionally, only publishers have been entitled to distribute their games at retail, subject to a platform license agreement. Consequently, if a developer wants to distribute their product at retail, they would either need to become a publisher (although this is very rare) or enter into a relationship with a publisher.[672] Many developers, in exchange for granting distribution and possibly other rights, will enter into relationships with publishers, as publishers will typically provide the financing and services associated with the distribution, manufacturing, marketing, submissions and testing (QA) for a game. In addition, publishers potentially have relationships with retailers and, with possibly more products and franchised properties, they may be able to use their leverage with retailers and CMs to obtain more favorable terms and commitments, including additional marketing opportunities for a game.

For a company to become a licensed publisher it must enter into the CM's publishing agreement, which allows the publisher to publish games as a digital and/or retail version. This agreement establishes between the CM and publisher the rights, limitations, obligations, and submission procedures, which will vary to some degree depending on the publisher's form of distribution.

Given that CMs have significant bargaining power, there may be few opportunities to negotiate terms with the CM, although ultimately this depends on the parties' leverage and the possible limitations imposed by applicable law. If the CM is attempting to enter into an exclusive deal with a developer or publisher, or either party provides a product that is important for a particular platform's success, in all likelihood there will be room to negotiate various business points.

Under the publisher agreement, the publisher would typically have the non-exclusive, non-transferable right to publish, develop, and distribute games, as well as any additional content, such as downloadable content (DLC) and microtransactions (referred to collectively in this chapter as "Game Content") on the console platform; to manufacture retail versions of a game through the hardware manufacturer or approved CM vendors, and market games.[673]

The publisher will also need to follow specific procedures for the submission of games, and commit to a number of other important obligations, which may

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[671] Historically, publishers would have to submit materials separately for different regions, namely, the United States, Europe and Japan, for certain CMs, with each possibly having different acceptance criteria. Consequently, a game accepted in Europe might not have been accepted in Japan. CMs eventually moved towards single submissions and a single final candidate game may contain a number of different versions to satisfy various rating boards and regional customs, although consumers would only be allowed to play the version of their designated country.

[672] See Chapter 3 regarding the publisher-developer relationship.

[673] In addition, the publisher would have the right to use the CM's trademarks, subject to the CM's approval, but only in connection with the publishing, that is, the manufacturing, sale, and marketing, of the game. The agreement will also state that the publisher is granting non-exclusive rights to the CM to exploit the content material and publisher's trademarks on their platform, as well as any marketing materials. This would also include the right of the CM to allow the game to be streamed on the CM's platform and to allow third-party applications and services by players, although the publisher would have the right to disable the streaming of their game. If the publisher allows for streaming, it is important for a publisher to exclude any content that may not be licensed for that purpose, namely, music.

include, depending on whether the publisher is distributing retail and digital or just digital, platform royalty payments to the CM, approvals, representations and warranties, indemnification, manufacturing procedures, use of development tools provided by the CM, product warranties, minimum orders, specific procedures involving the delivery of the publisher's Game Content, restrictions and obligations regarding online gameplay purchases of downloadable content, and collection of end-user information.

7.2.1 – Development And Hardware Tools

Either as part of the publishing agreement or a separate agreement on tools, a CM may grant a non-exclusive license, for a certain period, in a designated territory for the developer to utilize the CM's proprietary hardware equipment and tools, such as software development kits (SDKs), test kits, development kits, programming tools, emulators, and any other materials provided by the CM needed to develop a game for a platform.[674]

The license will cover several areas, whether in the master agreement or separate agreement, including the conditions of use, access to and care of the materials (which may include the right of the CM to inspect the publisher's place of business to confirm their compliance with the requirement to take care of and secure the tools), costs, rights, representations and warranties, indemnification, confidentiality, the CM's limitations of liability, including that materials provided are "as is", termination, injunctive relief if materials are used improperly, limitations on rights to assign, the law that would apply in the event of a contractual dispute, in what jurisdiction the dispute would be heard, and other boilerplate provisions.[675]

7.3 – Development, Manufacturing, And Distribution Issues

7.3.1 – The Submission And Approval Process

Each CM requires that Game Content, together with a game's packaging (retail only) and marketing materials, including press materials, be submitted for approval.[676] Some CMs also have the right to approve in-game dynamic and

[674] Some of the hardware development systems needed by developers and publishers can be costly, depending on the number required by the developer. As a result, the publisher and developer need to factor these costs into their development budgets if they are developing for multiple platforms. In some situations, CMs are reducing some of the costs associated with obtaining development kits, in an effort to promote development for their various systems. See *http://us.playstation.com/develop* and *http://www.xbox.com/en-us/developers/id.*

[675] See Chapter 12 for a discussion on common clauses that appear in many agreements, including the various CMs' tool agreements.

[676] At one time, CMs exercised broad discretion regarding approvals and could reject game submissions and other materials for almost any reason. In Europe, the courts and regulatory bodies looked unfavorably towards CMs' blanket discretion. Over the years, the CMs have reduced their discretion, with regards to game concepts, not only due to policies in Europe, but also as a result of competition, for example, Apple's more liberal approval process compared with that of CMs gave rise to a number of changes. However, CMs still exercise broad control over technical issues and maintain the right to disapprove video games and remove them from their platforms, although this is rare after a game's release.

static advertising.[677] Each CM has its own submission policies and guidelines covering technical and content requirements involving game development. While a developer or publisher may begin development on a game at any time once they have signed the appropriate agreements, at some time before a game can be released on a console platform, certain information about the game, including the game's concept, will need to be approved by the CM. However, it is probably best practice to submit a game's concept as early as possible, to avoid any unnecessary costs and time involved in developing a game concept that is later refused by the CM.

Prior to submission for the CM's final approval, referred to as a game's certification, the publisher must first test the game to ensure that it is compatible with the appropriate hardware and configurations; works with any approved peripherals; and that there are no bugs, viruses, or defects in the game that would prevent it from playing on a platform. Once the publisher has tested the game, it would submit a final version to the CM for its approval[678] to ensure that the game meets the CM's technical and quality requirements and is functional, and therefore ready to be released for distribution.[679] Following the CM's approval, the master candidate is then ready for duplication or digital distribution.[680] Publishers should also be aware that they must comply with all certification requirements on an ongoing basis and, in most cases, they must obtain approvals for updates and patches. Finally, CMs might also require that all games be localized to the same extent as the localization carried out for any other CM. This would include, at the very least, languages, text, voice, and packaging.

The publisher will also need to submit all retail packaging materials, including related artwork, user instructions, warranty information, brochures, promotional inserts, and packaging. Furthermore, all marketing and promotional materials must be approved by the CM that incorporates its trademarks or name on, for example, press releases. These requirements are quite broad and cover any activities involving the use of any of the CM's trademarks, brand names, and any other intellectual property. For example, this could include advertising materials, such as online, television, radio, print, promotions, posters, public relations,

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[677] In-game advertising is also usually subject to other provisions in the agreement, including compliance with a countries' advertising regulations, which may prohibit certain products targeting children.

[678] The CM will conduct so-called first party checks to verify that the software works on the platform and does not violate any technical requirements or guidelines established by the CM. Publishers or developers must not submit a game to the CM expecting it to do the initial testing, since this will only delay the approval process and increase costs.

[679] If the submission is approved, the CM will release the master candidate to manufacture, that is, for retail versions, this would include duplication and packaging. If the master is rejected, the publisher would need to resubmit, and the CM would need to review it again. A publisher might be allowed to request an expedited review, in order to respect a projected release date, although that would usually result in an additional charge.

[680] To date, CMs have required that all manufacturing for game discs, cartridges, and demos be carried out, either by the CMs or by their certified vendors. European publishers have the option to use other vendors, although CMs will still need to approve anything manufactured. This ensures that the quality and security measures required by the CM are carried out pursuant to the CM's requirements. All the CMs have a number of approved certified manufacturers to duplicate their products throughout the world. In contrast, for games on PC, the publisher can contact and enter into a deal with any DVD replicator. Even after materials have been approved by a CM, the CM will be entitled to require a publisher or developer to correct any defects in a game or mistakes in materials, such as an incorrect use of a CM trademark. This could entail a recall of products or the publication of an update for a game in order to correct the problem.

press releases, contests, web pages, and retail displays. Failure to submit such materials could result in a breach of the agreement.

CMs may also stipulate the following requirements:

1. Each game, whether sold at retail or digitally distributed, must receive a rating and include the assigned content descriptors by the region or country's rating board. In addition, the rating can be no more restrictive than a mature rating in the United States and its equivalent in any other territory with a rating system.[681]
2. Unless approved by the CM, restrictions may apply to the bundling of games and the use of peripherals.
3. Once the game is in distribution, the publisher will be required to provide customer support for the game, including technical support for issues relating to game play.
4. The publisher must provide a standard defective product warranty on all products sold.
5. The publisher will have the right to provide their own end-user license agreements, subject to restrictions. Some of these restrictions may include that the publisher's terms and conditions do not conflict with those of the CM's end-user license agreement, or disclaim any warranties and damages on behalf of the CM.
6. The publisher must correct on a continuous basis any bugs and errors once a game has been certified.

7.3.2 – Distribution

If the developer elects to have their game distributed digitally through the CM's online distribution channel,[682] the publisher agreement will include specific sections covering digital distribution. Those sections usually contain various business terms similar to those in PC digital distribution agreements,[683] including:

1. The submission and approval process for Game Content, which can vary between retail and digital, and accompanying marketing and publicity materials.
2. Rights granted by each party, which will also include matters pertaining to end-user rights after the removal of a game.
3. Term of the agreement, and the rights of either party to terminate for breach, which includes the publisher's right to terminate for convenience, subject to fulfilling certain obligations.
4. Territory in which a game may be distributed.

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[681] See Chapter 10 regarding ratings. For some CMs, if a rating board does not exist in a territory, the CM will have the right to approve the game and has the right to reject the game if it contains excessive violence, or sexual content, inappropriate language and any other elements they may deem unsuitable. Furthermore, all additional content provided digitally must be consistent with the game's rating.

[682] Sony's PlayStation Network, Microsoft's Xbox Game Store, formerly known as Xbox Live Marketplace, and the Nintendo eShop.

[683] See Chapter 8.

5. The revenue share between the parties from the exploitation of the Game Content.
6. When payment is made by the CM and what information will be provided to the publisher regarding the payment, such as statements and the right to audit.
7. What materials will need to be delivered.

In addition, sections in the publisher agreement will apply both to retail and digital, including such sections as representations and warranties, indemnification, dispute resolution, ownership rights, limitation of liability, and boilerplate language.

7.4 – Business Issues

The major business matters for a publisher in a CM publishing agreement usually involve: (i) minimum order requirements for packaged goods; (ii) the platform royalty fees paid to the CM for packaged goods and the revenue share split for digitally downloaded content;[684] and (iii) possibly marketing support from the CM. For the independent developer who is not dealing with a publisher and is interested in digitally distributing their product through a CM's online network, the most important business issues involve the revenue share split for their digital download content, and confirming a release window for the digitally downloaded game, and visibility on the platform.

7.4.1 – Minimum Order Requirement For Packaged Goods

For retail sales, the CMs require minimum orders for packaged goods for each defined region or territory.[685] A publisher must therefore commit to a certain minimum payment. These costs will cover manufacturing, printing, and packaging, and typically must be paid prior to shipment.

7.4.2 – Licensing Platform Royalties

Licensing platform royalties are fees paid by publishers for each retail product manufactured for use on a CM platform. The royalty covers a license fee, as well as the publisher's right to use the CM's name, and proprietary information. CMs can unilaterally revise the licensing fee, and it may vary based on a number of

[684] CM's primarily make money from: (1) the sales of each unit of a game manufactured by the publisher, whether or not the product is ultimately sold in the form of a platform royalty; (2) sales of their hardware, although this is usually done at an initial loss as the CMs subsidize the costs to help drive software sales; (3) a share in all sales of digital content on their online network; (4) sales of games developed by the CMs, whether by internal teams or third parties hired pursuant to a developer agreement; (5) sales of licensing fees for any peripherals compatible with the hardware; and (6) licensing involving their IP, such as films and merchandising.

[685] These might include, for example, North America, South America, Europe, Australia, Asia, and Japan.

factors including the region in which the product is sold, the number of units ordered by the publisher,[686] and the pricing of a game.[687]

Even if the publisher is unable to place the units ordered in retail, whether this is due to a lack of demand for the minimum order requirements, the publisher incorrectly ordering more units than needed based on sales forecasts, for example, the units being returned by the retailer, or the price being lowered to incentivize consumers, the publisher will still be responsible for the entire payment of an order based on the initial wholesale price, and will not be entitled to a refund.[688] The publisher must determine, therefore, even before developing a game, that the anticipated numbers of packaged goods sales combined with digital sales make its efforts economically viable.[689]

In some situations, although very limited compared to past years, publishers receive manufacturing discounts for packaged goods if the publisher is eligible for any of the CM's qualified programs. In this scenario, the game has achieved a certain number of sales established by the CM, as well as a certain shelf life and would be re-released and re-branded subsequently at a reduced price, under the CM's special sales program. These types of programs can extend a game's brand recognition and help distinguish the game for the end user as a previously top-tier selling game, providing an additional incentive for the end user to purchase the product at a reduced price. Furthermore, for the publisher, it provides an opportunity to sell its product later in the game's distribution cycle at a reduced price, with lower royalty commitments and, if applicable, with the goal of selling additional content digitally.

Manufacturing and minimum order requirements are not relevant to digitally distributed content. Instead, like with other forms of digital distribution channel, the CM receives a percentage of the sales price of the item sold. Traditionally, CMs have taken a 30% fee. The price of the items would be determined by the publisher, and sales revenue would be received by the CM and remitted with a statement to the publisher.

7.4.3 – Marketing

For video games, the marketing budget is one of the most significant expenses incurred by a publisher outside development and manufacturing. In a highly competitive market, a video game may have a very short window of time to attract consumers. A marketing "spend" can therefore increase customer recognition of

[686] Like with the purchase of any type of goods, royalty rates may decrease as the number of orders increases for a particular region. Unlike the CMs that require a royalty payment for each unit of a game manufactured, there are no royalty payments paid to PC hardware manufacturers.
[687] Historically, publishers paid their licensing/royalty fee based on, either the initial wholesale price, or SRP, even if the price was subsequently lowered.
[688] An additional challenge with retail sales is the fluctuation of pricing between digital and retail games. The growing popularity of digital games has brought about widely fluctuating price points and dynamic price changes. In the traditional retail market games, prices tend to drop if the game is not selling as well as hoped, in a sale, or during a promotion, but not to the same extent as in the digital marketplace. Moreover, digital allows for games to be sold significantly more cheaply when initially released, at prices that would not be sustainable for most games in the retail market, especially if set below $10, not to mention all the costs and time needed to even place a game on the retail market. Furthermore, a market saturated with low priced digital games poses an additional challenge for other games, which despite higher development and marketing costs, may have to reduce their retail price to compete.
[689] See additional information on retail sales matters in Section 3.2.8.

a game.[690] Developers should consequently try to negotiate a marketing commitment from a CM, which could even include premium placement on the CM's website While this can be difficult to negotiate, it could be possible if the publisher enters into an exclusive distribution opportunity with the CM for a set time period or provides unique content.

7.4.4 – Exclusivity

One way that may help increase the visibility of a video game is by entering into an exclusive distribution relationship with a CM. However, this can be challenging for many publishers without a successful track record. Publishers may elect to release a game on a single platform, or release unique content for a certain period of time in return for possible development and/or marketing costs and/or improved placement on the CM's storefront. The developer would need to gauge whether the exclusive window with one platform, assuming that it is provided with relevant support from the CM, outweighs distribution across various platforms.

7.5 – Legal Issues

All the CM agreements contain a fair amount of legal language that is beneficial to the CM. There is usually little, if any, room to negotiate any such terms, although this may be possible on rare occasions, depending on the publisher. While agreements differ among CMs, each will, at the very least, address matters. such as representations and warranties, indemnification, confidentiality, limitations on the collection of end-user data, termination, and limitations on liability. This section will discuss some of the legal terms that may appear in the publisher agreements with the CM.

7.5.1 – Representations And Warranties, Indemnification, Limitation On Liability

In the various CM deals, CMs have, not unexpectedly, traditionally limited their representations and warranties, thereby limiting their liability, subject to the applicable law. Typically, the only representations and warranties CMs usually make, pertain to their right to enter into the agreement, and stipulate that they will fully perform their obligations under the agreement's terms. Like other manufacturers of hardware, not only do CMs limit their representations and warranties, they also do not make any claims that their platform and materials provided to the publisher do not infringe the rights of third parties, as well as any

[690] Typically, the marketing spend for a retail console game will be a percentage of projected sales and revenue. Publishers, in determining what percentage to allocate to marketing a game, will usually consider the following factors: (i) anticipated revenue, including units forecasted and possibly in game purchases; (ii) the game's budget; (iii) current market conditions; (iv) marketing spends for similar games; and (v) past sales of a franchised game, if applicable. Marketing plans might encompass television, print, and online advertising, event sponsorships, outdoor advertising, direct mail, and cross-promotion. In addition to marketing, publishers will spend on retail or channel marketing, which may include pre-sell giveaways, point-of-purchase displays, and coop retail advertising campaigns. Actual marketing numbers for games are difficult to obtain, as they are sometimes combined with development costs. For AAA titles, marketing dollars can easily run into the tens of millions, especially if there is a television campaign.

implied warranties of merchantability.[691] As a result, materials provided to the publisher are typically on an "as is basis" to the greatest extent permitted by law.[692]

On the other hand, the publisher will be required to make a number of representations and warranties, reducing the CM's risks and liabilities as much as possible, and indemnifying the CM against any loss, liability, and expenses, including any settlements and legal fees resulting from any claims against the CM involving the publisher's goods and services, marketing, sale, or collection of data. The CM will establish the indemnification procedures, namely, notice, and control of the defense, including the CM's right to approve counsel selected by the publisher and any settlement. It is conceivable that, in some cases, the interests of the parties may be different, further complicating how indemnification will be handled.

In addition to the indemnification responsibility, a publisher is required to maintain various forms of insurance, including errors and omissions insurance, covering claims in which the CM is indemnified, for example, for IP infringement. As part of the insurance coverage, CMs require (i) coverage amounts and deductibles at certain levels, (ii) proof of insurance indicating the coverage obtained and naming the CM as an additional insured party under the policy, and possibly as a beneficiary, and (iii) notice to be provided to the CM within an agreed time period in the event that the policy is terminated or modified. [693]

The most significant representation and warranty made by the publisher involves the Game Content, which includes content created by end users, the tools (excluding the development tools provided by the CM), and any other game-related materials, such as marketing materials owned or licensed by the publisher and that they do not infringe upon the rights of any other party. These rights would include names, trademarks, copyrights, patents, trade dress, trade secrets, rights of publicity and privacy, moral rights, and any other IP rights worldwide. This representation and warranty is critical, in view of the potential risk of the CM being named in a lawsuit involving a publisher's game infringing the rights of a third party, whether the naming of the CM in the lawsuit were justified or not.

Other representations and warranties typically also stipulate that: (i) the Game Content will be free of major bugs or viruses; (ii) the Game Content will be rated and will not be altered, which would invalidate the rating, and that the Game Content will not include any illegal data, images, or messages, such as obscene, defamatory, pornographic material; (iii) the publisher will not violate any rules, laws or regulations, including through the collection and sharing of data; (iv) the rights granted will not conflict with those granted to another party, and (v) the CM will not incur any financial liability for Game Content namely, for the talent and music. In the event of the breach of any of these representations and warranties,

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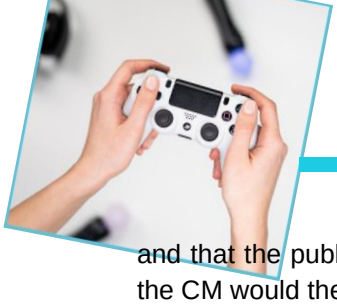
[691] For example, in the United States, an implied warranty of merchantability means that the goods must meet certain criteria: they must be fit for the ordinary purposes for which such goods are used, be adequately packaged and labeled and conform *to* any affirmations of fact made on the container or label. *Uniform Commercial Code (U.C.C.) Sects 2-315 and 2-314(2)(c).*

[692] In the United States, state law may limit the enforceability of limitations of liability, and courts will not limit liability if a party has engaged in gross negligence, fraud, unlawful acts, or intentional torts. See Cannady, Cynthia, *Technology Licensing and Development Agreements*, *Oxford University Press, 2013, p. 275 and California Civil Code, Sect.1668.*

[693] See Sections 3.2.16 and 4.3.11 for a more detailed discussion on E & O insurance.



and that the publisher fails to cure the breach (assuming that it can be cured), the CM would then be entitled to terminate the agreement.

CMs will also restrict their liability, in the event of a breach on their part, by limiting the potential amount of monetary damages and the type of damages, such as consequential and indirect damages, which may include lost profits, opportunity costs, loss of goodwill, and damage to reputation, that could be claimed by a publisher. For example, if a CM's online network went down, or there was a problem with the hardware or software, this could result in a loss of potential sales for a publisher. Agreements also include provisions limiting the publisher's liability, but these are more limited in scope and typically exclude certain breaches by the publisher.

7.5.2 – Confidentiality

Even though the publisher may have signed a separate confidentiality agreement, subsequent agreements will contain a confidentiality clause and will generally supersede the previous confidentiality agreement, given that the relationship between the parties will have developed since their initial communications. Since the publisher and CM would both be exchanging extremely sensitive business information, whether orally, in writing, or in machine readable format, each party is required to maintain the confidentiality of the disclosing party's information.

The CM will likely receive information from the publisher that might include: (i) product proposals, and (ii) game designs and other information about the game planned for development. Later, the parties may exchange business and marketing plans, followed by yet-to-be-published game software and marketing materials. Likewise, depending on the type of agreement between the CM and publisher, which could consist of an exclusive development deal, or a distribution deal, which may involve more information exchange, the CM will be providing confidential information about the hardware and software, including development tools, and any marketing or business strategies.

Due to of the important nature of the confidential information exchanged, each party will be required to maintain confidentiality for a fixed period of time and take the necessary steps to maintain confidentiality. Furthermore, both parties will generally only be permitted to share confidential information on a need-to-know basis with employees, developers, and subcontractors, who may also have to sign a separate confidentiality and non-disclosure agreement. However, in certain circumstances, confidential information may be disclosed publicly, upon a decision by the parties or by a court, government, or administrative order.[694]

7.5.3 – Assignment

As in the case of a licensor-licensee relationship, the CM is specifically entering into an agreement with the publisher based on a number of factors, which may include the company's expertise and financial security. The publisher will be prohibited from assigning the agreement or transferring their rights and obligations to another party without the CM's prior approval.

[694] See Section 11.3.2 on the common exceptions in confidentiality agreements.

7.5.4 – Term And Termination

The length of the agreements is set by the CM and can either expire at the end of the term, or be terminated earlier under certain circumstances, such as an uncured material breach by either party, or termination for convenience by the publisher after the expiration of the initial term. The material breach provisions that can be invoked by the CM are usually very broad and can have repercussions affecting any other agreement, such as a tools agreement. Consequently, the termination of an agreement due to an uncured breach can result in the termination of other agreements.

While the publisher is entitled to terminate the agreement if the CM materially breaches it and fails to provide a cure, the agreement provides for more situations under which the CM could claim materially breach. A publisher's material breach of agreement may differ slightly according to the agreement and depending on the CM, but might include:

1. Failure to pay monies owed to the CM.
2. Failure to cure a breach of a representation and warranty or any other material term in the agreement subject to indemnification.
3. Failure to follow the guidelines for the submission and approval of games and any other materials.
4. Failure to safely secure materials provided to the developer or publisher, such as development tools.
5. Improper use of a CM's trademarks.
6. Use of materials that have not been approved by a CM.
7. Failure to comply with ratings rules and regulations.
8. Bankruptcy or insolvency.
9. Unauthorized disclosure of confidential information.
10. Selling of games outside approved territories.
11. Game Content and any other materials associated with the game causes harm or is likely to cause harm to the CM, its end users, and third parties, namely, networks, such as a security breach or damages the reputation of the CM.
12. A publisher is in any IP dispute or litigation with a CM company or affiliate.

If a publisher were to breach the agreement, they would usually be given a fixed amount of time to cure the breach, depending on the type of breach and assuming it is curable. For example, a bankruptcy filing or an assignment for benefit of creditors may not entitle the publisher to a cure period. Furthermore, in certain circumstances, especially when dealing with IP, the CM may have the right to seek injunctive relief caused by a potential breach.

In the event that an agreement expires in certain circumstances involving a retail product, the publisher would be allowed to sell off remaining inventory, within a period typically between 90 and 180 days, depending on the CM agreement. Any inventory remaining after the sell-off period would need to be destroyed within a set period. In addition, publishers might still be required to provide customer

support for online features, and any CM materials in the possession of the publisher, whether the materials consist of developer kits or confidential information, would need to be returned or destroyed subject to the CM's decision.

For digital products and content (associated with retail games with downloadable content), the CM may require the publisher to provide adequate notice to the end users that the video game will be removed from the catalogue, thus becoming unplayable or some features might be removed. However, in some cases, a video game can be removed immediately on account of legal issues or the termination of an underlying license.

7.5.5- Choice Of Law, Venue

This section will discuss: how disputes are settled, whether it is done through initial informal discussions, arbitration, court (which may or may not allow for a jury trial depending on the dispute), or a combination of these possibilities; the law to be applied in the event of a dispute; and where they are resolved.

As a result of the CMs' bargaining position, the publisher must agree to the CM's choice of law and venue, which may vary depending on the region in which the CM deals with the publisher. For example, a publisher who wants to distribute in Asia on the PlayStation would need to resolve any legal issues in Tokyo. For publishers, especially smaller companies, this is a significant issue in the event of a dispute arising between the parties, since travel and other expenses, and the possibility of needing local counsel can be a huge burden on any company, especially if a CM requires all disputes to be resolved in one venue.

7.6 – Moving Forward

The role of the CMs will change in the next few years, in line with the shift in the way consumers can play games. Many consumers who have played on hand-held devices and consoles may now largely play on alternative platforms on mobile and tablet devices. While some consumers may change their gaming habits, many will continue to play on consoles, and others will start playing (by purchasing retail games or by playing online) on a console platform. Even though there are currently more economic and procedural barriers to developing and publishing games on console platforms, compared to other platforms and distribution methods, the rewards can be great, especially for successful AAA titles. It is therefore an option that developers should consider when planning to develop games. However, before undertaking any development, a developer and publisher must know how each CM operates; what they require; what guidelines they will need to follow; and what obligations, including financial, will be required of them.

CHAPTER 8

PC DIGITAL DISTRIBUTION

8.1 – Introduction

Digital distribution means delivering content through the internet without the use of physical media. Digital distribution provides many advantages compared to retail, as it bypasses the associated limitations and expenses.[695] Digital distribution provides players with instant access to the game, downloadable content (DLC),[696] updates, and enhancements.[697] It facilitates innovative monetization strategies, such as microtransactions while providing an easier and faster mechanism for developers to acquire feedback from players.

While retail sales of console games still play an important part in the gaming industry, digital sales from mobile, PC, and consoles are now the leading form of distribution. It is easy to understand why this has happened, although for many, it happened faster than expected. Within the last ten years, the number of players spending on digital games compared to retail games shifted dramatically. In 2009, retail sales reportedly accounted for approximately 80% of all sales and, by 2019, they accounted for less than 18%,[698] eventually dropping to around 10% in 2020.[699] This is a remarkable turn of events that has affected almost every aspect of the video game industry, including how games are developed and monetized, retail, accessibility to games, and the platforms consumers use to play games.

For many console manufacturers and publishers, games that are digitally distributed on console now exceed retail sales. Digital sales have been steadily increasing in the console market and reached unprecedented levels in 2020,

[695] The traditional retail channel continues to provide a major source of revenue for publishers who have built up the relationships and infrastructure to support retail distribution of physical content. Generally, unless a developer has signed an agreement with a publisher to distribute the developer's game, traditional retailers will probably not represent a viable option for independent developers, due to the costs and logistics of retail distribution. Such costs include manufacturing, shipping, storage and inventory risk, coop advertising, insurance, returns, and price protection. In addition, there could be problems or delays with reporting and payment, while digital distribution platforms (DDPs) tend to report and pay earlier. Even for major publishers, retail costs in certain countries pose an even greater challenge due to taxes and government regulations.

[696] Downloadable content (DLC) generally refers to online content and features unique to a specific game that can be purchased, downloaded, or accessed separately from the game or through in-game store purchases. Online content and features may include virtual items, new game scenarios, or levels and additional functionality to enhance user experience. DLC can be for both digital and retail games.

[697] Games and other content can be downloaded or streamed. Downloading involves transferring a file from a remote server that is then saved onto an end-user's computer hard drive. Streaming, on the other hand, consists of the transmission of data, that is, a game, to a device as required, instead of downloading and saving an entire game. An advantage of streaming is that the game can be picked up on another device and continued at the place the gamer stopped. Unlike downloaded files, which remain on the computer until the user deletes them, streamed content is automatically deleted from the computer by the operating system after it has been played or watched.

[698] Clement, J., "Digital and physical game sales in the US 2009-2018, by format" *statista.com*, May 5, 2021.

[699] Smith, Mina, "91% of 2020's Game Industry Revenue was Digital", *gamerant.com*, December 24, 2020.

accelerated by people staying at home as a result of COVID-19. For many publishers, digital console game sales exceeded 50% of overall sales in 2020, and this trend is expected to continue. Both Sony and Microsoft's next-generation platforms introduced models without disc capabilities that rely solely on digital distribution, further illustrating the growing importance of this form of distribution. At the time of the launch of the PS4 and Xbox One, digital sales accounted for approximately 5-10% of sales on those platforms. Today, they account for more than 50%.[700] In the second quarter of 2020, Nintendo reported for the first time that digital sales, which included software, online subscriptions, and DLC, had exceeded retail sales over the course of a single quarter.[701] This represented a huge jump from the first quarter of 2019, when digital sales accounted for 22.3% of sales.[702] While sales continue to grow with digital on console,[703] only time will tell what impact COVID-19 had on sales and whether these increases are expanding the overall market, and/or increasing digital sales at the expense of retail.

PC is even more pronounced illustrating the rapid move to digital distribution. In recent years, PC digital sales have dominated the market compared to retail PC sales, which have dipped to as low as 2 % of all sales.[704]

Worldwide digital distribution revenue in 2020, excluding mobile, generated $52.8 billion, with PC accounting for $31.1 billion and console $19.7 billion[705] and led to an unprecedented number of games being released by independent developers and publishers. This revenue growth has primarily been driven by improvements in technology, greater access to the internet and digital platforms, extra content made available digitally and growth in bandwidth capabilities providing many players with a relatively easy way to obtain a huge assortment of current and catalog games worldwide.

The transition from retail to digital has helped expand publishing opportunities for developers and publishers[706] providing them with new markets and greater and direct access to players worldwide - many of whom may have been previously denied access, primarily due to software and hardware costs. Furthermore, developers could participate in seasonal discount sales, and offer price differentiation among different countries, thereby providing consumers with access to games that were previously unattainable for many due to the retail costs.[707]

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[700] Sony reported that from April to June 2020, digital sales accounted for 74% of full game sales, compared to 53% the previous year. Nintendo also reported record digital sales. Good, Owen S., "COVID-19 pandemic turns console gamers to digital sales in record numbers", *polygon.com*, August 11, 2020.

[701] Coulson, Josh, "Nintendo Is Selling More Digitally Than Physically For The First Time Ever", *thegamer.com*, August 17, 2020.

[702] *Ibid*.

[703] Morris, Chris, "One year into the pandemic, video game sales aren't slowing down", *fortune.com,* April 16, 2021.

[704] *Ibid*.

[705] Valentine, Rebekah, "Digital games spending reached $127 billion in 2020", *gamesindustry.biz*, January 6, 2021. Most industry reports also calculate mobile sales as part of digital sales.

[706] Established publishers may have greater leverage when dealing with DDPs because they may have stronger IP and a more extensive catalog, to which DDPs would like to access. Consequently, publishers may be able to negotiate more favorable terms, including marketing and placement commitments from DDPs.

[707] van Dreunun, Joost, *One Up: Creativity, Competition, and the Global Business of Video Games*, Columbia Business School Publishing, 2020, p.19. But see below for information about the issue of geo-blocking in the EU.

As shelf space continues to shrink in many retail outlets,[708] digital distribution provides a significant and cheaper alternative for releasing new and older products.[709] First, developers and publishers earn more revenue on a digital sale than a retail sale when all the costs are factored in, providing for higher profit margins. Second, digital has provided a more financially beneficial means of extending a game's life cycle, whether through the sale of older games, such as catalog titles, or through continuous downloads of new content, reducing the need to publish sequels as frequently as in the past, while generating revenue and maintaining a franchise's visibility at lower costs.[710] Third, with new PC digital distribution platforms (DDPs) entering the market and competing for content, more will offer unique opportunities, which might include better financial terms for developers granting distribution rights, namely, minimum guarantees, marketing commitments,[711] and/or lower fees charged by DDPs for their services. This can mean significant amounts of money for developers. Fourth, games in most situations can reach consumers faster, avoiding the longer console certification process. And finally, while still a problem, there is less piracy which deterred publishers from distributing retail versions of games in certain territories, such as Russia,[712] especially when games are given away free of charge.

Consumers have also benefited in a number of ways. First, digital distribution has given them access to an incredible range of games that may not have been accessible to them at retail. This includes new games created by independent developers, which may result in innovations in gameplay and business models, and classic games from a publisher's library. Second, the number of games now available, which is very beneficial for a consumer, yet a challenge for a developer, has created a more competitive market that helps keeps games competitively priced and has led to new customer features as DDPs compete for players. Third, more and more games continue to provide new downloadable

[708] Over the years, the amount of space allocated in retail outlets has dwindled substantially, or has been eliminated altogether for certain formats, such as PC, in certain regions. This has mostly been driven by the growing popularity of digital distribution on various platforms. With retail space limited, retail stores focus on selling the potentially most successful games, thus keeping other games off the shelves. Retail space is largely dominated by games from AAA publishers and by sequels, reducing opportunities for independents (unless distributed by a AAA publisher). Consequently, competition for shelf space can be intense. In contrast, digital DDPs provide a significantly wider selection of games. In 2021, Steam had more than 50,000 games available on their platform. Bailey, Dustin, "Steam just reached 50,000 total games listed" *pcgamesn.com*, February 12, 2021.

[709] For older games that a developer or publisher may be interested in bringing back to market, it must be confirmed that any licensed content, including music, is still under a valid license. Otherwise, the developer will need to (i) remove the game, or (ii) pull the content from the game, depending on the content's significance in the game, and may not be possible due to technical issues; or (iii) enter into a new license for the content, which may be time consuming and expensive to obtain.

[710] See the commitment of Electronic Arts (EA) to live services, which has been echoed by many other developers. Valentine, Rebekah, "EA 'Doubling Down On Live Services' As Digital net Revenue Share Grows in Q2" *gamesindustry.biz*, October 29, 2019. Some developers are able to exploit other IP rights, such as the music soundtracks of their game on a DDP site.

[711] The Epic Games Store and *Borderlands 3* deal is an illustration (albeit, probably a unique agreement due to the amount of money involved), of a business deal that probably would not have been offered in the past because of the limited competition in the PC digital market. During the Epic-Apple antitrust trial in the United States, it was disclosed that Epic Games paid $146 million for a six-month PC exclusivity for *Borderlands 3*. The deal included an $80 million guarantee, a $15 million marketing commitment, and $20 million non-recoupable fees. Batchelor, James, "Epic Expects Epic Games Store to be Profitable by 2024" *gamesindustry.biz*, May 4, 2021. According to court documents, it was also revealed that Epic recouped $100 million in the first two weeks of the game's release and reported a 50% increase in users. Zhang, Carol, "Borderland 3's Exclusivity On Epic Games Store Cost $115 Million" *screenrant.com*, May 5, 2021.

[712] van Dreunun, Joost, *One Up: Creativity, Competition, and the Global Business of Video Games*, Columbia Business School Publishing 2020, p.149.

content, allowing even older games to reboot.[713] Fourth, digital has expanded opportunities for cross-platform play, provided the DDP allows for it and the game is cross-platform enabled.[714]

Even though there are many benefits associated with digital distribution, there are certain caveats of which developers should be aware. For example, while lowering the barrier to entry helped the industry grow, it also led to an abundance of games of varying quality and distinguishing one from another, known as discoverability, on a highly saturated digital market is a challenge in and of itself. DDPs can only promote a limited number of games on their banners and the front pages of their stores, which give the first and, probably, most important impression to consumers. This space has become the equivalent of prominent positioning within a retail store, rather like endcaps and store windows.[715] On account of these hurdles, many independent developers are relying on algorithmic curation, or word-of-mouth marketing campaigns, for example, which can be challenging. As a result, it is critical that the developer try to negotiate some commitment from the DDP to highlight their game(s). This might not be possible however depending on the developer's bargaining strength and the game's attractiveness. In addition, piracy and the growing importance of localizing games for various markets are relevant issues for digital, as well as other, forms of distribution and must also be taken into consideration.

It is also important to note that not all games may be accepted for distribution, and a developer must choose carefully which DDPs to work with, according to their needs and, only after careful and thorough consideration of, among other things, exposure, the DDP's reach and audience, term arrangements, obligations and responsibilities, as well as revenue share and pricing. Furthermore, if a developer chooses to license distribution rights to more than one DDP without any unique arrangement, then in some situations, the various DDPs might seek parity, which might be referred to as "most favored nation", including in regards to release dates, content, fixing bugs, customer care, pricing, and game localization.

There are several independent and highly successful DDPs, such as, Valve's Steam, developed by Valve, which is the dominant player in this space followed by, Epic Game Store, GOG Galaxy, Humble Bundle, and Itch.io. In addition, many AAA publishers have digital stores as well as dedicated software, such as

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[713] Digital distribution, including mobile, allows developers to revise games by modifying them with additional content continuously. This can be advantageous for both a developer and consumer since it extends the opportunity to attract and maintain end-users while generating revenue. In a growing number of situations, revisions in games have been driven by community feedback from end-users providing commentary on what they like, dislike, and what they would like to see in the game. In no other form of entertainment can consumers impact the development of a product like video games.

[714] All the major console manufacturers now embrace, to various degrees, cross-play. Initially, unlike Microsoft, Sony was slow to adopt to cross-play on their platform. This decision was probably primarily driven by economic reasons since exclusive content on their platform presumably helps drive platform sales. It was revealed during the Epic lawsuit against Apple that Sony permitted cross-play involving *Fortnite* in 2018 subject to Sony receiving royalty payments. The payments would be triggered if revenue fell below a certain threshold involving end-users playing on a PlayStation but paying on another platform (i.e., iPhone) and therefore denying Sony revenue from the game. Goslin, Austen, "Epic Boss": We Paid PlayStation for Cross-Platform Fortnite", *polygon.com*, May 4, 2021. This royalty payment appears to have been applied to any publisher in which Sony allowed a publisher to cross-play a game that included the PlayStation 4 console. However, as cross-play becomes more important for end-users, especially for games distributed on multiple platforms, it may make more sense to allow for cross-play.

[715] DDPs will provide prominent placement based on a number of factors, which may include: the publisher or developer's previous success and recognition; publicity generated about the game; pre-sales; algorithms and positive feedback and support from the DDP's staff.

PC clients and/or launchers, that allow players to purchase and download PC games. A few examples include, Origin, developed by Electronic Arts, Ubisoft Connect, formerly known as Uplay, Bethesdas Softworks, Battlenet, by Activision Blizzard, and Wargaming Game Center. Consoles such as the PlayStation, Switch, and Xbox have their own digital ecosystems, and many games are exclusively distributed through their online services.

The evolution of video game development has also benefited from online distribution. Many AAA games now exceed last generation's digital disc space requirements, often shipping with total data of more than 100GBs. This makes it challenging to fit everything on an optical disc drive or game cartridge without negatively impacting gameplay and quality in a cost-effective manner. Generally, digital distribution alleviates this problem as all relevant content is hosted online and can be downloaded when needed, eliminating any constraints associated with offline storage. Digital protection measures are also easier to enforce as all activity is streamlined, monitored, and performed in an online ecosystem, eliminating problems caused by - and significantly reducing the risk of - counterfeit optical disc drives or cartridges.

DDPs are enhancing accessibility for independent developers and smaller studios by supporting and promoting a form of self-publishing, an increasingly successful alternative to a publishing agreement, given the challenge for developers to even enter into a relationship with a publisher. The risks associated with investing in traditional physical distribution are also significantly reduced, allowing for experimentation and increased risk-taking, promoting innovation, benefiting the industry as a whole. These online platforms also strengthen the relationship between developers and end-users, allowing for increased interaction through direct player feedback that can be used to improve games and increase their appeal to a wider audience.[716]

Finally, a fundamental difference is that unlike retail,[717] digital distribution does not generally allow for players to resell the acquired game.[718]

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[716] Players now also have greater access prior to a game's release with beta and alpha versions. This also expands communication between players and developers, providing developers with valuable information on possible bugs in the game, and what their players like and dislike about it, enabling them to tweak it accordingly.

[717] Initially, publishers were against the resale of games because they believed it hurt sales and they received no form of compensation. Publishers therefore tried to create mechanisms to discourage re-sale, including by requiring codes to play a game. However, publishers eventually accepted them, in order to support their retail partners, which earned a little revenue from resales, and counter negative publicity from the gaming community. Rogers, Dan Lee, "Reselling Video Games in A Digital World [Industry Contributor]" *gamedaily.biz*, October 1, 2019.

[718] While retail purchases of games are sales and, therefore, subject to the first sale doctrine in the United States (United States Code, Title 17, Sect.109(a)) and the exhaustion of the right of distribution (the European Union (EU) equivalent), the situation is more complex for digital sales. First, they are not actually sales as such, but non-transferable licenses to access/use. Second, digital "first sale/exhaustion" is not accepted globally; in particular there is arguably no digital first sale doctrine in the United States and, in the EU, for copyright work that are not only software. See *Capitol Records, LLC v. ReDigi Inc*., case No.16-2321, United States District Court for the Southern District of New York, March 30, 2013; Directive 2001/29/EC of the European Parliament and of the Council of 22 May 2001 on the harmonization of certain aspects of copyright and related rights in the information society; Directive 2009/24/EC of the European Parliament and of the Council of 23 April 2009 on the legal protection of computer programs (Codified version); *UsedSoft GmbH v Oracle International Corp*, C-128/11, European Court of Justice, 3 July 2012. See Trapova, Alina and Fava, Emanuele, "Aren't We All Exhausted Already? EU Copyright Exhaustion and Video Game Resales in the Games-as-a-Service Era" *Interactive Entertainment Law Review* (IELR), 3(2) 2020, pp. 77-93. See also *Entertainment Software Association v. Society of Composers, Authors and Music Publishers of Canada*, case No. 33921, Supreme Court of Canada, July 12, 2012. In France, the District Court of Paris noted – some believe incorrectly – that under European law there is no difference between digital and the permitted resale of games. See Bulleri, Fabrizio, "French High

8.2 – The Long Form PC Digital Agreement: Introduction

The type of PC digital agreement that would be entered into by the developer will depend on a number of factors, primarily relating to the DDP's market share, the relationship between the parties, the developer's library of games, and bargaining power. For example, on one end of the spectrum is Steam, which deals with thousands of publishers and developers and usually involves a developer clicking their acceptance to a template agreement that is generally non-negotiable. However, a well-established publisher/developer, because of the attractiveness of their games, may be able to secure better commercial and other contractual terms. On the other end of the spectrum, there are DDPs that are probably more open to negotiation because of their need to attract developers. Some of these DDPs may cater to a niche audience. And then, there is also a third group that shares some of the characteristics of both types of DDPs noted above. These DDPs, such as the Epic Game Store, have established themselves as significant players in the space, yet they do not possess the library of games that Steam distributes. Therefore, to attract developers, they have set more favorable business terms, especially to attract exclusives to their platform.

In most cases, the PC digital distribution agreement (referred to hereafter in this chapter as "the Agreement") is drafted by the DDP and tends to include terms favorable to them.[719] For well- known developers and publishers, there is more flexibility in negotiating the deal, since the success of a platform will depend on the quality of the games. In contrast, an independent developer that may only have one or a limited number of games (assuming none have become "hits") will have little room, if any at all, to negotiate and will typically need to agree to the DDP's form agreement. While the terms will be favorable to the DDP, this provides them with consistent terms covering business and legal areas when dealing with several different developers.

8.2.1 – Rights Granted

This section in the Agreement describes the rights granted to the DDP by the developer and usually covers four areas: (i) the properties licensed to the DDP, including any applicable games, DLC, updates, demos, etc., ("Products"); (ii) the

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Court Rules Against Steam, Says the Company must Allow the Resale of Game Licenses" *reclaimthenet.org*, September 20, 2019. While this case is being appealed, it is too early to tell whether it will have any effect outside of France. Publishers are obviously reluctant to allow digital resales, but they might be more open to them if they could receive a share of revenue. This idea has been floated by at least one DDP, whereby both the publisher of a game and a consumer, through the use of blockchain technology, would receive some financial renumeration. See Senior, Tom, "Robot Cache takes aim at Steam with digital store that lets you resell your games", *pcgamer.com*, September 27, 2018.

[719] Since more games may be added to an agreement during the term when it comes to dealing with established developers, which tend to release a number of games during the year and have a catalog of games, the DDP and developer will often enter into a template agreement whereby the standard terms to the relationship will be spelled out in an agreement and supplemented at later dates with an attachment that may be referred to as an Appendix, Schedule, or Exhibit ("attachment") outlining the specific business points for each subsequent game added to the agreement. The attachment will list the name of the game(s) added to the agreement, revenue percentage splits, specific territories, delivery and release dates, term, marketing obligations, suggested retail pricing by currency and recoupable advances, if any, and any other unique business terms, such as exclusivity. Terms and territories might vary among products if there are restrictions on underlying rights. By adding an attachment, the parties do not have to draft a new agreement every time additional games are licensed to the DDP.

length of time (i.e., term) during which the rights can be exploited; (iii) the territory in which the Products can be exploited;[720] and (iv) the rights the DDP has to exploit the Products, including selling and marketing. Typically, the developer will grant a non-exclusive, non-transferable license during the term and within the territory, allowing the DDP to sell, license, advertise, promote, market, modify,[721] and otherwise distribute the Products.

Many developers enter into non-exclusive deals so they can exploit their games on several different platforms, on the assumption that doing so will generate the most revenue for them. If the developer is not receiving any consideration other than a percentage of the revenue earned or guaranteed meaningful marketing commitments by the DDP, the deal should always then be structured on a non-exclusive basis. And, while most developers enter into non-exclusive deals, there are situations where a DDP will seek an exclusive deal as a way to distinguish their platform from the competition. These types of deals will offer incentives, which may include one or more of the following: advances, guarantees,[722] higher revenue share, and marketing support. However, the benefits and risks must be weighed by a developer since a DDP, for example, may require pricing and release parity for games and updates, thereby prohibiting games from first being exclusive on another DDP. Furthermore, it has been reported that Steam prohibits games from being pulled off its platform and becoming exclusive on another platform.[723]

The licensing grant will also include a non-exclusive license for the DDP to use the developer's trademarks for selling and marketing the developer's Products. This extra marketing and publicity are always beneficial for the developer, especially when it may be difficult to distinguish between most games on a DDP.

At the same time, not only does the developer license rights to a DDP, but rights are typically licensed by the DDP, on a non-exclusive basis, to the developer. These rights may include tools, such as a software development kit (SDK)[724]

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[720] But see "Antitrust: Commission fines Valve and five publishers of PC video games €7.8 million for 'geo-blocking' practices" *ec.europa.eu*, January 20, 2021. In January 2021, the European Commission fined Valve and five publishers (Bandai Namco, Capcom, Focus Home, Koch Media, and ZeniMax) a total of €7.8 million for enacting restrictions on the sale of video games within the European Economic Area (EEA) which violated EU antitrust laws. These restrictions, referred to as geo-blocking, prevented the cross-border sales of certain PC games, including the use of Steam activation keys. According to the Commission, one of restrictions imposed meant that consumers in certain countries within the EEA were unable to purchase restricted games because the keys could not be activated in those territories. If contractual territorial limitations are imposed upon the DDP, the agreement may include provisions stipulating that publishers acknowledge that end-users may be able to access content on the DDP's platform outside the territory, which would not be a breach of the agreement. On the other hand, since it is very difficult to restrict cross-territory purchases, DDPs might specify in agreements with publishers that they are not responsible for such sales in unauthorized territories.

[721] DDPs may request the right to modify the games to enable them to be downloaded via the DDP's service. For example, a DDP may need to wrap a game with their download manager and/or their digital rights management (DRM) solution.

[722] The DDP guarantees that the developer will receive an agreed amount of revenue at a particular time. If the developer has not received the revenue, the DDP will then make up the difference.

[723] Amjad, Talha, "Valve Makes Changes to Steam Distribution Agreement to Counter Epic Store" *respawnfirst.com*, September 9 2019. It is unknown whether this policy also applies to publishers that have their own DDP. See Leonard, Mike, "Valve Corp.'s Steam Platform Monopolizes Game Sales, Suit Says", *news.bloomberglaw.com*, January 29, 2021; and Yin-Poole, Wesley, "Lawsuit accuses Valve of abusing Steam market power to prevent price competition", *www.eurogamer.net*, Gamer Network, January 30, 2021.

[724] SDK, typically consisting of a set of software development tools, allows for the creation of applications for a certain software package, hardware platform, software framework, computer system, video game console, operating system or similar development platform. For example, Steam's SDK, known as Steamworks, can include digital rights management (DRM), matchmaking services, statistics and achievements, an anti-cheat detector, community information, and integrated voice communications.

specific to a platform that the developer can use only on the DDP's platform. In addition, DDPs will allow developers, subject to the DDP's guidelines and prior approval, to use certain trademarks associated with the DDP to promote their game on the DDP's site with an approved store page (what Steam calls the "developer's page").

8.2.2 – Delivery Of Materials

This section outlines the procedures for delivery, the materials and formats that a game, or any other content, require to be delivered to the DDP, and when delivery must occur.[725] The delivery date is more of an issue when a developer enters into a deal with a DDP that may be exclusive or may be part of a promotion tied to specific dates. However, DDPs may require that, if a game has yet to be released (assuming that it is not subject to an exclusive deal with another DDP), the DDP will have the right to release the game on the initial release date as any other platform, assuming that the platforms' delivery requirements are the same. The developer will be required to submit to the DDP a final build, subject to the DDP's system requirements, which may vary among DDPs and do not always require DRM.[726] With some DDPs, a developer can decide whether or not to include DRM, while other DDPs may require DRM-free versions. In addition, the developer will also be required to deliver certain marketing assets, such as game descriptions, logo icons, screenshots, and videos, as well as demo versions, that the DDP will use to promote the game via its platform. Upon receipt of the final build, the DDP will then determine whether the game is technically acceptable for distribution. Each DDP has its own submission procedures and approval processes, some of which may be more stringent than others.

What would happen if the developer was unable to deliver the materials to a DDP? The answer varies depending on the type of deal struck between the parties and whether any monies were paid to the developer for the distribution rights. If the developer is unable to deliver the game and has not received any advances, they should simply have the right to remove the game from the Agreement, assuming that they were similarly unable to deliver materials to any other DDP with the same delivery requirements. However, if an advance was allocated to the game, the situation would be more complicated, and solutions will vary.

8.2.3 – Continuing Obligations

Throughout the term of the Agreement, DDPs may require the delivery of additional content, such as DLC, updates, enhancements, localized versions, add-ons, changes or fixes, and improvements for any games made available to players on PC, or possibly any format, to ensure parity with other distribution platforms. It is important that the developer negotiates with the DDP to clarify the

[725] In some cases, the DDP may pay for assistance with the delivery of materials if additional work is needed to comply with the requirements of its platform.

[726] Typically, the gold master will be a final build of the game and it may include DRM (Digital Rights Management), which encrypts the game to help minimize the risk of unlawful copying. There are no requirements to deliver different masters for different countries unless (i) localized versions are provided to one DDP then others may require parity; and (ii) required because of ratings, language (e.g., French versions for Quebec and all text in simplified Chinese for games distributed in China), government regulations, or social norms. However, in today's market, localization of games plays an important role in the greater success of a game.

specific requirements of each request, including the fixing of material defects, which may be required as part of the developers' warranties, and whether those requests require any unforeseen additional work on the part of the developer that might impose an unexpected financial burden. Clearly, if the game has significant bugs, it would then be in the developer's best interests to correct them to avoid an erosion of sales and damage to the company's reputation. However, if a fix is required to conform to the DDP's system requirements, the developer should avoid being contractually obliged to resolve potential problems if the economics do not justify such corrections. In addition, if a developer elects to release any updates or DLC to third parties or to the public, some DDPs seek to also receive those materials, to ensure that they are being treated the same as other DDPs and retailers. unless a promotion is undertaken by the DDP or it is providing unique or special content to a DDP or retailer.

Each party, as part of their continuing obligations, will be required to supply customer support. Generally, the DDP will be responsible for providing technical and other customer support to its end-users, with respect to problems downloading the game from the DDP's site, or any billing issues. At the same time, the developer will be responsible for providing technical support to the DDP for specific issues involving the actual game, such as problems with operating or playing the game. Both parties should ensure that the assistance provided is of a high standard, on a par with than quality of the support offered for other games of comparable quality, and that responses are provided in a timely manner. In addition, the developer is usually required to provide the same level of support that they provide to other DDPs for the game and any additional content.

8.2.4 – Term

The length of the term will again vary depending on the type of agreement signed with the DDP. In situations where no monies have been exchanged, and the developer agrees to the DDP's form agreement, there is usually no set term, other than perhaps an initial one-year period. The developer will have the right to remove the game at any time, provided that they meet certain pre-requisites, which may include providing enough notice to the DDP and fulfilling any obligations as required by the Agreement, such as providing notice to players and satisfying their obligations under their terms of use. Likewise, when a click-through agreement has been signed, the DDP is entitled to terminate the Agreement for any reason, including for a breach of the Agreement by the developer, as discussed in Section 8.2.8.

However, in certain situations, a term may be specific. For agreements involving some form of consideration, whether it be money, such as an advance, or marketing commitments, the DDP will most likely request a fixed term, without the right to terminate other than for an uncured material breach. In some situations, these may be exclusive deals.

The term for a game will usually commence on the DDP's acceptance of materials and continue for an agreed period, unless terminated earlier, in accordance with the Agreement. For deals that include multiple games, the terms may vary, on account of the different delivery dates and approvals for each game.[727]

[727] A DDP may prohibit termination for convenience by the developers, especially is the DDP is providing some form of consideration.

Some Agreements, provided neither party is in breach, permit automatic term renewals,[728] usually for successive one-year periods. If a party wants to terminate an Agreement, it would need to provide notice within an established time period, such as 30 days, before the expiration of the renewal term. Parties should be aware of this requirement, so as not to miss the opportunity of terminating an agreement, unless it is entitled to terminate the agreement for convenience. Furthermore, a term may also be extended for an additional period of time as a result of a *force majeure*.[729] Likewise, a term may also be shortened as a result of an uncured breach of the Agreement or through termination for convenience.[730] The parties must also decide whether a breach of the Agreement involving a single game would allow for termination of the entire Agreement, or would only allow for the removal from the Agreement of the game concerned.[731]

8.2.5 – Marketing Issues

As the quantity of games on digital platforms continues to improve, differentiating games for the consumer becomes more challenging. Even if a developer has created a well-received game, consumer awareness could pose a challenge for most developers. To navigate this crowded marketplace, as well as marketing their game by themselves, such as through social media, their website, and/or live streams, developers should try to negotiate some form of minimum marketing commitment from the DDP and/or featuring/wish listing of a game for an agreed period. In some situations, a developer may choose to work with a publisher since a publisher may have greater leverage than a developer in dealing with DDPs and therefore, may be able to obtain some or better, marketing and promotional commitments from a DDP.[732]

Some games, such as the major releases, games with proven IP, social followings, strong pre-orders, and games involved in sales promotions, will be positioned prominently on the DDP's website because the game will help drive sales for the DDP. For other games that do not have the same draw, the exposure, even if short-lived, is critical to help its sales, and marketing commitments will need to be negotiated. A game featured on the front page of a DDP's storefront could drive an immense amount of traffic to the game's page, resulting in a tremendous increase in sales.

A DDP is usually permitted to market a game at its own sole cost and expense, which might be subject to the developer's prior approval. At the same time, while a developer will want to give their approval, it should seek to avoid lengthy approval processes that may prevent the game from being highlighted, as such promotional opportunities may be limited. The developer therefore needs to resolve the approval process carefully and, at times, quickly. In order to reduce

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[728] Some agreements may require one party to provide notice to the other party within a certain time period to permit additional term extensions. Failure to provide notice will result in termination.
[729] See Chapter 12.
[730] See Section 8.2.8.
[731] The developer may also seek to have the right to terminate the agreement for a specific game if one of the game's underlying licenses is due to terminate or if, in the developer's judgment (and that of the publisher), a game may potentially become the subject of litigation and removing the game may therefore minimize possible damage from any pending, threatened, or possible suits or proceedings involving a game's potential infringement.
[732] A publisher may have a more extensive catalog, including franchised properties, that a DDP will want to license for its platform.

concerns about approvals, many agreements provide for extremely quick approval turnaround times and/or delivery of pre-approved materials, that the DDP can use without approval, provided the materials are unaltered. The only concern the developer might have is the context in which the pre-approved materials are used. If the marketing is carried out and the developer is not satisfied, it can notify the DDP to correct the marketing or to remove it.

A significant way in which a developer may attract consumers is by allowing the DDP to run a special, temporary promotion. Accordingly, the developer's game receives prominent placement on the DDP's home page, in exchange for providing a discount for their game. For example, the parties decide to reduce the price of a game for a limited period, during a seasonal sales event, such as a Christmas holiday sale.[733] If the developer is to engage in this type of temporary promotion, it must make sure that it is not required to provide the same deal to other DDPs, unless they offer a similar benefit in return, such as prominent placement. While in some situations the revenue earned from the sale of a game may sometimes decrease for both parties, a promotion can be beneficial to both, in that it may help drive traffic to a site and provide the exposure needed for a title to build awareness. On the other hand, the spike in overall sales is often so considerable that the reduced revenue from the sale of each game is outweighed by the increased sales volume. However, the developer also needs to take into consideration that once the price is reduced, consumers may wait for that price to be reduced again, and sales at the initial suggested retail price (SRP) may therefore be eroded.

8.2.6 – Revenue Share And Pricing

The biggest business issue for a developer will be the percentage of revenue it earns from the sale of its products, including premium games, in-game purchases, DLC, and, if applicable, subscription fees. Prices for games and any other content will be determined by the developer. However, some DDPs may most likely require price parity, unless the game and any other content sold are part of a special promotion on a particular site.

Both the developer and DDP receive a revenue share based on an agreed percentage of the net revenue earned by the DDP. Net revenue will be defined as gross revenue received, less agreeable deductions. Typically, deductions will be very limited compared to other deals based on net revenue and may only include taxes (usually, only consumer taxes, such as VAT and sales tax) chargebacks (including refunds), and credit card or payment processing fees. For most digital distribution deals, the developer receives a revenue share of 70%, with the remaining amount retained by the DDP, less any agreed upon deductions that are taken from gross revenues prior to any revenue share. However, as more DDPs enter the market attempting to attract publishers and developers, the percentages retained by DDPs have shifted, providing greater percentages to publishers and developers. For example, at the time of writing, Epic Games Store takes a 12% fee, and if the game is built using their Unreal Engine, they forego the 5% licensing fee for games sold on their storefront.[734] Beginning on August 1, 2021, Microsoft reduced their fee to 12% for the Microsoft

[733] Some DDPs may request the right to reduce the selling price of the games unilaterally.
[734] "Welcome to Epic Games", *epicgames.com.* Robot Cache announced their revenue share would be a 95-5% split favoring the publisher-developer. Desatoff, Sam, "Brian Fargo Announce Robot Cache, Digital Games Marketplace that Will Allow Players to Resell Games", *yahoo.com*, December 11, 2018.

store.[735] Steam, in late 2018, perhaps in response to Epic Games Store's revenue split, lowered their fee based on the success of a game. For sales between $10-$50 million, Steam takes a 25% fee, and for every sale after $50 million, it is lowered to 20%.[736] However, it is widely believed that this locks out most developers and publishers, as they are unable to attain these figures. For the companies that can, this arrangement generates millions of dollars in additional revenue.

A different scenario emerges if the DDP has provided an advance to obtain rights to a game that includes development costs. In this situation, the Agreements will typically enable the DDP to recoup some or all of the advance they paid to the developer unless the parties agree to a non-recoupable advance. When, how, and the amount the DDP recoups will all be subject to negotiation. In other situations, a DDP may offer the developer a guarantee, rather than an advance. If the developer's revenue share does not reach the guarantee agreed to with the DDP, they will make up the difference at an agreed time. In both situations, the DDP will most likely seek exclusivity for a certain period.

8.2.7 – Statements And Audits

In any contract involving the payment of royalties, the party receiving payment must receive statements and have the right to audit. The developer should insist on either quarterly or monthly statements, although some DDPs can provide sales estimates to the developer on a daily or monthly basis through an online dashboard. However, usually DDPs commit to deliver a monthly or quarterly statement and issue payment with each statement.[737] It is worth noting that this is still much faster than dealing with retail. DDPs tend to use a standard form that will be applicable for all developers. When dealing with different territories and possibly different games, the developer should request the following:

1. Statements broken down by each game and by territory indicating gross revenues received from all forms of exploitation involving the game;
2. Allowable deductions, if applicable;
3. Developer's net revenue from all forms of exploitation involving the game;
4. The number of units sold for any item (e.g., premium game, add-on, battle passes); and
5. Amount of withholding tax, if any.

[735] Tom Warren, "Microsoft Shakes Up PC Gaming by Reducing Windows Store to Just 12 Percent", the *verge.com*, April 29, 2021.
[736] Statt, Nick, "Valve's new Steam revenue agreement gives more money to game developers'' *theverge.com*, November 30, 2018. Revenue includes DLC, game packages, in game sales and community marketplace game fees. Kuchera, 'Ben, "Valve now rewards successful games with a larger cut of Steam revenue", *polygon.com*, December 3, 2018.
[737] Some DDP's will limit their payment obligation if revenue owed to the developer falls below a minimum amount. (e.g., $100) for a reporting period.

Furthermore, all revenue should be stated in the currency of such sale followed by the equivalent amount of such revenue in the currency in which final payment is made.[738]

8.2.8 – Termination

The termination provision allows either party, at their choice, to terminate the Agreement under two circumstances: (i) if a party materially breaches the Agreement and fails to cure the breach within the agreed cure period;[739] and (ii) for convenience. However, termination rights vary depending on the type of agreement entered into, and whether financial or other benefits were provided to the developer/ or publisher. For example, in click through agreements, where no consideration was paid by the DDP[740] either party will have the right to terminate at any time outside a possible fixed initial term, provided that certain conditions are met in accordance with the Agreement. For example, providing proper notice of termination to the other side and fulfilling any outstanding obligations with end-uses.

Under termination for convenience, a party can terminate without cause, subject to sending a notice to the other party within an agreed period, which can vary from 30 to 90 days. The reason for termination does not matter, provided that the reason is not to avoid any obligations, such as payment, although certain clauses will survive termination, including any payments that may become due, representations and warranties, and indemnification.

Either party, in addition, will also have the right to terminate for cause, namely, an uncured material breach, which may include any of the reasons listed below.

For the DDP, a material breach could involve:

1. Failure to pay monies owed to the developer;
2. Distribution of a game outside the agreed territory or beyond the term;
3. A material breach of a representation or warranty;
4. Failure to issue a statement;
5. Distribution of a game prior to the agreed launch date; and

[738] The parties will need to agree to: (i) the currency that the developer will be paid in; (ii) the exchange rate that will apply; (iii) the time at which the currency will be calculated; and (iv) which party will pay for the currency conversion. Generally, the DDP would be responsible for the currency conversion costs and for any decline in the currency's value after the date on which the DDP was obliged to pay the developer.

[739] Termination rights, which can have significant consequences, should only be triggered by a material breach of the agreement, rather than for any type of breach. In addition, for certain material breaches, the developer may add provisions that makes it easier to seek an injunction to prevent a continuation of a breach, such as the selling of a game beyond the term, or outside the territory, in violation of the agreement. In the United States, an agreement might state that a breaching party acknowledges that certain actions may cause irreparable harm and determining damages might be difficult, thereby providing some of the prerequisites for an injunction.One of the interesting issues with digital distribution is that many of the terms continue to survive the expiration or termination of the agreement because of the ongoing licenses for end-users when they purchase a game. End-users will still want to have access to the game, new content, including materials offered by other DDPs that are not unique to that DDP, and customer support, regardless of whether the relationship ended between the developer and the DDP.

[740] If advances were paid this would be a problem, since the DDP may not have received the value of its bargain if a game can be removed prior to the expiration of the term. As a result, if some form of consideration, such as an advance is paid to the developer, then only the DDP should have the right to terminate for convenience.

6. Failure to obtain approval; or failure to provide appropriate customer support.

For the developer/publisher, a material breach could involve:

1. A breach of a material representation and warranty or material obligation;
2. Failure to deliver materials for a game if some form of consideration has been paid to the developer, or while delivering materials to other DDPs;
3. Failure to provide customer support;
4. Improper use of any tools or software provided by the DDP;
5. Improper use of any intellectual property(IP) rights owned by the DDP;
6. A breach of the DDP's policies, namely, the use of prohibited content in a game or review manipulation;[741] and
7. Failure to deliver an update/DLC when agreed.

Furthermore, either party will generally have the right to immediately terminate the Agreement without the right to cure if a material breach is incurable, a party becomes insolvent or is unable to pay its debts when due or makes an assignment for the benefit of creditors.

Upon the expiration or termination of the Agreement, whether for convenience or material breach,[742] all rights granted to the DDP will cease, and the DDP will be required to stop all selling, distribution, and marketing of the licensed game(s), except for those that have already been licensed by end-users (this might be, however, temporally limited).[743] Other obligations and terms that should survive the Agreement should include:

1. The DDP making a final payment of any revenue owed and issuing a final statement, which is usually subject to allowing the DDP to withhold a reserve for a fixed time against future end-user obligations, such as refunds and chargebacks;
2. The developer's right to audit;
3. Warranties, representations, and indemnification;
4. Limitations of liability;
5. Confidentiality;
6. Governing law and venue; and
7. Cumulative remedies.[744]

[741] See Wales, Matt, "Valve bans developer who sneakily named his company Very Positive on Steam", *eurogamer.net*, February 17, 2021.
[742] In case of agreements involving multiple games, it should be noted that a party may choose to terminate rights to a game, but the agreement still remains in effect.
[743] Subject to the end-user license agreement (EULA), the DDP or the developer or publisher has the right to prohibit or limit access to the game and any additional updates.
[744] This section confirms for both parties that the rights and remedies under the agreement are cumulative and are not exclusive of any rights or remedies available at law or equity or by any other agreement that the parties may have entered into.

8.2.9 – Limitation Of Liability

In many Agreements, the parties will usually agree to limit their liability, which can chiefly be in three ways. First, the parties may limit the amount of damages that either party can claim in the event of a termination of the Agreement due to a breach. If agreed upon, the two parties will need to determine a formula for capping damages. In many situations, the DDP will insist that the cap is tied to the amount of monies paid to the developer, such as the developer's revenue share and it might be further limited for a certain period of time. For example, revenue earned for the preceding 12 months. However, this formula may not serve a developer's best interests, especially since the severity of the breach might not match the amount in damages that the developer may have incurred. As a result, it may be more beneficial for the developer to request a cap that may be a certain percentage of the developer's revenue share, such as 200% or greater. Be aware that a cap will be applied equally and, therefore, if the parties agree to raise the cap, the developer will also be responsible for any damages that fall within the new cap. It is important to note that the cap on damages typically excludes any claims involving indemnification, breaches of confidentiality, and may also include data protection breaches and gross negligence.

Secondly, the parties may agree to cap the type of damages to be excluded from any claims between the parties, such as punitive, consequential, namely, loss of profits, special, and speculative.

Thirdly, both parties may want to further limit their liability with regard to their products by disclaiming any and all statutory, express or implied warranties, except as specifically expressed in the Agreement. This may include warranties of merchantability, fitness for a particular purpose, and any warranties arising from a course of dealing, usage or trade practice covering the product and the software used to distribute the products.[745]

8.2.10 – Assignment

An additional matter that the parties will need to negotiate concerns whether either party would have the right to assign its rights under the terms of the Agreement. In this situation, the party transfers its rights and obligations to another party. In some Agreements, a party might have the right to freely assign, or would have the right to assign, subject to the other party's approval, which might be at the party's absolute discretion or not to be unreasonably withheld. A valid justification for refusing an assignment could be to avoid requiring the non-assigning party to possibly now work with a company that may be a competitor, or a company that may have had a previously poor relationship with the non-assigning party, or concern regarding the financial stability of the party acquiring the rights, namely, the assignee.

In other Agreements, the developer might insist that it has the right, at its discretion and without limitations, to determine whether to approve an

[745] DDPs usually seek to include provisions to the effect that their products are provided "as is'", thereby disclaiming any representations and warranties, except for those expressly provided for in the agreement, including that any products or other materials will be error-free or operate without interruption or be compatible with DDP's system. At the same time, the DDP will insist on disclaiming that the distribution system will be available at all times, operate as intended and that the system will be free of errors and that its use with the products will not result in uninterrupted errors.

assignment, unless the rights are assigned to a parent or affiliate.[746] Quite often, developers enter into agreements with DDPs largely on the basis of a particular relationship. Therefore, any such change could undermine the relationship between the parties.

In the event that an assignment is permitted, the non-assigning party should require that the assignee assumes and agrees to all of the obligations and responsibilities of the original DDP and that, in the event that the assignee breaches the Agreement, the original DDP would be responsible for any damages.

8.2.11 – Other Terms

Other important terms that will appear in the Agreement include representations, warranties, and indemnification which are very similar to other agreements discussed throughout the book. These representations and warranties may include:

1. The DDP will seek guarantees that the developer owns or controls all the rights in and to the game and any new content;
2. That the exploitation of the game (including any new content) permitted under the Agreement will not result in a violation of any rights of third parties;
3. The game and any new content will comply with all laws and regulations (whether international, national, state, regional or local) where the game is distributed, including issues with privacy and the collection of data, marketing, age ratings if a rating has been obtained, and content restrictions;
4. The game won't contain materials that may be unlawful, defamatory, or libelous, which will vary by jurisdiction;
5. The game and any new content do not contain any computer viruses, time bombs, worms, or other contaminants intended to modify, damage, or disable DDPs or any other party's computer systems. Furthermore, some DDPs, without their approval, may prohibit open source if it binds the DDP to any obligations; and
6. The parties will not engage in any activities covered by anti-bribery and anti-corruption legislation and will also comply with any penalties.

It is also important that the developer also receives representations, warranties, and indemnification, covering the actions of the DDP. For example, (i) the DDP should warrant that the distribution platform and any marketing materials created that are not approved by the developer will not violate the rights of third parties, including any copyrights, trademarks, and patents; and (ii) it will comply with all applicable international, national, state and local laws and regulations in the performance of its obligations.

Finally, the Agreement may also cover:

- Confidentiality;

[746] In some situations, the developer's right to assign will be subject to the DDP's prior written approval.

- Credits, use of developer's logos, and legal notices and where they will appear;
- Press releases;
- End-user license agreements (EULAs);[747]
- Procedures and precautions taken when dealing with infringers; and
- Ratings.[748]

[747] Both the DDP and developer may have their own EULA. The EULA primarily establishes the conditions and restrictions for the end-user (i.e., consumer) when playing the game. In addition, the developer's EULA should include provisions regarding: (i) ownership and other rights issues; (ii) acceptable conduct for end-users, including online play and chat sessions; (iii) grounds for termination; (iv) limitations on damages; (v) privacy; (vi) the process by which EULAs can be updated by the developer; (vii) indemnification; and (viii) ways in which disputes are settled. If the end-user does not accept the terms of the EULA they cannot then play the game and must return the game for a refund. Furthermore, the DDP will also establish its own guidelines with which end-users must comply before using the system.

[748] Some DDPs do not require a rating although certain content may still be prohibited from the site. See Chapter 10.

CHAPTER 9

THE MOBILE GAMING MARKET

9.1 – Introduction

Mobile gaming, which includes games playable on mobile devices such as smartphones and tablets, is now the leading platform for video games and captures more than 50% of the total global market. In terms of consumer spending, mobile gaming revenues exceeded $73.8 billion in 2020[749] and grew to $116 billion in 2021 .[750] By 2021, 85% of internet users used smartphones to play games, compared to 63% in 2015.[751] Mobile games are now the most popular applications (apps) on mobile devices.[752]

Market entry barriers for mobile gaming are relatively low and, as a result, there is an unprecedented abundance and variety of content available to gamers. Mobile games are played by almost every demographic, particularly hyper-casual games, which are quick to download, easy to play and lend themselves to being played in short sessions throughout the day. These games have, therefore, become extremely popular and have contributed significantly to the growth of the global gamer base.

The demographics of mobile players are split almost evenly and women now account for up to 51%, although different sources indicate slightly different percentages and percentages vary depending on territory.[753] With regards to age, the average player is 36 years old, while over 33% of gamers are 45 or older.[754] This could help explain why, according to one report, more than 50% of gamers play mobile games while in the bathroom,[755] although we may assume that it is not while taking a shower.

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[749] NewZoo, "Newzoo Global Games Market Report 2020" (light version), *newzoo.com.* According to App Annie, a mobile analytics company, 70 cents out of every dollar spent in Apple App Store and Google Play Store involved mobile games. "State of Mobile Gaming 2021," *appannie.com.* Sensor Tower, a mobile app analytics company, reported revenue to be as high as $79.5 billion. "Global Consumer Spending in Mobile Apps Reached a Record $111 Billion in 2020, Up 30% from 2019," *sensortower.com*, January 4, 2021.

[750] data.ai, "State of Mobile 2022, *data.ai*.

[751] "Share of internet users worldwide playing games on selected devices as of 1st quarter", *statistica.com*, September 7, 2021.

[752] "Global games market to generate $175 billion in 2021- Newzoo", *gameindustry.biz*, May 2021. See chart in Section 1.4.1.

[753] McConnell, Nicolas, "Mobile gaming audience guide for app publishers", *mopub.com*, March 31, 2020.

[754] *Ibid.*

[755] For some interesting statistics on mobile gaming, see Knezovic, Andrea, "141 Mobile Gaming Statistics for 2021 That Will Blow Your Mind", *blog.udonis.co*, May 5, 2021.

The shift towards an older audience reflects to some extent the advantages of mobile devices, which are easily accessible and allow games to be played quickly. It should also be noted that most mobile games are free of charge. As a result, it is much easier for people to play a game that they otherwise might not feel comfortable playing, without having to invest in other platforms to do so.

These numbers are important and reflect a major shift since the early days of gaming when the audience was primarily young teenage males. This is significant because developers need to be aware of the different preferences for a given territory and the players they wish to reach.

Mobile gaming is a truly global market. Following rapid growth over the last five years,[756] China currently dominates, unchallenged, the global mobile gaming market, with revenues of $29.2 billion in 2020 and projected revenues of $40.5 billion by 2025.[757] The figure for 2020 represents 25% of the global mobile gaming market. Countries such as the United States, Japan, South Korea and the United Kingdom[758] lag far behind, while India, which has the second highest number of smartphone users after China,[759] continues to progress.

For developers, the mobile market offers advantages that may be unattainable in other sectors of the video game market: low entry barriers, including lower development costs compared to other platforms;[760] ease of global distribution since, compared, for example, to the more elaborate and lengthy process required to publish content on consoles, games can be made available relatively quickly in app stores with practically no advance costs because, unlike with consoles, mobile distributors are generally paid only if the game generates revenues; and the ever-growing availability of mobile devices throughout the world. As of 2020, 2.6 billion people had played a game on a mobile device, which represents a third of the world's population[761] Furthermore, consumers who would not necessarily wish to spend hundreds of dollars on a console system or PC to play games can now play high-quality, sophisticated apps on a phone. All these factors have contributed to the tremendous growth of apps on mobile devices.

This is not to say that it is easy for developers to make money with mobile games. Mobile gaming does pose challenges for developers: an intensely competitive marketplace due to the abundance of products,[762] where product visibility or "discoverability" is increasingly an issue, particularly for independent developers

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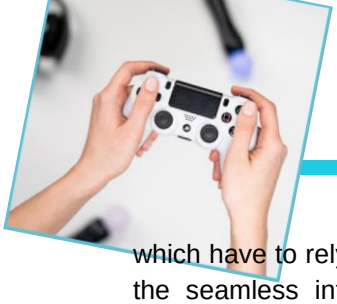
[756] Wallach, Omri, "How Big is the Global Mobile Gaming Industry?", *visualcapitalist.com*, December 9, 2020.
[757] "China Mobile Games", *nikopartners.com*, May 2021.
[758] "Mobile Games", *statista.com.*
[759] "Top Countries by Smartphone Users", *newzoo.com*.
[760] Development costs for apps can vary considerably depending on the resources and time allocated to development as well as the complexities of an app. Some apps may cost as little as tens of thousands of dollars, while higher-end games are averaging millions of dollars. Costs are expected to increase with improvements in technology, which will allow developers to expand on features and create more elaborate artwork, resulting in bigger development teams. Marketing costs are also increasing rapidly as the mobile game market becomes a more crowded ecosystem and developers and publishers find themselves fighting for product visibility both inside and outside the app stores. At the same time, the market will become even more competitive because more of the major publishers are actively distributing their AAA titles on the mobile market including games specifically developed for mobile, which will increase the average costs of development and marketing.
[761] Valentine, Rebekah, "Mobile games to see the least negative impact from COVID-19", *gamesindustry.biz*, May 8, 2020. By 2011, smartphones had more computing power than the original PlayStation console. See "All the World's Game", *The Economist*, December 10, 2011.
[762] In 2020, the Apple App Store and the Google Play Store offered approximately 957,000 and 427,000 games, respectively, on their platforms. See "Number of available apps in the Apple App Store from 2008 to 2020", *statista.com,* July 6, 2021; and "Number of available gaming apps in the Google Play Store from 1st quarter 2015 to 1st quarter 2021", *statista.com*, May 26, 2021.



which have to rely on much smaller marketing budgets than the bigger players; the seamless introduction of new devices[763] and technologies;[764] constant updates to operating systems;[765] new and rapidly-evolving revenue business models[766] and regulatory landscapes;[767] and, last but not least, the ever-present threat of game cloning. Moreover, unlike PC and console gamers, mobile gamers seem reluctant to spend money on mobile games. A recent survey confirmed that, despite being the most popular gaming platform, mobile platforms have the lowest player-to-payer ratio.[768] Moreover, the cost of acquiring and retaining

[763] A handful of devices dominate the mobile market, with a growing number of companies originating from China. A few of these companies have made inroads into other countries due to their lower costs, but political and economic barriers may play a role in their expansion and possible rollback. According to a report by Statcounter, as of June 2020, the leading mobile devices were Samsung, Apple, Huawei and Xiaomi; although additional vendors had a strong presence in certain regions, such as Mobicel and Oppo. Listed below are the top vendors in various countries and regions, as reported in June 2020 by Statcounter:
United States: Apple (58.17%) and Samsung (25.59%).
Europe: Samsung (34.43%), Apple (26.25%), Huawei (18.17%) and Xiami (8.39%).
China: Huawei (29.58%), Apple (20.68%), Unknown (9.96%) and Xiaomi (8.5%). In China, one percentage point represents close to 10 million people.
Asia: Samsung (29.52%), Apple (16.5%), Xiaomi (12.6%), Huawei (9.78%) and Oppo (8.75%).
South America: Samsung (46.64%), Motorola (17.3%), Apple (10.5%) and Huawei (9.1%).
Africa: Samsung (33.71%), Huawei (17.3%), Apple (12.3%) and Teeno (8.2%).
Oceania: Apple (48.9%), Samsung (26.23%) and Huawei (12%).
India: Xiaomi (26.02%), Samsung (21.13%), Mobicel (12.89%) and Oppo (11.16%).
United Kingdom: Apple (46.5%), Samsung (30.5%) and Huawei (10.38%).
Germany: Samsung (40.97%), Apple (27.69%) and Huawei (17.06%).
"Mobile Vendor Market Share Worldwide", *statcounter.com*.

[764] For instance, Google launched its cross-platform cloud gaming service, Stadia, and Amazon introduced its service, Luna. Solotko, Simon, "The Emergence of Cloud Mobile Gaming", *tiriasresearch.com*, April 2020. In general, the development of cloud gaming could boost mobile gaming market growth. In fact, the mobile gaming market could benefit from new and advanced technologies and provide users with a faster, low-latency experience suitable for massive multi-user interactions. This should eventually allow mobile gaming to keep up with other platforms, particularly regarding esports titles that have heavy graphics. See McGregor, Jim, "Cloud Is Mobile Gaming Ready With Emergence Of Arm Infrastructure And High-Performance Video Streaming", *forbes.com*, April 14, 2020.

[765] The smartphone operating system market is now completely polarized, with Android and iOS sharing the market. As of May 2020, Android stands at 70.68% and iOS at 28.79%. "Mobile Operating System Market Share Worldwide, May 2019 - May 2020", *statcounter.com*. Nonetheless, an app that is developed for one operating system cannot automatically work on the other one and, more importantly, apps must be optimized and constantly updated in order to work with different versions of operating systems and device software updates. Apple uses the iOS operating system, and other mobile device manufacturers, such as Samsung, Huawei, Xiaomi and Oppo, use the Android operating system. In the context of the China–United States trade war, the US government is, at the time of writing, blocking US companies from trading with Huawei, thereby preventing Google from supplying certain services associated with the Android operating system. In particular, some Huawei smartphones using Android will have to do without Google Mobile Services (GMS), which include useful apps, such as Maps, Photos, Play Store and Drive. See McGregor, Janhoi, "Here's How Huawei's Android Ban Affects You [Updated]", *forbes.com,* May 20, 2019; and Moon, Angela, "Exclusive: Google suspends some business with Huawei after Trump blacklist – source", *reuters.com*, May 19, 2019. Even though Huawei is not currently banned from using Android's open-source code per se, a Huawei executive described an in-house operating system, such as Huawei's HarmonyOS, as a "plan B" if Huawei is prevented from using Android on future smartphone products. Phelan, David, "Move Over Android: Huawei's Harmony OS Is Plan B, But Could Be Implemented 'In Days' If Needed", *forbes.com*, August 10, 2019.

[766] See Section 9.3.2.

[767] See Chapter 10.

[768] Valentine, Rebekah, "Newzoo: Mobile most popular platform, least popular to spend money on", *gamesindustry.biz*, June 26, 2018.

users and convincing them to pay for content is rising; yet, at the same time, many mobile games have very low retention and conversion rates.[769]

Yet, for many developers and publishers, the mobile market has been an extremely profitable opportunity,[770] all the more so in light of the surge in popularity of esports and the advent of new technologies, such as the 5G network,[771] which will enable large volumes of content to be delivered at high speeds. This could support cloud gaming and facilitate the integration of apps with television and other platforms, including other gaming platforms, to allow cross-platform play.[772] Esports, in particular, have opened up opportunities for the development of games designed specifically for competitive video gaming, which benefits from and to a large extent effectively requires building large player communities, and mobile devices appear to be particularly suitable for this.

All of these elements including improved hardware and bigger screens have contributed to making mobile gaming the most rapidly-evolving sector in the video game industry and perhaps the one with the biggest potential for further growth.

This chapter will discuss some of the business and legal issues specific to mobile gaming that developers and publishers wishing to operate in this sector should consider when evaluating not only the opportunities but also the risks inherent in

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[769] According to a 2019 report prepared by Liftoff, a mobile analytics marketing company, it costs an average of $4.37 to acquire a new gaming app user. The cost to acquire a user and have him/her register was $9.17 and the cost to convince a user to make a first-time purchase was $35.42. These costs make it very difficult for many developers, and some may even lose money. These costs also affect licensed properties since they need to be factored in when determining royalties. Costs to acquire users can vary by platform (e.g., iOS or Android), channel (e.g., Facebook or Instagram) and country. For example, the costs in China ($1.32), Brazil ($1.42) and Russia ($2.17) are on the low end, while those in Japan ($5.35), Canada ($5.12) and the United States ($4.71) are on the high end. Nguyen, Kathy, "New! 2020 Mobile Shopping Apps Report", *liftoff.io*, June 17, 2020; and Valentine, Rebekah, "On average, it costs $35.42 to get a mobile gamer to make first in-app purchase", *gamesindustry.biz*, October 1, 2019.

[770] According to data.ai formerly known as App Annie, the mobile analytics company, in 2019, 140 mobile games generated over $100 million, while more than 1,100 reached at least $5 million. Iqbal, Mansoor, "App Revenue Data (2021)", *businessofapps.com*, August 4, 2021. Five games hit the $1 billion mark in 2020, including *PUGB Mobile* ($2.6 billion), *Honor of Kings* ($2.5 billion), *Pokémon Go* ($1.2 billion), *Coin Master* ($1.1 billion) and *Roblox* ($1.1 billion). "PUBG Mobile Tops List of Billion-Dollar Mobile Games in 2020", *sensortower.com*, December 15, 2020. In May 2021, Activision Blizzard announced that, 19 months after its release, *Call of Duty* had reached the $1 billion mark. As of May 2021, it has hit 500 million downloads. It also became the fastest game to reach 100 million downloads. Jordan, Jon, "Call of Duty: Mobile hits 500 million downloads, over a $1 billion revenue", *pocketgamer.biz*, May 5, 2021.

[771] 5G connections in combination with cloud storage are projected to revolutionize the mobile gaming industry with higher data speeds and lower latency. Lower latency will remove the hardware barriers for games such as AAA titles, which could only be fully appreciated on PC and consoles, thus allowing players to play these games on any device with similar quality. The type of device will no longer be important when playing games, except for other limitations such as screen size, sound and the possibility of receiving a phone call. This should also help grow esports and perhaps virtual and augmented reality. It may, however, take some time for the 5G network to be adopted worldwide, as rollout has been limited to certain countries and, even within those countries, to certain cities. Consumer costs may also affect initial acceptance. According to Newzoo, in 2020, less than 1% of all active devices were 5G ready, although that figure is expected to grow quickly to around 22% by the end of 2022, with China representing the largest market. Gu, Tianyi, "5G and the Games Market: How the New Era of Mobile Networks Will Impact Gaming", *newzoo.com*, May 11, 2020. Highly-dedicated players will most likely want to adopt the 5G network. In contrast, the more casual gamer may not want to spend more money on 5G for games but perhaps for other services. Despite some initial growing pains, major publishers are investing in the 5G network and see it as an excellent opportunity to expand the mobile gaming market. South Korea (the first country to adopt 5G), the United States, China, Canada, Japan, Australia, Brazil, the Scandinavian countries, France, Germany, the United Kingdom and Italy are among the 58 nations that had to some extent launched the 5G network by June 2021. Buchholz, Katharina, "Where 5G Technology Has Been Deployed", *statista.com*, August 3, 2021.

[772] Cross-platform play is becoming a reality for more and more titles, the most significant of which is probably Epic Games' *Fortnite*, which can, at the time of writing, be played on Android, Windows, Nintendo Switch, PlayStation 4 and 5, Xbox One and Xbox Series X/S.

this increasingly complex and rapidly-changing sector of the industry. Attention will also be given to some of the key contractual clauses that may appear in the contracts that developers and publishers must enter into with mobile digital distribution platforms in order for an app to be distributed.

That said, several of the topics discussed more generally throughout this book also apply in many respects to developers and publishers operating in the mobile market, such as development, intellectual property (IP), clearances, licensing considerations, publisher-developer relationships, ratings, regulatory restrictions and the common legal language that appears in many other video game-related publishing, distribution and licensing agreements.

9.2 – The Major Players

9.2.1 – Mobile Developers And Publishers

Unlike cross-platform AAA publishers, which are mostly concentrated in Asian countries and the United States, mobile publishers are spread evenly throughout the world,[773] showing that a successful mobile game can be developed almost anywhere. Another characteristic of mobile publishing is that the traditional distinction between developers and publishers, as discussed in Chapter 3, is significantly blurred. Good examples of this are Niantic, Supercell (part of Tencent) and King Digital Entertainment (part of Activision Blizzard), which together constitute the golden circle of mobile game production, since these organizations are both the developers and publishers of their most successful games. Niantic's *Pokémon Go* has promoted and popularized augmented reality, while popular games like Supercell's *Clash of Clans* and *Clash Royale* attract millions of players and make millions in profits.[774] King's *Candy Crush* franchise had more than 273 million users in 2020[775] and had surpassed 2.75 billion downloads since the first game in the series was launched on mobile markets in 2012. [776]

The mobile game market will probably continue to evolve and expand rapidly, allowing new actors to enter and entertain players with mobile apps. Furthermore, the production of mobile games may benefit from the investments being made by both private sector investors and national governments. The latter are injecting more and more public money into building international hubs and incubators that support technology start-ups and foster creativity.[777] At the same time, even though many first-party console manufacturers and AAA publishers were slow to adapt to the mobile market as a result of business decisions and hardware and broadband limitations, they are now pushing to expand their worldwide market presence with well-known franchises. For instance, Activision Blizzard's *Call of Duty* illustrates the significance of the mobile sector: since the

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[773] *"Top 30 Mobile Gaming Companies in the World 2019", blog.technavio.com, May 13, 2019*.
[774] Supercell's profits before taxes (EBITDA) amounted to $577 million in 2019. See *Paananen, Ilkka, "My Take on Supercell in 2019 As We Enter Our Second Decade", supercell.com, February 11, 2020.*
[775] Curry, David, "Candy Crush Revenue and Usage Statistics (2021), *businessofapps.com,* November 11, 2021.
[776] Takahashi, Dean, "Candy Crush Saga: 2.73 billion downloads in five years and still counting", *venturebeat.com,* November 17, 2017.
[777] Kaplan, Omer, *"Mobile Gaming is a $68.5 billion global business, and investors are buying in", techcrunch.com*, August 22, 2019.

game was released on mobile in October 2019, it has grossed over $1 billion and has been played in countries where distribution was previously difficult.[778]

The potential availability of investment money combined with low market entry barriers, such as virtually non-existent distribution costs, has already allowed a multitude of independent developers and publishers to step into the mobile market, and this trend is very likely to continue. In fact, there are now billion-dollar publishers dedicated only to mobile development and distribution.

9.2.2 – Mobile Distribution Platforms

Digital distribution is the delivery of content to mobile devices, such as Apple/iOS and Android phones.

At the time of writing, Google's Google Play Store platform and Apple's App Store platform dominate the global market and hold the largest share of Western markets.[779] In Asia, the limited accessibility of Apple App Store and Google Play Store has left room for other players, notably Tencent with its My App, which holds the lion's share of the Android market in China.[780] Moreover, distribution in China through Apple App Store is made more challenging by increased ISBN control over mobile titles and the requirement to have a local publisher.

Google and Apple's business models for their Google Play Store and Apple App Store are very similar. They both provide an app development platform, encouraging mobile developers and publishers to create apps for their platforms while providing minimal editorial selection and interfering very little in the development process. In fact, both Google and Apple essentially act as agents vis-à-vis app developers, leaving them free to set the pricing for the app and monetizing by retaining a percentage of all the revenue generated through the app.

In 2020, one third of all mobile app downloads worldwide were games. Total spending in Apple App Store and Google Play Store reached a record high. Revenue amounted to nearly $111 billion, which represents a 30.2% increase from 2019, and games accounted for $79.5 billion.[781] According to Sensor Tower research, 71.7% of all in-app spending for 2020 involved games.[782] It took however, one year for the record to be shattered as revenue increased to $170

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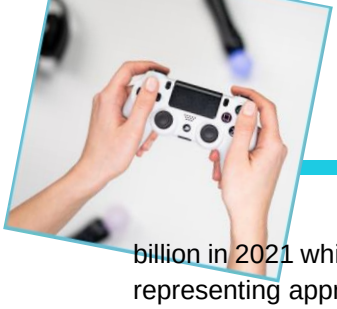
[778] "Call of Duty: Mobile", *wikipedia.org*; and "Activision Blizzard 2019 Annual Report", *investor.activision.com*. Takahashi, Dean, "Call of Duty: Mobile has 500 million downloads, $1 billion in player spending since 2019", *venturebeat.com*, May 4, 2021.

[779] Google is able to reach more players, but players that use iOS are more willing or able to spend money on apps. See "Global Consumer Spending in Mobile Apps Reached $133 Billion in 2021, Up Nearly 20% from 2020", *sensortower.com,* December 7, 2021.

[780] Nevertheless, the Android app store market in China is fragmented, with Tencent's My App, Huawei's App Market and Oppo's Software Store holding the largest market shares. See *"App Store Index", appinchina.co.* In 2019, Apple earned 20% of its revenue from the Apple App Store in China. Porter, Jon, "Apple closes Chinese App Store loophole, causing thousands of games to be removed", *theverge.com*, June 22, 2020. According to a 2021 Niko report, approximately 25% of Chinese gamers play games on iOS smartphones. "Take Rates in China – Will Quality Development Beat Out Traditional Distribution?", *nikopartners.com*. In this context, TikTok owner ByteDance has recently built a gaming division aiming to compete with market rival, Tencent. It recently released in China its first internal developed game, *One Piece The Voyage*, which was reported to have earned $50 million in the first two months after its release. Ye, Josh, "ByteDance scores its first mobile game hit in China in ongoing battle with market leader Tencent", *scmp.com*, June 15, 2021.

[781] Revenue covers money generated by iOS and Android and includes advertising, in-app purchases, subscriptions and app purchases. See "Global Consumer Spending in Mobile App Reached a Record $111 Billion in 2020, Up 30% from 2019", *sensortower.com*, January 4, 2021; and Iqbal, Mansoor, "App Revenue Data (2021)", *businessofapps.com*, August 4, 2021.

[782] *Ibid.*



billion in 2021 which includes third-party Android app stores in China with games representing approximately $116 billion in revenue.[783]

There is no doubt that, even though the mobile gaming market is very competitive for game content supply, there are still very few mobile distribution platforms playing a significant role in downstream distribution.[784] Despite the small number of distributors, competition continues to intensify as they compete for games for their own subscription services. In many ways, the situation is similar to what first-party console manufacturers have done by offering business incentives to publishers and developers in exchange for distribution rights that may include some form of exclusivity or restrict the distribution of games on other platforms.

Apple – The App Store And Apple Arcade

The App Store is one of the main digital distribution platforms and hosts hundreds of thousands of gaming apps. In 2020, consumer spending in the App Store reached $ 72.3 billion[785] and games accounted for almost 66% of that spending, which is equivalent to $47.6 billion.[786] Even though Apple does not develop games, it is considered to be one of the largest gaming firms globally,[787] with revenue projections around $85 billion in 2021, with 70% originating from games.[788]

The App Store integrates with the pre-installed Apple Game Center app, which allows users to synchronize game progress across all iOS devices and facilitates competitive playing and social interaction among gamers.

Riding the wave of the gaming phenomenon, in September 2019, Apple launched a unique subscription service for mobile, desktop, and the living room: Apple Arcade, which makes App Store games available on different devices, such as iPhone, iPad, Mac and Apple TV.

Apple Arcade constitutes the first gaming subscription service that allows mobile games to be played on less-casual devices, such as desktop computers and televisions. The service offers a catalog of games that are selected by Apple, indicating that Apple is beginning to take more editorial control over its game distribution business, which may potentially have positive effects on the quality of App Store games in general. Arguably, what Apple is also trying to achieve with Apple Arcade is offer a different mobile game environment, which does not rely on continuous cash draws and where driven purchasing and loot boxes have

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[783] "Global Consumer Spending in Mobile Apps reached $133 Billion in 2021, Up Nearly 20% from 2020", *sensortower.com*, December 7, 2021; and data.ai, "State of Mobile 2022", data.ai.
[784] With the noticeable exception of China, which has hundreds of Android distributors but is dominated by 10 to 20 companies. See Niko "Take Rates in China – Will Quality Development Beat Out Traditional Distribution", *nikopartners.com.*
[785] Statista Research Department, "Worldwide gross app revenue of the Apple App Store from 2017 to 2020", *statista.com*, July 6, 2021.
[786] "Global Consumer Spending in Mobile Apps Reached a Record $111 Billion in 2020, Up 30% from 2019", *sensortower.com*, January 4, 2021.
[787] Clement, J., "Gaming revenue of leading public companies worldwide during 4th quarter 2020", *statista.com, June 24, 2021.* According to Apple, as of January 2022, it has remitted $260 billion to app developers since 2008 with $60 billion from 2021. "Gurman, Mark, "App Store Developers Made About $60 billion in 2021, Apple Says", *bloomberg.com,* January 10, 2022. With a 30% share, it is clear why Apple is one of the major gaming companies. Bursztynsky, Jessica, "Apple v. Epic ruling reveals 70% of App Store revenue comes from a small fraction of customers playing games", *cnbc.com*, September 10, 2021.
[788] "Global Consumer Spending in Mobile Apps Reached $133 Billion in 2021, Up Nearly 20% from 2020", *sensortower.com*, December 7, 2021.

been replaced by a monthly subscription fee of $5 (as at the time of writing). In doing so, Apple is creating a venue for independent and big developers[789] where gaming content overrides additional in-game purchases, limited levels and in-game advertising and where "free-to-play" takes on a different meaning.[790]

With this relatively new service, Apple is also strengthening its relationship with developers, acting almost like a publisher by fronting, at times, developers' costs, entering into exclusive deals with developers and taking control of the end-user monetization model.[791]

Google – Google Play Store And Google Play Pass

Google Play Store is the digital distribution platform operated and developed by Google, and it also serves as the official app store for the Android operating system, allowing Android users to browse, purchase and download games. In 2019, Android announced that there were more than two and a half billion active Android devices worldwide,[792] which would make Android the most popular operating system for apps and games. In 2020, consumers spent $32 billion on games in the Google Play Store, an increase of about 27% from 2019.[793]

In 2013, Google introduced Google Play Games, an online gaming service for the Android operating system, featuring gaming-related services, such as leaderboards, achievement systems and cloud saves. Like Apple's Game Center, it operates as a dashboard through which the user has access to a plethora of services, such as in-game achievement systems. It promotes social interaction between players through a system of leaderboards designed to increase engagement and encourage competition among hardcore and casual players.[794]

In September 2019, only a few days after the launch of Apple Arcade, Google also launched its first app subscription service, Google Play Pass, intended only for mobile use and, again, offering a hand-picked selection of games. This service was originally launched only in the United States, but now has expanded to 90 countries.[795] The main features of this service appear to be very similar to those of Apple Arcade, namely a subscription service providing advertisement-free games designed by selected developers. Unlike Apple,[796] Google did not explicitly announce that it would support a portion of the development costs for Google Play Pass games but highlighted the advertising potential that this subscription service could have for mobile developers. However, a major concern about the service was the way in which royalties would be determined for developers. Originally, the Google Play Pass monetization model involved

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[789] At the time of writing, there are over 100 publishers and developers participating in the Apple Arcade subscription service. For many of the developers, the service provides a better chance to be discovered because a select number of games are offered as part of the service. Furthermore, as content improves on a platform, it tends to attract new publishers and developers.
[790] Games on Apple Arcade do not contain in-app purchases, and all features and any updates are included as part of the subscription price. Barrett, *Brian,* "How Apple Arcade Will Reshape Mobile Gaming", *wired.com,* September 19, 2019.
[791] Farough, Amanda, "Apple Arcade invests in developers while ensuring studios retain rights to their games", *gamedaily.biz,* September 18, 2019; and "Apple Arcade: What This Really Means for Mobile Game Developers (Updated)", *gameanalytics.com,* October 11, 2019.
[792] Brandom, Russell, "There are now 2.5 billion active Android devices", *theverge.com*, May 7, 2019.
[793] "Global Consumer Spending in Mobile Apps Reached a Record $111 Billion in 2020, Up 30% from 2019", *sensortower.com*, January 4, 2021.
[794] Google Play Game Services, "Achievements", *developers.google.com.*
[795] For a list of countries as of December 2021, see *https://play.google.com/about/pass-availability/.*
[796] Batchelor, James, "Why are developers betting on Apple Arcade?", *gamesindustry.biz*, November 25, 2019.

paying developers according to the amount of time their games were played, and this created an unexpected problem because it connected royalties to the time spent playing a specific game. The model, therefore, encouraged a re-playable gaming experience rather than a short gaming experience and eventually led developers to design games that required heavy grinding from the player in order to increase payments.[797] However, the practice appears to have changed, as Google now states that developers earn a royalty that is based on algorithmic methods, which take into account how users value all types of content.[798]

New Players

As cultural barriers become less of an issue worldwide and the market for games becomes more and more global, with Western consumers becoming increasingly interested in Asian games and vice versa, the market for digital distribution platforms, particularly mobile platforms, is likely to become even more competitive in the years to come.

Unsurprisingly, the success of mobile gaming in Asia is leading Asian companies to invest in mobile gaming platforms in an attempt to carve out a slice of the global mobile gaming market. While Silicon Valley is still the center of the mobile gaming market, a few interesting competitors are emerging in the East, perhaps taking advantage of the crisis between Google and Huawei, which may have been an excellent opportunity for new players to attract Android users recently orphaned from the Google Play Store,[799] and using the chance to leverage the immense power that Asian technology companies have acquired in the smartphone market.

The limited accessibility of the Chinese market appears to be playing a key role in supporting Chinese mobile industry players. In fact, aside from the specific political relations between China and the United States, compliance with the Chinese regulatory framework poses a great obstacle to Western businesses operating at a global level, and this can be leveraged by China-based tech giants.[800]

The attractiveness of the mobile market from a business perspective is also a factor capable of increasing competition among distribution platforms because it drives new players to capitalize on the opportunities offered by new technologies and take advantage of the intrinsic flexibility of the mobile gaming sector compared, for example, to the console sector where platform owners exert significant control over their platforms with strict processes, rules and requirements. The mobile market has demonstrated a peculiar ability to come up

[797] Kim, Matt T.M., “Developers Raise Alarm Over Their Cut of Google Play Pass’ Subscription Money”, *ign.com,* September 23, 2019.
[798] “Grow with Google Play Pass”, *play.google.com*
[799] Chinese smartphone giants, which together control 40% of global smartphone shipments, have joined forces and are planning to launch a new platform that is intended to challenge the international dominance of Google Play Store. Porter, Jon, “China’s smartphone giants reportedly unite to challenge Google’s Play Store”, *theverge.com*, February 6, 2020.
[800] A large number of games were removed from the Apple App Store because of failure to comply with Chinese regulations. Peters, Jay, “Apple removes thousands of games from the Chinese App Store, alarming observers”, *theverge.com*, August 18, 2020.

with new and innovative business models and solutions that could enable new players[801] to acquire commercial relevance if they appeal to consumers.[802]

9.3 – Dealing With Mobile Distributors And Publishers

9.3.1 – What You Need To Know

Apps become available for consumers by accessing 'app stores' via the internet from a mobile device or tablet connected to a mobile or wireless network. Therefore, developers must first enter into agreements with the various distributors, such as the Apple App Store, Google Play Store and Tencent My App, which serve as distribution platforms.

Many developers often choose not to involve a publisher and prefer to deal with the distribution platform directly, which allows them to monetize immediately through game revenues.[803] Chapter 3 mentioned the blurred distinction between the roles of developer and publisher. The advent of digital distribution has arguably also blurred the distinction between the roles of publisher and distribution platform, particularly when the platform embraces a selective approach to content and thus effectively exercises editorial control over what is published and what is not.[804]

For most developers, entering into a deal with a distributor seems like an easy process in which they sign a distribution agreement with the distributor simply by accepting a click-through contract. The agreement is a form contract that sets forth the rights and obligations of the developer and distributor, respectively, and is non-negotiable unless perhaps the developer is negotiating an exclusive deal or has extreme bargaining power. However, even in such a situation, there may be little room to negotiate terms with the platform, except perhaps commercial terms.[805]

While it is true that, in the vast majority of cases, the contractual terms applicable to the relationship between the developer and the distributor are standard terms

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[801] Regarding PC gaming platforms, a successful example of a new player entering the market is Epic Games, Inc., which attracted 108 million PC customers in its first year with its Epic Games Store and, according to Epic, had 180 million users in 2021. See *Epic Games Inc., v. Apple Inc., 493* F. Supp. 3d 817 (N.D. Cal. 2020); "Epic Games Store 2020 Year in Review", *epicgames.com*, January 28, 2021; and Brightman, James, "Epic Games Store has generated $680M so far, with exclusives being 'critical', says Tim Sweeney", *gamedaily.biz*, January 14, 2020.

[802] Consider, for instance, the Chinese multinational conglomerate, Tencent, which capitalized on the interoperability opportunities offered by technological advancements and built on the growing appeal of social games to integrate mini-games into its WeChat platform. Facebook subsequently replicated this approach with its Instant Games platform. Another example relates to the adoption of new monetization models by subscription-based platforms – whether cross-device platforms, such as Vortex and Apple Arcade, or platforms specifically designed for smartphones, such as Google Play Pass and Hatch Entertainment – which now offer cloud gaming content, generally stripped of all in-app purchases and advertising.

[803] The involvement of a publisher often implies that, under the terms of the publishing agreement, the publisher will be entitled to recoup any minimum guarantee paid to the developer, in addition to its right to make deductions and establish reserves.

[804] Sometimes, a platform may be willing to pay a minimum guarantee to the developer to secure the rights to distribute a specific game in its digital store. This distribution approach, which focuses more on the quality of game selection than on the quantity of games available, has already proved to be successful, as illustrated by the launch of the Epic Games Store platform for PC. It is now also being tested for mobile games by Apple with Apple Arcade.

[805] According to some of the documents presented by Epic Games in its lawsuit against Apple, the Vice President of Developer Relations noted that Apple does not routinely negotiate the terms of its developer program license agreement with developers and, to his knowledge, Apple offers the same agreement to all developers.

that leave virtually no room for negotiation by the developer, it is important that developers carefully read and understand the platform's terms. This is because one critical, but often overlooked, requirement set out in the distribution agreement is that the app must comply with all the platform's terms and conditions, otherwise it will be denied distribution or, perhaps even worse, taken down after launch. It is essential to understand the mobile platform's admission requirements to avoid the app being refused admission or removed because, for example, it includes inappropriate content according to the standards set by the platform or breaches the rules on the promotion of other apps.[806] Moreover, developers should be aware that, before or even after their games are admitted to the distribution platform, they may have to answer questions from the platform about issues as diverse as IP right ownership or licenses, gambling law, data collection or other types of regulatory compliance.

As a result, the best practice for developers wishing to avoid or minimize the risk of having to substantially change or redesign an app in order to have it admitted or re-admitted to the distribution platform is to review the relevant app store terms and conditions prior to and during the design process. This will enable the developer to ensure compliance with all the platform's key terms and conditions relating to content and monetization models.

Understanding all key platform admission requirements at an early stage is all the more important when a developer is considering distributing its game on several platforms, some of which may be based in different countries or continents and may, therefore, have different admission requirements set out in their terms and conditions. In this regard, it is important to consider, for example, different cultural sensitivities and how they may impact content as well as differences in regulatory requirements regarding, for example, gambling, and how they may impact monetization models.

9.3.2 – End-User Monetization Models

In the early days of the mobile gaming business, the app store model designed by Apple App Store or Google Play Store was based on the concept of making as much content available as possible, with little editorial control or filtering by the platform.

With this model, end users could choose between a wide range of apps and monetization models. Due to the abundance of apps distributed in the mobile marketplace, the rise in app costs and the multiplication of free apps, developers have had to devise new ways of making revenue. Consequently, some of the business models used for mobile games have evolved or been adapted from other sectors of the game industry, particularly browser and online games, and range from so-called premium games, where a fixed fee is paid for purchasing an entire app, to free games, which are supported by advertising and/or, more and more frequently, in-game purchases.[807] It has been reported that 95% of app

[806] In early 2020, it was reported that Google removed almost 600 apps from Google Play Store and banned the developers for violating the Google Play Store terms by including disruptive mobile advertisements. Lyons, Kim, "Google bans hundreds of Android apps from the Play Store for obnoxious ads", *theverge.com,* February 20, 2020.

[807] So far, this model has proved to be quite successful since mobile gaming generated revenues close to $74 billion in 2020. As such, mobile gaming revenues are greater than those of all other sectors of the game industry. See Newzoo, "Newzoo Global Games Market Report 2020" (light version), *newzoo.com.*

store revenue from games comes from in-app purchases, including loot boxes, XP boosts and time savers.[808]

Depending on initial end-user reaction, the business model for an app may change. In some cases, the pricing model for an app may vary depending on the app store, and there may be restrictions on pricing changes if an app is initially offered free of charge. A strong brand, for example, may be able to command higher fees because the app has been well received and is popular with consumers. Certain business models have worked well for some developers, while those same models have failed for others, although many factors contribute to the success or failure of a game. As a result, developers and publishers must carefully consider what model works best for them since the transition from one model to another, for example, from a premium model to a free-to-play one, may be difficult due to consumer expectations and the distributor's terms or technical restrictions.

At present, the most popular monetization models all involve some form of payment or free-to-play elements or a combination of both.[809] The table below illustrates the ways in which a developer or publisher may earn money at different stages of gameplay as per different business models.

At the "Start Game" stage, end users either pay money to start playing the app or access the app for free. At the "During/Finishing Game" stage, end users can either continue playing the game at no additional cost or can choose to pay a fee to enhance their gameplay, perhaps with new characters or costumes, additional or enhanced functionality to improve their playing skills or, more frequently, by speeding up their game progress. For some titles, it may be considerably harder to complete the game without paying additional fees and/or it may require the player to spend more hours farming for resources than a paying user. However, under most of the business models, payments made at the "During/Finishing Game" stage are technically not necessary to complete the game. An exception to this is the unlockable demo, where the end user can play a certain amount of the game for free but must pay money to unlock the entire game; however, this is becoming a less common business model for mobile gaming. A further advantage to paying a fee may be that the game becomes advertisement free, so the player is not constantly interrupted by advertisements during playtime.

WAYS TO EARN MONEY AT DIFFERENT STAGES OF GAMEPLAY			
Business Model	**Start Game**	**During/Finishing Game**	**Example**
Premium	Pay	Free	*Star Wars: KOTOR*

[808] Some interesting statistics are available in Jugovic Spajic, Damjan, "Mobile Killed the PC Star: Mobile Gaming Statistics for 2020", *kommandotech.com*, December 4, 2019.

[809] In this context, a key tool for the mobile gaming business is game analytics, which involves the collection and interpretation of data on consumer conduct and buying habits to help developers better target their audience and learn what models and practices are most effective from a monetization standpoint. Some areas of particular interest to developers and publishers may be (i) how many consumers are paying and how many are playing for free; (ii) what purchases are being made by consumers; (iii) how long consumers play the game; (iv) which application programming interfaces (APIs) are most effective in encouraging consumer purchases; (v) how many consumers become paying customers; (vi) what the game retention rate is after a given period; and (vii) what the consumer's average spend is.

Ad-supported, optionally with **unlockable ad-free version**	Free	Free or pay to unlock ad-free version	*2048*
Freemium, also known as free-to-play	Free	Free or pay for additional ingame content	*Clash Royale*
Paymium	Pay	Free or pay for additional ingame content	*Minecraft*
Subscription service	Pay	Pay for additional content and features	*FIFA*
Unlockable demo	Free	Pay	*Super Mario Bros*

It is quite common for casual games to use a combination of these business models, for example, in-game purchases combined with rewarded advertisements or rewarded video advertisements. Monetization models based on paid subscriptions are less common. Subscription-based models generally allow for higher player retention rates but require stronger motivation for players to invest their money in a single game. With such a model, distribution platforms take their share of the game revenues generated by subscriptions and any in-app purchases. Season and battle passes are part of the subscription model. Season passes allow users to access new content released during a set period of time at a discounted price. Battle passes allow users who have purchased the pass to earn certain rewards for playing the game and achieving specific goals. While any non-paying user can earn some rewards, the battle pass provides additional and higher rewards.

Noticeably, a new monetization trend appears to be emerging, with distribution platforms creating their own subscription models that allow them to determine the commercial offer and monetization system, which would preclude the developers and publishers of the games offered as part of the portfolio of games made available on a paid-for subscription basis from deciding how a specific game should monetize.

Whether or not a subscription business model will work depends on a number of factors but, most importantly, it depends on the quality of the games, the number of games, the price and the economic benefits for the developer. It is essential to consider how the developer will make money; whether the service requires the game to be exclusive; and whether the business advantages outweigh the restrictions on distribution via other platforms. Small- and medium-sized developers will probably find subscription services a viable option if they do not have the time and resources or the expertise to deal with monetization issues and/or if the economic and exposure benefits surpass those of alternative distribution models. In contrast, a well-established developer that wants to keep

more control over its game, including the monetization method, may find that subscription services will not be financially advantageous for some games, especially new releases. However, as a distribution platform expands, it may provide enough financial incentive and promotional value for it to be worthwhile for a developer to create original IP and/or license a game. Since fewer games are offered as part of a walled subscription service, a game may benefit from promotional and marketing value that would have been more expensive and more difficult to obtain on other distribution platforms. Catalog titles may also provide economic benefits to major developers, especially if they receive additional payments besides royalties. These issues are, in many ways, similar to those encountered with other forms of digital distribution.[810]

Due to the monetization limitations that the subscription business model imposes upon publishers and developers, it may not be as economically viable as other business models unless the subscription service has a large enough consumer base to generate royalties or the distributor offers other financial consideration, such as guarantees or development costs. However, one advantage for publishers and developers is the additional marketing value provided by the distributor, which otherwise may not be easy to obtain in a crowded market. Since there are fewer games in a subscription service, there is more chance that consumers will discover a game, and the platform provider is more likely to feature and promote the game in order to showcase added value to the existing subscriber base and attract new subscribers.

9.3.3 – The Publisher-Developer Relationship

Given the relatively low cost of app development and the ease of game distribution through an app store, many developers choose to self-publish their apps. As already mentioned, the biggest advantage for a developer is that it only has to share revenue with, and seek approvals from, the distributor and any licensors that may have provided IP-protected content for use in the app. On the other hand, the developer must assume all the risks associated with developing the game as well as sole responsibility for its publication and development funding. However, as already noted, platforms may sometimes be willing to pay minimum guarantees to secure game distribution rights and these may be used for development and marketing costs.

In some situations, however, a developer may choose to work with a publisher. Why would a mobile developer want to work with a publisher when it can arrange for the distribution of the app on a mobile platform itself? There are at least four possible reasons. The first reason is that publishers tend to be well-capitalized and can, therefore, provide development funding. The second reason is that publishers can leverage their greater market presence to provide marketing support that would otherwise be unattainable or unaffordable for the developer. Such marketing support may be vital to ensuring an app gets noticed in what is currently an extremely crowded sector where discoverability is increasingly an issue and can potentially impact the commercial success of a game. The third reason is that, given the increasingly complex legal and regulatory framework

[810] In April 2021, several major publishers and developers announced that they would develop for Apple Arcade. Some of the games include a few notable brands, such as 2K's basketball game *NBA 2K21 Arcade Edition* and a Star Trek game. In addition, some well-known developers, including the ones behind *Final Fantasy* and *Hot Shots Golf*, signed on to create games for the service. McWhertor, Michael, "Apple Arcade gets new games from Final Fantasy creators, PlatinumGames, and more", *polygon.com,* April 2, 2021.

applicable to games, the publisher may be able to provide the developer with expertise and support, either through its in-house legal department or by securing the services of a law firm, to ensure a game complies with all applicable local laws as well as the platform's terms and conditions, thereby avoiding or minimizing the risk that the app be refused admission by the platform(s) or subsequently removed for lack of compliance. The fourth reason is that a successful publisher can include the app in its network of games and thus provide more visibility.

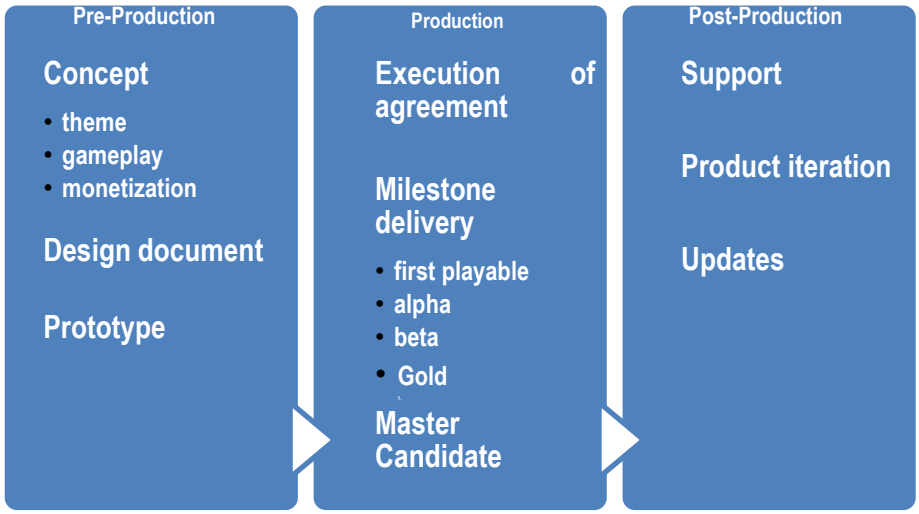
From the publisher's point of view, mobile gaming clearly offers economic opportunities, sometimes publishers may have considerable experience (and in-house studio talent) in the console and PC worlds but lack expertise in relation to mobile games, and therefore, they may elect to work with a developer as a strategic move to enter this segment of the market and develop internally, through the relationship with the developer, the expertise they require to grow its own mobile business. Developers should be mindful of the potential interest on the part of publishers that may extend beyond the publishing of one or more games of the developer so that the developer can leverage this factor in the context of the discussions with the publisher around the terms of their collaboration (including in respect of the economic terms).

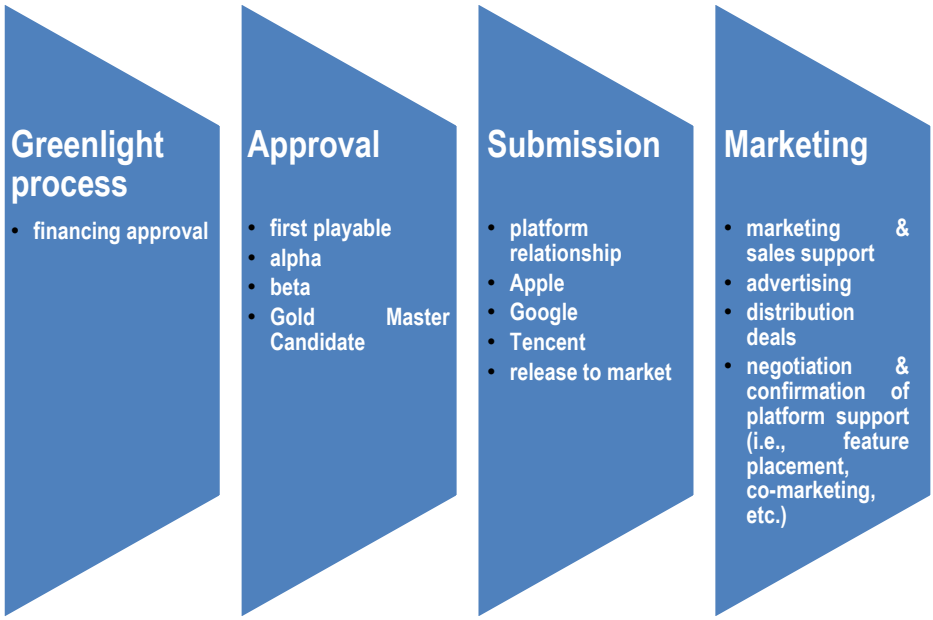
There are various scenarios in which a developer and a publisher may enter into an agreement with respect to a mobile game, including:

- the publisher provides financing to help pay for all or part of game development expenses and for costs associated with game promotion and marketing and, in return, acquires certain rights to the game, including distribution rights;
- the publisher hires a developer to create a game that will be owned by the publisher;
- the publisher/marketing agency is simply involved in marketing the game and targeting the relevant player base, thereby increasing the game's visibility in the marketplace, but it is not otherwise involved in funding or distributing the game;[811]
- a developer ports a game for a publisher; or
- the publisher distributes the developer's game and enters into agreements with distributors. This may benefit the developer, particularly in terms of managing relationships with distributors located outside the developer's zone of operation, for example, when a developer intends to launch a European game for distribution on Chinese mobile platforms. For some countries, such as China, a developer is required to enter into a relationship with a Chinese distributor for its game to even be considered for distribution.

[811] This may be the case when a developer wants to retain control over the development and publishing of its games but lacks the expertise to market them. In what is an increasingly crowded ecosystem, a developer may find it more efficient or more effective to outsource only the marketing of its app to publishers.

Example Of The Mobile Development Process





The rights and obligations between the developer and publisher will vary widely depending on the kind of deal agreed between them. For example, if the publisher is funding the developer to create one of the developer's own apps, or if the developer is creating an app as a work for hire for the publisher, then some terms such as IP and revenue splits will be different. Key points that may require negotiation between a publisher and a developer may relate to which party will be responsible for carrying out various obligations and which party will pay for costs. If the publisher makes commitments, for example, marketing commitments, it is critical that the developer include language in the agreement confirming those obligations. The key points for negotiation are:

1. Delivery of the app covering services to be provided and a milestone schedule;

2. Rights granted and, if limited, the term of exploitation of the said rights;
3. Operating systems (e.g., iOS and Android) and devices (e.g., smartphone and tablet) for which the game will be delivered;
4. Late delivery or failure to deliver an app, which may involve termination or reduction in payments or royalties;
5. Update obligations[812] and delivery of possible new content;
6. Consideration of virtual reality (VR) and esports capabilities;[813]
7. Testing of the various submissions for different devices;
8. Territory, which may also involve app localization;
9. Porting of the app to additional devices;
10. Customer support;
11. Ownership;[814]
12. Revenue sharing (see below);
13. Distribution and marketing obligations, including which party will be responsible for user acquisitions;
14. End-user agreement and enforcement;
15. IP enforcement and protection;
16. Game-content pricing strategy and/or business model to generate revenue;
17. Data collection and ownership, for example, who owns the data, who administers access to it and who ensures collection complies with government regulations.
18. Personnel who will work on app development and personnel who will work on app publication;
19. Licensing of software owned by the developer to the publisher, if applicable;
20. Statements and audit rights if royalties are owed;

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[812] This refers to regular updates as well as to resolving technical issues or code shortcomings, adding new gameplay functionalities and adding or updating game content, which may help extend the app's life cycle.

[813] If the parties choose to conduct esports tournaments, (the parties may also decide to work with a third party) they must govern the allocation of rights related to tournaments and events and address the responsibilities of each party regarding, for example, regulatory compliance, hosting, managing and administering the events and the corresponding revenue share.

[814] In deals involving distribution only, the developer will, in almost every situation, own the copyright in the game; however, in situations where one of the parties is paying all or part of the development expenses, ownership of the copyright will require negotiation. Typically, the outcome will depend on which party created the IP, including the underlying code and story, and the amount of money invested by the publisher. Generally, the more money invested by the publisher, the greater the likelihood that it will want to own the IP in the app. However, it appears to have become more common recently for a developer to maintain its IP. When a developer is hired by a publisher to create an app, the IP will typically be owned by the publisher, except for any licensed content or any underlying code created by the developer. Ownership of the IP or the perpetual right to use it unrestrictedly will allow for the creation of derivative works, including sequels, and the right to exploit the app and source code on other platforms. If the publisher does not own the IP, it will probably want to have the opportunity to distribute future products created by the developer based on the original app.

21. Approval of deliverables, marketing and business plans;
22. Publisher's commitments and actions vis-à-vis the developer's app regarding territories where a publisher may only be allowed to submit a certain number of games/apps for approval (e.g., China); and
23. Termination, for example, upon expiration of the agreement or failure to cure a breach or termination for convenience by the publisher subject to some form of compensation for the developer.

The most fiercely negotiated of these points will often be revenue terms. As with most publishing agreements in the game world, mobile game publishers and developers are typically remunerated through some form of percentage revenue share. Similarly to other revenue share deals described elsewhere in this book, the exact amount payable to the developer and the publisher (and how and when it will be paid) will be a matter of negotiation and will be influenced by a number of factors, including the parties' respective bargaining positions and whether the publisher has provided development funding it wishes to recoup. However, in mobile publishing agreements, the distribution platform (e.g., Apple App Store, Google Play Store or Tencent My App) will take its standard fee, following deduction of taxes, such as withholding tax and digital value-added tax (VAT), before the developer and publisher take their revenue share.[815]

Finally, depending on the app's business model, it may be necessary to negotiate what qualifies as revenue and how the publisher and developer will recognize and share revenue from advertising, virtual items, if any, within the game as well as revenue from the sale price, if any, of the app itself. Moreover, it may also be relevant for the agreement to cover the distribution of revenues generated by the exploitation of the game and game elements in ancillary markets (e.g., derivative works and merchandising), in the event that the game reaches a level of popularity that justifies the widespread exploitation of the game's elements, which is rare, but not unprecedented, for mobile games.[816]

More generally, regardless of the exact kind of publisher-developer agreement, all agreements will also include a number of legal points similar to those in standard distribution agreements elsewhere in the game industry, such as representations and warranties, indemnification, how and where disputes will be resolved, termination, confidentiality, limitations of liability, insurance and "boilerplate" provisions.

9.4 – Entering Into An Agreement With The Distributor

Each distribution platform has its own contractual terms, so the content of an agreement will vary depending on the distributor. Nevertheless, agreements with distribution platforms typically cover and regulate key points, including, but not

[815] For game businesses that have operated in digital distribution, this is really no different to what they have already experienced. In fact, the digital platform usually deducts its share of the revenues before it passes the balance on to the publisher for sharing between the publisher and developer in accordance with the terms of the agreement between them.
[816] Batchelor, James, "How Angry Birds broke the limits for mobile games", *gamesindustry.biz,* December 11, 2019.

limited to, the game submission process; approvals;[817] the grant of a non-exclusive license of platform technology to the developer;[818] the distributor's share of revenue for distributing the app;[819] payments owed to the developer or publisher; term; territory; ownership of IP rights; pricing; removal notices;[820] restrictions on data collection;[821] rating requirements;[822] testing; insurance obligations;[823] restrictions on the use of open-source software; and app certification by the distributor.

Developers should be aware that the agreement will almost inevitably require the developer or publisher to represent and guarantee, among other things that all IP rights related to the game are either owned by it or properly licensed from a third party and that the developer or publisher will indemnify and take responsibility for any liability, loss and costs incurred by the distributor arising or resulting from any infringement claims related to third-party IP rights, such as copyright, trademarks and patents. It should be noted that the agreement between the publisher and the developer will typically allocate this responsibility to the developer unless the publisher is providing the developer with IP. The distribution agreement will also cover a number of other points, including how and where disputes will be resolved, termination, confidentiality,[824] limitations of liability, the distributor's right to amend the terms of the agreement, disclaimer of warranties and other boilerplate provisions.[825]

When the distributor is also the manufacturer of mobile devices, it may, in some cases, be interested in obtaining exclusive distribution rights, normally for a

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[817] A developer or publisher must ensure compliance with certain guidelines established by the distributor in order to avoid sanctions, such as removal of the app or ban on the developer or publisher from the platform. Generally, once the developer or publisher has signed the agreement, which refers to and incorporates the guidelines, the distributor will carry out a general review of the app before publishing it. Regardless of the review, the developer or publisher remains responsible vis-à-vis the distributor for compliance with the guidelines at all times and, therefore, also with respect to any future updates and patches. Furthermore, all app stores employ a removal process if an app violates their guidelines. In the majority of cases, violations will be linked to incorrect use of a rating, offensive content (e.g., pornography), promotion of gambling or issues related to IP (e.g., unauthorized use of third-party content). For different guidelines established by storefronts for apps, see Developer Policy Center, "Providing a safe and trusted experience for everyone", *play.google.com*; and Developer App Store, "App Store Review Guidelines*", developer.apple.com*.

[818] Distributors license software on a non-exclusive, non-transferable basis to developers to allow developers to incorporate various features into their app.

[819] In most situations, the current practice is for the distributor to receive a 30% revenue share. However, this is in a state of flux as the 30% fee is the subject to a number of legal challenges. See Section 1.8.5. In addition, developers or publishers may also have to pay an entry fee, which is generally very low, to be allowed to publish their games on a given distribution platform.

[820] Generally speaking, removal or take-down rights allow the developer or the publisher to remove the app from the store, provided that certain requirements or conditions are satisfied, such as obligations to refund consumers and provide customer support.

[821] Distributors impose a number of restrictions on the collection of user or device data by a developer or publisher. Developers or publishers are required to comply with all applicable privacy and data protection laws and regulations and to obtain users' consent for the collection, use and storage of their personal data.

[822] Generally, the distribution agreement and guidelines provide that the developer or publisher is solely responsible for indicating the app's age rating, subject to compliance with any statutory obligations set forth in state classification systems. However, the distributor may provide support to the developer or publisher by way of specific questionnaires designed to help it manage age-rating certification.

[823] Distributors may require that a developer or publisher hold or obtain insurance coverage for certain named risks and that the relevant insurance policies name the distributor as an additional insured party. See Chapter 3, which discusses insurance issues between the developer and publisher; similar issues apply between the distributor and the developer or publisher.

[824] Some distribution agreements explicitly state that information communicated to the platform by a developer or publisher, including information relating to a submitted app, is not deemed confidential for the purpose of the confidentiality obligations.

[825] See Chapter 12.

limited period of time, as a way to promote an upcoming or newly released device. In this situation, which is relatively uncommon, the parties enter into a bespoke agreement amending the terms of the standard distribution agreement to cover points such as app development; delivery dates; localization obligations; the delivery process, including acceptance procedures; the exclusivity period and territory; financials; and marketing. Given the issue of app discoverability, the terms relating to the platform's marketing commitments are often of key importance to the developer or publisher, which is generally keen to leverage fully the platform's ability to promote the game since promotion can potentially boost sales.

Mobile distribution agreements are generally less restrictive for developers or publishers than, for example, digital distribution agreements for console games, since mobile distribution platforms allow the developer or publisher to withdraw its content from the platform at any time, without any particular formalities or penalties.

The agreement between the distributor and the developer or publisher is often characterized as a standard non-exclusive agency agreement. However, despite many similarities, the level of sophistication and granularity of the terms of each standard agreement may differ depending on the platform.

While the Google Play Store standard distribution agreement is straightforward in that it applies to all content, irrespective of whether the game is free to play or fee based, the contractual framework designed by Apple for its App store is significantly more complex since it requires the developer or publisher to agree to specific terms that vary depending, for example, on whether the app is free to play or fee based, with apps containing in-app purchases being considered fee based.[826]

The Apple Developer Program License Agreement is currently much longer and more detailed than the Google Play Developer Distribution Agreement. Some notable differences between the two agreements include Apple dictating more stringent requirements for app design,[827] prohibiting developers from independently issuing refunds to end users of the app and imposing additional confidentiality obligations.

Since these distribution agreements are normally characterized as agency agreements rather than reseller agreements, distributors generally allow developers or publishers to freely set the pricing for their app and related in-game purchases. The distributor will then collect and remit revenues to the developer or publisher after deducting its share of revenues.

[826] For a list of business models, see *https://developer.apple.com/app-store/business-models*.

[827] For example, the prohibition on distributing any additional app features or functionalities through non-Apple channels, on including features or functionalities that create or enable a third-party software store and on using or calling any private APIs; or the obligation for iOS apps to have at least the same features and functionality on an iPad when run in compatibility mode. The Apple Developer Program License Agreement also specifically states that, with the exception of consumable items (e.g., virtual supplies such as construction materials), any other content, functionality, services or subscriptions delivered through an in-app purchase (e.g., a sword for a game) must be available to all of the devices associated with the account of the user who made the purchase.

9.5 – Major Terms Of The Distribution Agreement

9.5.1 – Rights Granted

Under the distribution agreement, the developer or publisher typically grants the distributor a non-exclusive, royalty-free license covering the rights necessary for the distributor to lawfully market and distribute the game on its platform (e.g., reproduction rights, right to display); analyze game-related data; and check if the app is compliant with the platform's distribution terms and guidelines. Moreover, the license generally allows the distributor to use the developer's technology embedded in the app for the purpose of improving its platform.

While mobile distributors do not usually agree to any marketing commitments or obligations in favor of the game or the developer, they do generally acquire fairly broad rights from the developer or publisher, allowing them to legitimately advertise the game in connection with their platform services. Such rights include the right to display elements from the game, for example, characters and gameplay videos, as well as the developer's trademarks and trade names. The advertising rights granted to the distributor's platform are typically not restricted to use in connection with the platform and, in fact, extend more generally to online, mobile, television, out-of-home (e.g., billboard) and print advertising uses.

Such rights may also be granted to allow promotional incentives for paid transactions, including in-game transactions, as well as gift card promotions, including on third-party channels.[828] In addition, standard distribution terms usually provide that, in the event of termination of the agreement, the distributor will be entitled to retain copies of the app and continue to use the app for the purpose of supporting and improving its platform and services.

9.5.2 – Delivery Of Materials And Acceptance

The delivery section of the distribution agreement outlines which game-related materials must be delivered to the distributor and in which formats.

However, whenever the delivery process is to take place directly through the distribution platform, as is the case for Apple App Store and Google Play Store, the distribution agreement does not cover this point in detail because the procedure is standardized, and development tools and processes are detailed and explained by the guides and tutorials made available to developers on the platform.

All distributors have the right to reject a game submission. Developers must, therefore, be aware of a distributor's reasons for rejecting games so that they know in advance what is to be avoided and what is required when submitting a game. Although these reasons may vary slightly among distributors, some common ones include: (i) the game is untested and has material bugs; (ii) the game alters device functionalities; (iii) inaccurate description or information about the game; (iv) copycat of other games; (v) hidden or undocumented features; (v)

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[828] The distribution agreement for Google Play Store allows Google to use the developer's brand features for the purpose of marketing promotions in connection with Google Play and for gift card promotions on Google-authorized third-party channels. See "Google Play Developer Distribution Agreement", *play.google.com*, agreement effective as of November 17, 2020.

use of the developer's own payment system;[829] (vii) the developer does not have proper licenses to distribute in a particular country, for example, China; and (vii) the game fails to comply with the distributor's guidelines or law, including issues relating to privacy and IP.

9.5.3 – Continuing Obligations

In contrast to distribution agreements for console or PC games, agreements with mobile app platforms rarely require the developer to provide upgrades, enhancements, modifications and add-ons for its app. However, a developer may be required to provide updates as part of its obligations under a publisher-developer agreement or under a mobile platform agreement that involves some form of financial consideration paid to the developer. Furthermore, mobile distributors may require update/enhancement parity in terms of both content and delivery. Finally, developers are typically bound to provide maintenance and technical support to final customers for their mobile games.[830] Regardless of the distributor's requirements, for many games, it would probably be in the best interest of the developer to update and refresh its game to help extend the game's life cycle, player engagement and monetization.

9.5.4 – Term And Termination

App stores rarely specify a term for distribution agreements. Instead, it is usually stipulated that the agreement will endure until terminated by either party, and the parties generally have flexible termination rights. Typically, the developer is entitled to terminate the contract immediately and without cause by simply removing the app from the platform.[831] However, the agreement may include a reasonable phase-out period allowing the distributor time to discontinue its distribution activities.[832] The distributor is normally allowed to terminate the contract immediately for cause and remove the app from the platform, whereas its right to terminate the contract for convenience will usually be subject to a specific notice period.[833]

Nevertheless, the distributor's right to terminate or suspend an agreement can be very broad and some agreements allow termination for any reason. While a distributor may have complete discretion in terminating an agreement, some of the justifications for termination may include:

1. breach of a representation and warranty that would involve potential misuse of a distributor or third party's IP;

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[829] This issue is currently the subject of litigation involving Apple. See Section 1.8.5.
[830] The distribution agreement could, for instance, require the developer to indicate in the end-user license agreement (EULA) that it is solely responsible vis-à-vis game customers for providing customer support and technical maintenance for the game.
[831] The delisting of a title by the platform owner does not automatically involve termination of the agreement. The Apple Developer Program License Agreement, for example, provides the developer with a "platform account", which regulates the relationship between the platform and the developer. Termination of the agreement means that the developer's account and all its titles will be blocked and deleted from the platform. However, taking down one title from sales does not mean termination of the agreement.
[832] In many situations, a game's life cycle may be limited by technical issues resulting from constant changes in technology. It follows that a developer may choose not to update its game because the costs do not justify the expenses.
[833] For example, the distribution agreement for Google Play Store and Apple App Store provides for 30 days' prior written notice.

2. unacceptable content in a game, which could include violence, discriminatory acts or illegal acts;
3. violation of the terms of service, including advertising guidelines;
4. violation of privacy regulations;
5. breach of confidentiality; or
6. violation of local rules and regulations, in addition to any rules set by the distributor.

9.5.5 – Marketing

A mobile distribution platform rarely undertakes any marketing obligations vis-à-vis the developer or publisher. In fact, the relationship between the distributor and the developer or publisher is typically non-exclusive, and the developer or publisher is allowed to distribute the app via other distributors and promote the app independently.

The distributor normally acquires broad rights to promote and commercialize the app so that it can distribute the app efficiently without having to obtain prior approval from the developer or publisher. These rights include the right to offer promotions involving the game, especially for themed and seasonal activities.[834] However, as already noted, in the vast majority of cases, the distributor will be reluctant to agree to carry out specific promotional activities.

9.5.6 – Revenue Share And Pricing

The revenue share terms for mobile distribution do not necessarily differ from those in online distribution agreements for other formats, such as PC; however, this has begun to change with the introduction of Epic Store's significantly lower 12% distribution fee for PC games. Current rates may also change depending on current litigation in which Epic is challenging Apple and Google over their fees, claiming that their rates amount to anti-competitive practices.[835] In most situations, both Google Play Store and Apple App Store currently retain a service fee equivalent to 30% of the app's revenues, and the developer receives 70% of the revenues. However, from 2021, Apple reduced its fee to 15% for businesses earning less than $1 million in revenue the previous fiscal year.[836] Google subsequently announced that, from July 1, 2021, it would reduce app store fees to 15% for the first million dollars earned per year by developers on the Google Play Store. However, unlike Apple's reduction, every developer would be entitled

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[834] See, for instance, Apple App Store's "What we're playing this week" or "Game of the Day".

[835] The 30% fees taken by Apple and Google are currently being challenged by Epic Games, which filed lawsuits in the United States, Australia and the European Union claiming the fees charged are anti-competitive. See Section 1.8.5.

[836] Leswing, Kif, "Apple will cut App Store commissions by half to 15% for small app makers", *cnbc.com*, November 18, 2020. According to a report by data. aie, 97% of publishers that monetize through the iOS Apple store earned less than $1 million. See "The State of Mobile 2021", *appannie.com*. However, while the reduction will be very beneficial for small companies, it will, according to some reports, have little impact on Apples' financials. Albergotti, Reed, "Apple cuts some App Store fees, but critics call it a ploy to avoid regulation", *washingtonpost.com, November 18, 2020*. For more details on how Apple's program for small businesses will work, see "App Store Small Business Program", *developer.apple.com*.

to the reduction on the first million dollars earned, no matter how much money the developer may eventually make.[837]

In China, many of the storefronts retain a 50% fee, although a few publishers have, in limited situations, negotiated better commercial terms for some of their games. In other instances, some publishers have chosen not to release games on certain platforms because of the fees and/or have decided to distribute their games directly, instead of using traditional app stores.[838] Unlike Apple's iOS system, Android is an open platform that allows third-party stores to use it. This has resulted in hundreds of Chinese Android app stores, although the market is dominated by a few companies consisting mostly of the leading Chinese smartphone manufacturers, such as Huawei, Oppo and Vivo.[839]

In addition, the distribution agreement may provide that the service fee shall be reduced if revenues are generated through qualifying subscriptions.[840] This is to encourage the developer or publisher to update and improve the app in order to retain users.

A mobile distribution agreement is often structured as a commercial agency agreement, thus allowing the developers to lawfully set end-user prices at their sole discretion.

A significant portion of mobile games adopt a free-to-play monetization model, and developers should be mindful that mobile distribution agreements typically do not allow the developer to switch to a premium model after a game has been released on a platform using a free-to-play model. Games that were initially offered free of charge to users may have to remain free of charge. Additional charges are generally possible only if an alternative or supplemental version of the game is released.

9.5.7 – Legal Commitments

When developing a mobile app for distribution via a specific app store, the developer will be allowed access to the platform's own development tools, the rights to which are owned or controlled by the distributor and are licensed to the developer for the sole purpose of developing the app.

It is crucial for the distributor that any party allowed access to these proprietary tools, technology and, possibly, sensitive information, know-how and trade secrets, undertake certain confidentiality obligations that will often continue after termination of the agreement and potentially endure in perpetuity.

As a result, the developer must agree to relatively detailed confidentiality obligation clauses that may be included directly in the distribution agreement or, more frequently, in a separate license agreement, which covers access to and

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[837] Leswing, Kif, "Google cuts app store fees for developers on first million in annual sales", *cnbc.com*, March 16, 2021.
[838] "Take Rates in China – Will Quality Development Beat Out Traditional Distribution", *nikopartners.com*.
[839] In 2020, Huawei, Xiaomi, Oppo and Vivo became part of an alliance, called the Global Developer Service Alliance, established by smartphone manufacturers to create a joint platform that would allow developers to upload apps and games to all app store members simultaneously. *Ibid.*
[840] More specifically, revenues generated through subscriptions will be considered qualifying whenever they come from users that have been subscribed to the app for a certain period of time. For instance, Google Play Store will decrease its service fee/commission to 15% with respect to users that have been paying subscribers for at least 12 months. Play *Console Help, "Service fees", support.google.com*.

use of the developing tools and which a developer or publisher will be required to accept when registering as a developer with the relevant platform.

9.5.8 – Indemnification And Limitation Of Liability

Distribution agreements for mobile apps typically include very broad indemnification clauses in which the developer agrees to uncapped indemnification obligations in favor of the distribution platform with regard to any claim relating to the app that exposes the distributor to third-party damage claims or regulatory fines. The distributor, however, will be unlikely to assume any indemnification obligations in favor of developers with regard to any damages they may suffer as a result of platform malfunction. In fact, the distribution agreement or the license agreement relating to platform development tools will most often state that, unless restricted by any laws, the platform disclaims any representations and warranties in respect of the proper functioning of the platform.[841]

A distributor typically provides access to its platform and any software on an “as is” basis, without any promises or warranties that either will work as planned, thereby shifting most risk to the developer. Subject to any limitations that may be imposed by a country’s laws, a distributor will also limit its liability if a problem arises with respect to the platform or software provided to the developer. This limitation of liability also includes any impact such problems may have on the developer and its business, such as a loss of income and/or data. Furthermore, if a distributor is liable for damages, it will limit them to a token amount, and the type of damages that may be sought by a developer is subject to any limitations imposed by law.

9.6 – Regulatory Considerations

As with any game, a mobile game must comply with extensive regulation regarding, for example, consumer protection, child protection, data protection and data privacy. Several key areas of game regulation are discussed in detail in chapter 10.

However, it is important to bear in mind that, while such regulation is particularly applicable in the mobile game sector, it is also particularly opaque. This is because, while the mobile platform has the largest actual and potential consumer reach compared with other game platforms, mobile smart devices employ very recent technology, so regulators are only just beginning to understand how existing regulation should apply to modern mobile games and what new regulation will be required in the future.

Noticeably, in May 2018, the General Data Protection Regulation (GDPR) became applicable in the European Union (EU), acknowledging, on the one hand, the increased value of personal data and addressing, on the other, concerns associated with new ways of, and purposes for, processing personal data. The GDPR paved the way for the adoption of analogous legislation in other

[841] However, such broad limitation of liability provisions may be considered unenforceable or not fully enforceable under certain national laws, particularly in EU countries.

countries. It defines what constitutes “personal data” and ensures a significant degree of protection of the data subject’s rights. Moreover, the protection provided is sustainable vis-à-vis the latest technological developments.

In the United States, California was the first state to adopt regulations that are very similar to the GDPR. In 2019, the California Consumer Privacy Act (CCPA) was passed with a view to reinforcing the protection afforded to the residents of the State of California regarding the collection and processing of their personal data. The legislation became effective in January 2020 but was subsequently amended by a statewide proposition known as the California Privacy Rights Act (CPRA), which will supersede the CCPA on January 1, 2023.[842] The CPRA revises consumer rights and business obligations under the CCPA.[843] Other states in the United States are discussing making changes to their privacy laws along the lines of the CCPA, and other countries, including Brazil,[844] China,[845] Thailand[846] and South Korea,[847] have also adopted more stringent and/or detailed legislation.

In view of the high number of reachable users in the mobile sector, the importance of mobile devices in many consumers’ lives and the portability of mobile devices, which means they are always with consumers, privacy regulations are particularly relevant to mobile gaming. Mobile devices and apps may be and are, in fact, used to collect a huge quantity of personal data. As a result, it is crucial for distribution platforms, developers and publishers to comply with applicable data protection and privacy laws to avoid the risk of regulatory fines and bad publicity. However, at the time of writing, there has been little enforcement action or other developments that could give developers or publishers guidance as to how such often diverse rules should be implemented in practice.

With the release of iOS 14.5 in April 2021, Apple introduced a new privacy feature called App Tracking Transparency, which could impact the monetization of apps that rely on advertising revenue. With this new feature, end-user permission is required to track user data across apps or websites owned by other companies (including any third-party software that may track information used by the app - e.g., advertising or analytics).[848] As part of the permission request, the developer must inform end users why it is tracking them. Unless permission is granted, a developer will not be allowed to track end users. Furthermore, a developer is not permitted to incentivize end users to allow tracking.[849]

Another important regulatory consideration for mobile game developers and publishers is the global regulatory dimension: if an app can be distributed worldwide by default, then, in principle, the laws of every country will apply to that app. Clearly, this would impose an intolerable burden on any business, even the largest publishers in the game industry, so the task of lawyers in this industry

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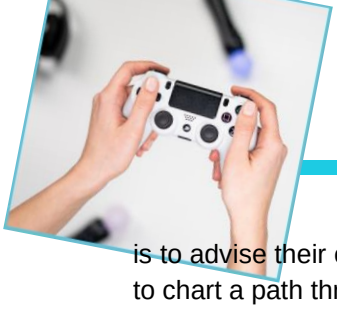
[842] See Section 10.2 for further discussion of California’s new privacy regulations.
[843] Bloomberg Law, “2021 Outlook on Privacy & Data Security”, *bloomberglaw.com*, November 23, 2020.
[844] In Brazil, the *Lei Geral de Proteção de Dados* (LGPD) was passed in 2018 and came into effect in February 2020.
[845] In China, the Personal Information Protection Law (PIPL) was enacted in November 2021.
[846] In Thailand, the Personal Data Protection Act B.E. 2562 (PDPA) was passed in 2019 and came into effect in May 2020.
[847] In January 2020, the Korean National Assembly passed multiple amendments to the Personal Information Protection Act (PIPA) and other privacy-related laws along the lines of the GDPR.
[848] “A Day in the Life of Your Data”, *apple.com*, April 2021.
[849] Developer App Store, “User Privacy and Data Use”, *developer.apple.com.*



is to advise their clients on which regulations are particularly important and how to chart a path through them.

A new field of regulation that is evolving rapidly and attracting much attention from legislators and regulators relates to monetization models and practices, which are becoming increasingly sophisticated and varied.

The widespread, and sometimes aggressive, use of advertising within games, for instance, given the increased attractiveness of games as lucrative marketing communication ecosystems, urges developers and platforms[850] to carefully consider not only whether their game's content in the narrow sense complies with all applicable laws and regulations but also whether their in-game advertisements and advertising practices are equally compliant. More and more mobile game advertisements are being labeled as misleading because they display content that is extremely unfaithful to the actual gameplay in order to attract new audiences. This is especially true of playable advertisements, that is, advertisements which are themselves interactive minigames within a mobile app.[851]

Advertisers are spending less and less of their advertising money on traditional media and have become increasingly attracted to mobile games because of the high number of reachable users and their appealing demographics. Advertising agencies have also become interested in mobile games because apps have a high "cost per impression" or "cost per install", which is the rate payable by an advertiser for each view of its advertisement. The rising interest in mobile advertising may also be explained by the fact that, whenever an advertisement is integrated into a game, the appearance of the advertisement will count as one impression without the player even having to click on the banner.

Advertisers are, therefore, exploring digital entertainment as new ground for their campaigns and in-game placements. While this may potentially benefit the industry through the money injected, advertising-based monetization schemes have the potential to negatively impact developers' creativity with possible repercussions at an industry-wide level.

A crucial aspect of in-game advertisements is their placement within the game since it will potentially impact the smooth flow of gameplay. Placement is a complex decision that involves considering and balancing various potentially conflicting factors, such as the advertisers' aims, game design and implications for player experience. Developers and publishers should have a well-thought-through advertisement placement strategy to guide decisions on, for example, the most suitable spot(s) in a game to "place" advertisements and the use of "static advertisements", which are positioned in a fixed in-game spot, or "dynamic advertisements", which are usually billboards and posters that are positioned

[850] In-game advertisements are usually controlled by the developer or the publisher, and the platform generally requires the developer or publisher to comply with the platform's policy on permitted advertisements, which sets out limitations and rules with which developers and publishers must comply. See Play Console Help, "Monetization and Ads: Ads", *support.google.com*.

[851] Sinclair, Brendan, "When do deceptive playable ads help, and when do they hurt?", *gamesindustry.biz,* January 28, 2020.

strategically throughout the game and can be updated or changed in real time.[852] Developers have also incorporated rewarded video advertisements into games. This form of advertising rewards viewers who watch an advertisement, which is typically 15 to 30 seconds in length. The rewards can vary from in-game currency, such as coins, to additional content or power-ups.

The attractiveness of advertisement placement for advertisers inevitably depends on the game itself. For instance, a sports brand may find racing games, and sports games in general, more suitable to market its products.[853] As with all forms of advertising, in-game advertising aims to raise brand awareness within the targeted demographic, and ill-considered advertisement placement may have the opposite effect. When making advertisement placement decisions, developers and publishers should be mindful of the game's age rating as well as child protection legislation and regulation in general because the protection of minors and other vulnerable categories of players against deceptive and potentially harmful advertising has become an area of focus for regulatory authorities worldwide.

In-game advertising is not the only sensitive issue when it comes to new monetization models. In-app purchases and loot boxes have had a powerful impact on the game industry and contributed significantly to the emergence of the "games as a service" concept. This concept refers to the possibility that regular updates and drops of new, generally purchasable, content such as loot boxes, coupled with the use of in-app purchases and microtransactions, may extend the life cycle of a game and enable continued monetization.

However, while these new and more complex monetization models have proven very lucrative for developers and platforms, they have led to equally new and challenging legal headaches in terms of consumer protection. Following an increasing number of consumer complaints in connection with in-app purchases in mobile and online games that all too frequently involved minors, national consumer protection authorities in Europe decided to join forces to find a common solution. As early as December 2013, the Consumer Protection Cooperation Network issued a common position paper on in-app purchases and microtransactions that offered an interpretation of existing legislation, which could serve as practical guidance for developers, publishers and mobile platforms, with a view to ensuring transparency vis-à-vis consumers and some minimum safeguards aimed at protecting minors.[854]

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[852] The contents of in-app dynamic advertisements, such as banners and interstitial advertisements, can be, and often are, updated over time to serve different advertisers and target different segments of the game's user base. Static advertisements, on the other hand, are hardcoded in-game assets (e.g., the shape of a billboard or banner on the side of an in-game sports field or racetrack) and, while less common than dynamic advertisements in mobile games, they are arguably more effective. See Turner, John, et al., "Scheduling of Dynamic In-game Advertising", *Operation Research*, Vol. 59, No.1 (2011).

[853] For obvious reasons, mobile games are particularly attractive for advertising other mobile apps. For instance, a recent study indicates that sports game apps primarily contain in-app advertisements for strategy game, shopping, casino and bank apps. Yüce, Arif, et al., "Game in the Game: Examining In-App Advertising in Mobile Sports Games", *podiumreview.org.br,* January-April 2019.

[854] More specifically, the position paper was communicated to Apple, Google and the Interactive Software Federation of Europe and required that (i) games advertised as "free" should not mislead consumers about the true costs involved; (ii) games should not contain direct exhortation to children to buy items in a game or to persuade an adult to buy items for them; (iii) consumers should be adequately informed about the payment arrangements for purchases and should not be debited through default settings without their explicit consent; and (iv) traders should provide an email address so that consumers can contact them in case of queries or complaints.

Eventually this position paper, together with decisions by consumer authorities on issues regarding monetization and the protection of minors,[855] led major platforms to change their app advertising policies in order to enhance the transparency of each app's monetization systems (e.g., in-game advertisements and in-game purchases) and ensure clear disclosure of key information before a consumer purchases or downloads the app.

One category of in-app purchases that has proved particularly problematic, not only within the gamer community but also for legislators and regulatory authorities, is loot boxes. Loot boxes are a form of randomized reward that are particularly popular in mobile games.[856] They are suspected to trigger state gambling laws because the rewards they offer, which a user will discover only after completing the relevant purchase transaction, may be regarded as "things of value" for the purpose of gambling regulation. From this perspective, paying for loot boxes may be regarded as an opportunity for players to engage in state-regulated gambling activities.

Moreover, depending on how they are used by the developer in the game's mechanics and monetization scheme, loot boxes may attract the attention of consumer authorities concerned that such microtransactions might involve manipulative game design techniques featuring pay-to-win mechanics, which are perceived by some as a type of video game dark-pattern design[857] targeting minors and other vulnerable players.

For these reasons, the legality of loot boxes and the ethics of games that use them have been questioned by national gambling commissions and legislative committees,[858] with some countries taking steps to protect more vulnerable consumers.[859] Loot boxes will be discussed further in Chapter 10.

This growing concern has cast a shadow on the game industry as a whole and on the mobile gaming sector in particular. As a result, the main mobile distribution platforms, which do not generally get involved in the design of game monetization systems, have imposed transparency requirements on developers in relation to loot boxes so that consumers are informed of the odds of receiving virtual items

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[855] For instance, in 2015, a decision by the Italian consumer authority against the publisher Gameloft and app stores distributing the mobile game "Littlest Pet Shop" resulted in mobile platforms undertaking to change their controversial practices. In particular, the distributors undertook to (i) prevent multiple purchases with the same password input; (ii) prevent direct exhortation to children pressuring them to make purchases and/or watch in-game advertisements; (iii) avoid using the term "free" when a game includes inapp purchases; and (iv) provide more information about the monetization model used by the app (e.g., if virtual currency can be purchased using real currency) and the developer of the app (e.g., the address). Guardavaccaro, Gilberto and Venanzetti, Andrea, "The In-App Purchase Cases Before the ICA", *Italian Antitrust Review*, No. 3 (2015).

[856] A study from 2020 found that 58% of the top mobile games in the Google Play Store and 59% of the top mobile games in the Apple App Store contained loot boxes. By contrast, only 36% of the top PC games in the Steam store contained loot boxes. Zendle, David, et al, The Prevalence Of Loot Boxes In Mobile And Desktop Games, *onlinelibrary.wiley.com*, 2020.

[857] A dark pattern is the intentional use of deceptive and underhand features within a digital product for the purpose of forcing customers to agree to actions that they otherwise would not. Zagal, José P., et al., *Dark Patterns in the Design of Games*, *Foundations of Digital Games Conference*, 2013.

[858] In December 2018, the UK Parliament's Digital, Culture, Media and Sport Committee initiated an investigation to examine ethical and practical concerns regarding the use of loot boxes in some extremely popular games, namely Epic Games' *Fortnite,* EA's *FIFA and* King's *Candy Crush. See the video recording of the parliamentary proceeding:* "UK Parliament Discussing Predatory Loot box/Microtransaction with EA/Epic Games", *youtube.com.* See also the US Federal Trade Commission's 2020 report on loot boxes: "FTC Video Game Loot Box Workshop", *ftc.gov*, August 2020.

[859] For example, Belgium banned loot boxes because their inner structure met gambling parameters. See "Gaming loot boxes: What happened when Belgium banned them?", *bbc.com,* September 12, 2019.

prior to purchase.[860] This may also be with a view to limiting their potential liability as distributors of potentially illegal products and services.

9.7 – Intellectual Property

Like all games, mobile games are subject to the same basic principles of game IP law described in Chapter 2. However, two considerations are particularly relevant in the mobile game sector.

The first is that game copying or cloning is still endemic on mobile platforms and legal solutions can be difficult. Game copying is so common in mobile games because it is extremely easy. As discussed above, development costs are relatively low and distribution costs are tied to sales, making it easy for one developer to imitate the most appealing and successful elements of a game, such as its gameplay, look and feel, art or characters, and/or use a confusingly similar name or even blatantly copy the entire game and pass it off as the original, in order to make cheap revenue at the expense of the original inventor. Cloners may also use deceptive methods, such as using confusable Unicode characters or hiding cloning app icons in a different locale.[861] Moreover, research has shown that cloned games may often contain malware.[862]

As mentioned in Chapter 2, the legality of game clones can only be evaluated on a case-by-case basis, depending, in particular, on what has actually been taken from the original game. This practice does not inherently infringe copyright and is becoming increasingly common, not only with lesser-known developers cloning successful titles but also with well-known publishers cloning small studios' releases. Since there are so many apps in circulation and every case must be evaluated on its own merits, mobile platforms usually claim it is impractical for them to review each app ex ante to ensure it is an appropriate addition to the platform. As a result, it falls to the developer or publisher to protect its apps against cloning. This is usually achieved through a combination of monitoring the relevant app stores for similar products, keeping in touch with the game-playing community for warnings and, once identified, issuing takedown requests through the mobile platform. To reduce the risk of a takedown request being denied by the platform, the request should be as detailed as possible and point out all the similarities between the clone and the original game. Google also claims to be taking steps to combat copycat apps and to remove a large number of them spontaneously.[863] Cloners can, nonetheless, easily republish the game under a different account or slightly modify the name of the game package and

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[860] Sinclair, Brendan, "Google Play mandates odds disclosure for loot boxes", *gamesindustry.biz*, May 30, 2019.

[861] Ahn, Andrew, "How we fought bad apps and malicious developers in 2018", *android-developers.googleblog.com,* February 13, 2019.

[862] The research was conducted by the University of Sydney, Australia, and Data61-CSIRO on the top 10,000 apps in the Google Play Store. The results showed that 2,040 potentially counterfeit apps were identified as malware by at least five commercial antivirus tools, 1,565 asked for at least five additional dangerous permissions, and 1,407 had at least five additional embedded third-party ad libraries. Popular games such as *Temple Run*, *Free Flow* and *Hill Climb Racing* were the most common targets for app impersonation. *Rajasegran, Jathushan, et al., "A Multi-modal Neural Embeddings Approach for Detecting Mobile Counterfeit Apps", dl.acm.org, May 2019*.

[863] In 2017, Google claimed to have removed around 700,000 apps for violating its policies. According to Google, around a third of those apps (250,000) were taken down because they attempted to deceive users by impersonating famous apps available in the Google Play Store. Ahn, Andrew, "How we fought bad apps and malicious developers in 2018", *android-developers.googleblog.com,* February 13, 2019.

its code to disguise the fact that the game is the same clone that was previously taken down from the platform.[864] Based on Google data, over 80% of severe policy violations are conducted by repeat offenders and abusive developer networks: when malicious developers are banned, they often create new accounts or buy developer accounts on the black market in order to return to the Google Play Store.[865] It is, therefore, crucial that the developers of the original games never lower their guard, even after a clone has been removed from the platform a first time.

A second IP consideration worth noting in relation to mobile games is that mobile games have become popular against a background of rising patent battles between the major players in the mobile world, namely smartphone manufacturers, mobile platforms, major software companies, non-practicing entities (so-called 'patent trolls') and even, on occasion, small developers.[866] These wide-ranging patent battles do not yet appear to have affected mobile game developers or publishers significantly, except in a few isolated cases,[867] but it remains to be seen what impact, if any, these battles will have on the landscape of the mobile industry and thus, indirectly, on mobile games.

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[864] Hindy, Joe, "Google Play still has a clone problem in 2019 with no end in sight", *androidauthority.com, November 9, 2019.*

[865] *Ahn,* Andrew, *"*How we fought bad apps and malicious developers in 2018"*, android-developers.googleblog.com,* February 13, 2019.

[866] *"Smartphone patent wars", wikipedia.org*.

[867] For example, in 2018, patent licensing company, GTX Corp., demanded the payment of $35,000 from Playsaurus, Inc., the developer of the popular *Clicker Heroes* games, for allegedly infringing a patent on virtual currencies. Playsaurus publicly dismissed GTX's demands as meritless through an online post, which, in turn, led GTX to accuse Playsaurus of libel in addition to patent infringement. GTX had also initiated proceedings, which were eventually voluntarily dismissed, against another game developer, Caliburnus Ltd., based on the same patent. *Farivar, Cyrus, "'Patent troll' doubles down, now accuses Clicker Heroes maker of libel", arstechnica.com, April 2, 2018*. Playsaurus was subsequently involved in another dispute concerning IP. This time, a Chinese company had registered the trademark "Clicker Heroes" in China before Playsaurus, which led to the game being removed from the Apple App Store, first worldwide then eventually only in China. Bell, Killian, "Apple pulls popular iOS game after Chinese company steals its name", *cultofmac.com,* May 24, 2019.

CHAPTER 10

REGULATION OF THE GAME INDUSTRY

10.1 – Introduction

As any industry develops, it becomes over time subject to increasing regulation that is derived not only from legislation but also from case law, regulatory guidance and self-regulation standards. The video game industry is no exception, but its unusual status as both a creative and a technological industry means that the application of existing regulation to video games is often less than clear. Moreover, as the game industry enters a heightened phase of scrutiny, we are beginning to see the application of regulation from other areas of the law as well as the creation of regulation that applies specifically to the video games industry. This chapter gives a brief overview of the key areas of regulation that developers and publishers must consider when creating a game, namely data privacy, consumer protection, advertising and marketing, monetization as well as other regulations. This chapter also gives a brief overview of age ratings for physical, online and mobile games.

10.2 – Data Privacy

Many modern games, particularly in the online, social and mobile sectors, are built on the collection and exploitation of data.[868] The rapidly increasing use of data in the modern game industry is the result of a number of interconnected factors. New platforms have appeared, including smartphones and modern web browsers, which make it relatively easy to collect all kinds of data, ranging from an email address to how many times a user clicks on a particular button during a particular period of time. Users have arguably become accustomed to providing data about themselves in a way they never were before. Game studios have developed game development models that not only permit, but actively encourage, the regular collection of data to enable games to be redesigned in line with customer preferences. However, the data collected is not only used to improve games but increasingly for other purposes, such as more advanced advertisement and monetization strategies.

At the same time, data privacy is becoming more regulated and the game industry is not exempt. Although data privacy regulation has existed in the United States for many years,[869] it is the European Union (EU) that currently has what is arguably the most comprehensive and stringent data privacy regulation

[868] See, for example, the following article on how Riot Games, creator of the game *League of Legends,* leverages consumer data "Slashdot: For Riot Games, Big Data is Serious Business", *blog.strom.com*, December 7, 2012. Data mining is such a relevant topic that Rovio, creator of *Angry Birds*, has created a policy for analytics and data usage in Rovio games, in addition to its privacy policy. See "Rovio Services Privacy Notice", *rovio.com*, last updated January 30, 2020.
[869] See, for example, the US Right to Financial Privacy Act of 1978.

system; however, the United States and China are rapidly developing and evolving their own data privacy rules, as discussed below. To put it simply, developers require data to make most, if not all, games these days but, to get that data without incurring legal difficulties, they must have at least a basic understanding of data privacy laws.

In May 2018, the EU General Data Protection Regulation (GDPR)[870] replaced the previous primary source for EU data privacy law, the Data Protection Directive (DPD). Since then, the GDPR has served as a springboard for the revision of data privacy laws across the globe, arguably earning it the title of one of the most influential pieces of legislation of the past twenty years. A key difference between regulations like the GDPR and directives like the DPD, lies in their application. Regulations automatically have binding legal force across the European Economic Area (EEA)[871] and, unlike directives, are not dependent on national implementation to take effect. As such, the GDPR provides long-awaited clarity on data privacy requirements for holders and processors of an EU subject's data.

The GDPR imposes obligations on any individual or business which is responsible for the control of personal data (known as a "data controller") and those who process personal data on behalf of the data controller (known as a "data processor"). The GDPR applies to the processing of personal data of any EU data subject, regardless of the organization's location.[872] "Personal data" is data that, taken on its own or in combination with other data, may be used to identify an individual. Under the GDPR, the definition of personal data was updated to include IP addresses, mobile device identifiers, geolocation data (e.g., GPS tracking) and biometric data (e.g., fingerprints). There is also a separate category of "sensitive personal data", which relates to an individual's genetic, physiological, economic, cultural or social identity. The GDPR requires organizations to assess and document any privacy risks prior to commencing any large-scale processing of personal data. Examples of potential privacy risks include data being stored for longer than is necessary or the absence of adequate measures to protect data during cross-border transfers.

Under the GDPR, each data processor must maintain records of personal data and ensure that data is only processed when there is a lawful basis to do so. Personal data must also: (i) be obtained only for one or more specified and lawful purposes; (ii) be adequate, relevant and not excessive in relation to the purpose or purposes for which it is processed; (iii) be accurate and, where necessary, kept up to date; (iv) not be kept for longer than is necessary for that purpose or those purposes; (v) be processed in accordance with the rights of data subjects; and (vi) have appropriate technical and organizational measures taken against unauthorized or unlawful processing of personal data and against accidental loss or destruction of, or damage to, personal data. The transfer of personal data out of the EEA is only permitted under certain circumstances, for example, to a list of countries with "adequate levels of data protection"

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[870] Regulation (EU) 2016/679 of the European Parliament and of the Council of 27 April 2016 on the protection of natural persons with regard to the processing of personal data and on the free movement of such data (General Data Protection Regulation).

[871] The EEA consists of all the member States of the EU as well as Norway, Iceland and Liechtenstein.

[872] EU General Data Protection Regulation, supra Note 4.

sanctioned by the European Commission.[873] This is of relevance to digital entertainment businesses that store data on servers hosted outside the EEA or have business partners located outside the EEA. One method of complying with the GDPR's restrictions on data transfers out of the EEA is to use the Standard Contractual Clauses (SCCs) issued by the European Commission, which safeguard transatlantic exchanges of personal data for commercial purposes.[874] When drafted into a binding agreement, these contractual clauses guarantee protection of the data by the signatories.[875]

In 2020, the Court of Justice of the European Union ruled in the so-called Schrems II case that companies may no longer rely on the EU-US Privacy Shield Framework to justify transfers of personal data from the EEA to the United States. Template SCCs remain an acceptable alternative only when an EEA-based data exporter has first: (a) considered the law and practice of the country to which data is being transferred to ensure it grants adequate protection to transferred data, as required under EU law; and (b) assessed the practical ability of the data recipient to comply with the terms of the SCCs in light of the recipient's legal system. It will be particularly difficult to fulfill these requirements if public authorities in the receiving country can access the data.

The GDPR introduces landmark rights for individuals to be informed about the collection and use of their personal data. Individuals are granted greater rights under the GDPR, including a right of access, that is, the right to access their personal data and be provided with sufficiently detailed, yet concise and understandable, information about the processing performed; and a right of deletion, that is, the right to have personal information deleted. Data access and deletion requests are evolving under the GDPR. Developers, publishers, distributors and other stakeholders, such as broadcast networks, will need to be more careful about defining the purpose of data processing, their role in it and how they will comply with GDPR requirements on international data transfers and data portability. These are important considerations for data controllers and processors, as these data protection rights and requirements will feed into stakeholder commercial contracts. The introduction of functionality on websites and games to let players exercise data access and deletion rights is becoming increasingly prevalent. Steam, for example, has dedicated player profile pages where it is possible to view personal data related to Steam accounts, such as playtime, trade history and discussion posts.

For the most serious violations, the GDPR provides for heavy penalties of up to €20 million or 4% of the organization's total global revenue from the preceding fiscal year, whichever is higher.[876] As of October 2021, fines issued by European Data Protection Authorities have totaled around €1.29 billion,[877] and there have been more than 281,000 data breach notifications globally as of January 2021.[878] The highest GDPR fine to date remains € 746 million by CNDP, the Luxembourg National Commission for Data Protection, to

[873] Intersoft Consulting, "GDPR Third Countries", *gdpr-info.eu*.
[874] European Commission, "Standard Contractual Clauses (SCC)", *ec.europa.eu*.
[875] "Using Standard Contractual Clauses", *termsfeed.com*.
[876] "What are the GDPR Fines?", *gdpr.eu*. Lesser fines, as set forth in Art. 83(4) of the GDPR, can be as high as €10 million or 2% of the organization's total global revenue from the preceding fiscal year. Ibid.
[877] McKean, Ross, et al., "A report produced by DLA Piper's cybersecurity and data protection team", *dlapiper.com*, January 19, 2021.
[878] ibid.

amazon.com. Inc. involving their use of customer data for targeted advertising purposes.[879]

The United States, by comparison, has a comparatively less restrictive system, which is gradually becoming more comprehensive but developing unevenly. US data privacy law is derived partly from federal statute, state statute, case law and from the guidance of the Federal Trade Commission. However, there appears to be a new wave of state-based regulation. The California Consumer Privacy Act (CCPA)[880] is a leading example of this. Even though the CCPA only came into effect in January 2020, it has already been amended as a result of a voter-approved proposition, that is, a ballot measure that becomes state law, which created the California Privacy Rights Act (CPRA).[881] The CPRA will supersede and extend the CCPA, providing additional protection to consumers but will not become effective until January 1, 2023. Until then, the CCPA remains in effect.

Under the CCPA, businesses processing the personal information of California residents will be subject to greater regulatory requirements and California residents will have stronger rights. The CCPA applies to any for-profit entity which: (i) does business in California; (ii) collects personal information of California residents or has such information collected on its behalf; (iii) has the means of processing that information; and (iv) meets one or more of the following criteria:

- has at least $25 million in annual revenue (this applies to global revenue regardless of where the revenue is generated);
- buys, sells, receives for commercial purposes or shares the personal information of at least 50,000 California residents; or
- derives 50% or more of its annual revenues from the sale of California residents' personal information.

In practice, most medium-to-large digital entertainment businesses meet the above thresholds and must comply with the CCPA, even if they have no physical presence in California. Several of the obligations imposed by the CCPA mirror those of the GDPR, for example, the promotion of transparent data processing.

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[879] "20 biggest GDPR fines so far [2019, 2020 & 2021]", *dataprivacymanager.net*, October 8, 2021.

[880] The California Consumer Privacy Act (CCPA), CA Assembly Bill No. 375, June 29, 2018, is the first comprehensive consumer privacy law passed in the United States, post-GDPR.

[881] The California Privacy Rights Act (CPRA) of 2020 will only apply to information collected on or after January 1, 2022, and enforcement will start on July 1, 2023. Until then, the CCPA will govern. Some of the key provisions of the CPRA include: (1) the addition of a sub-category of "sensitive personal information". Consumers will now have the right to limit the use and disclosure of sensitive personal information, which includes: (i) social security, driver's license, state ID or passport number; (ii) account log-in information with a password; (iii) a consumer's precise geographic location; (iv) racial or ethnic origin, religious belief or union membership; (v) contents of a consumer's mail, email or text messages, unless the business is the intended recipient; (vi) a consumer's genetic information; (vii) processing of biometric information to identify the consumer; (viii) personal information analyzed concerning a consumer's health; and (ix) personal information analyzed about a consumer's sex life or sexual orientation; (2) the requirement for businesses to inform consumers of the length of time the business intends to keep personal information. If the business is unable to determine the time frame then it must inform consumers of the criteria used to determine the retention period, but, under no circumstances, can the time frame be unreasonable; (3) the granting of the right for consumers to correct any personal information that is inaccurate; (4) the prevention of businesses from "sharing" their information with third parties; (5) the addition of protection for children's personal information; and (6) the creation of a privacy protection agency. See Harding, Elizabeth and Polishuk, Alex, "CPRA – What This Means for Your Business", *natlawreview.com*, November 9, 2020, Eversheds Sutherland (US) LLP, "California's new privacy law, the CPRA, was approved: Now what?", *jdsupra.com*, November 10, 2020, Reilly, Brandon P. and Lashway, Scott T. "The California Privacy Rights Act Has Passed: What's in It?", *manatt.com*, November 11, 2020, and Morrison, Sara, "California just strengthened its digital privacy protections even more", *vox.com*, November 4, 2020.

In addition to the right to access and delete data, the CCPA grants extensive opt-out rights to individuals to prevent the sale of their personal data to third parties. The California Attorney General has greater enforcement abilities than before, including the ability to impose high fines for violations. It is important for digital entertainment businesses to update their internal data use and protection policies to comply with the new rights granted to California residents under the CCPA, for example, by providing clear mechanisms for users to opt out of the sale of their data to third parties.

The CCPA has triggered a new wave of US data protection legislation, including Virginia's Consumer Data Protection Act, which was signed into law in March 2021 and will come into effect in 2023.[882] A bill called the Information Transparency and Personal Data Control Act[883] was introduced in Congress in early 2021 to create a national privacy protection law; and, at the time of writing, 15 state legislatures[884] have introduced their own privacy bills. Most of the proposed legislation, among other things, seeks to obtain opt-in consent for the collection and use of personal information as well as consumer rights to access and delete information. On the whole, the United States has fewer data privacy laws than the European Union and those it does have are relatively diffuse, which presents its own complexities. However, data privacy laws in the United States are to be taken seriously. In 2019, for instance, the Federal Trade Commission and Google agreed to a $170 million settlement[885] over Google's subsidiary, YouTube, allegedly breaching children's privacy laws.[886]

The position outside the United States and the EU varies considerably, with some countries having absolutely no meaningful data privacy system, while others have relatively well-established systems. Countries such as Russia and Brazil, arguably influenced at least in part by the Brussels effect,[887] are rapidly developing data privacy frameworks. China has enacted new privacy laws introducing updates to its data privacy laws, which includes among other things, banning online service providers from collecting and selling personal information without user consent[888] the right of individuals to rescind their consent and various obligations and regulations involving handlers inside and outside of China. [889]

Platforms are also revising their data privacy requirements in light of these developments. Apple, for example, is continually updating its privacy practices and launched one of its new privacy features as part of the iOS 14.3 software update, which requires every application (app) in its App Store to include a privacy label explaining how that app collects and uses user data. Developers are required to state not only what data their app may collect but also how that

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[882] The Virginia Consumer Data Protection Act, 2021 Special Session I, HB 2307.
[883] "Information Transparency & Personal Data Control Act", H.R.1816.
[884] International Association of Privacy Professionals, "US State Comprehensive Privacy Law Comparison", *iapp.org*, Kern, Rebecca, "Democrat Renews Data Privacy Effort With First Bill of 2021 (1)", *bloomberglaw.com, March 10, 2021*.
[885] "Google and YouTube Will Pay Record $170 Million for Alleged Violations of Children's Privacy Law", *ftc.gov*, September 4, 2019.
[886] This case concerned violations of the US Children's Online Privacy Protection Rule (COPPA Rule). COPPA is US legislation that governs operators of online services or websites directed at children under 13 years of age. See "Part 312 - Children's Online Privacy Protection Rule", *ecfr.gov*.
[887] The "Brussels effect" refers to the use of EU regulatory standards outside of Europe.
[888] Sheng, Wei, "One year after GDPR, China strengthens personal data regulations, welcoming dedicated law", *technode.com*, June 19, 2019.
[889] See Creemers, Rogier and Webster, Graham, "Translation: Personal Information Protection Law of the People's Republic of ChinEffective November 1, 2021", *digichina.stanford.edu*, August 20, 2021, revised September 7, 2021.

data is ultimately used and for what purposes, for example, personalized advertising or sharing geolocation data. This is in addition to the "Identifier for Advertisers" (IDFA) changes that Apple rolled out in early 2021, which require users to opt in to being tracked for advertising purposes. It is important for digital entertainment businesses that release content via the App Store to understand Apple's new requirements before their next product launch or update.

We are currently witnessing the rise of "privacy by design", whereby data privacy, security and protection must be the default mode of every company, and data protection can no longer be an afterthought. In view of the current trend of reviewing and updating data privacy laws and the fact that each game business has unique data usage and needs, data privacy compliance is one of the areas where legal advice is particularly recommended. Legal counsel well-versed in this area will be able to advise a developer about what it should and should not do when balancing the cost of practical compliance with the risk involved in non-compliance.

10.3 – Consumer Protection

Consumers have long benefited from certain legal rights and remedies regarding consumer products that they buy or use, and, in legal theory, most of these rights and remedies apply to games just as they apply to films, books or a newly-bought kitchen appliance. However, the practical application of these rules to games is often unclear, not least because of the evolving nature of games themselves. Furthermore, as with data privacy laws, things are complicated by the fact that there is little consistency across different legal systems, so consumer laws vary widely from country to country.

Consumer protection laws are hugely important in the game industry, not only as safeguards but also as benchmarks for businesses. We have seen a global shift in favor of greater consumer rights, such as the right to return, exchange or ask for a price reduction for games that are not as advertised or do not meet certain quality requirements. There has also been a move towards regulators favoring balanced, jargon-free contracts that are easily intelligible for consumers. Game companies are receiving increased scrutiny from regulatory bodies as regulators seek to redress the balance of power between businesses and consumers. For example, in December 2018, German and Norwegian consumer advocates challenged, as a violation of consumer law, the fact that Nintendo offers no cancellation options for pre-orders of games in its online store.[890] However, the Frankfurt District Court ruled that the contract between Nintendo and its customers begins at the time a pre-order is made, not when the game is actually released.[891] This ruling have been welcomed by publishers and platform operators as further precedent that the right of withdrawal waiver at checkout for

[890] Khan, Imran, "German Protection Agency Takes Nintendo To Court Over Eshop Cancellations", *gameinformer.com*, December 18, 2018.
[891] Blake, Vikki, "Nintendo's pre-order cancellation is lawful, says German courts", *mcvuk.com*, January 23, 2020.

digital content is compliant with EU law, an issue that has caused difficulties in the past.[892] The German and Norwegian consumer bodies have both confirmed that they plan to appeal this verdict. Interestingly, Nintendo has since amended its cancellation policies on pre-orders so that purchases may be cancelled up to one week before a game's date of release.[893]

The EU has one of the most sophisticated consumer protection systems in the world. The Consumer Rights Directive establishes certain basic consumer rights, such as rules against excessive payment fees, pre-contractual information rights (such as on costs and terms of delivery) and cancellation rights. Moreover, the European Commission has finalized the latest iteration of its Digital Single Market (DSM) strategy, a legislative package reviewing five key EU directives. The DSM aims to respond to the needs of consumers in a changing digital environment, for example, by harmonizing mobile roaming charges within the EEA. The update to digital content laws has been particularly welcomed by players in European territories, where the proportion of games purchased online grows year on year. The Digital Services Act package (DSA), which is a proposed modernization of the current EU framework for online services, will be a major policy issue for the tech, digital and game sectors over the coming years.[894] The main provisions of the DSA include a modernized liability regime and extensive transparency obligations for online intermediaries. The DSA aims to place heavy responsibility on businesses to self-regulate with regard to illegal content, such as hate speech, on their platforms. "Very large platforms", namely, those with more than 45 million active monthly users in the EU, must comply with further requirements, such as designating a compliance officer and analyzing systemic risk arising from the use of their platforms.[895]

Most, if not all, countries have their own consumer protection systems, although many are still geared toward physical goods rather than digital goods and services. Non-Western countries, such as China and South Korea, have also changed their approach to consumer protection over the past decade. The Chinese gaming regulator, the State Administration of Press and Publication (SAPP), has reassessed its 2007 anti-addiction laws and introduced new rules to curb gaming addiction and excessive spending among minors.[896] The rules include curfews, age verification and spending limits for players under the age of 18.[897] In the most severe cases, publishers that fail to comply with these regulations risk losing their publishing licenses. In anticipation, NetEase[898], together with other Chinese publishing giants, pre-emptively implemented

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[892] Chalk, Andy, "Valve and Ubisoft fined over Steam and Uplay refund policies in France", *pcgamer.com*, September 19, 2018.
[893] Lane, Gavin, "You Can Now Cancel Switch eShop Pre-Orders Up To One Week Before Release", *nintendolife.com*, September 1, 2020.
[894] Von der Leyen, Ursula, "A Union that strives for more. My agenda for Europe. Political Guidelines for the next European Commission 2019-2024", *ec.europa.eu*.
[895] Allen and Overy, "The Digital Services Act package is here", *allenovery.com*, December 16, 2020.
[896] Pilarowski, Greg, "Legal Primer: Regulation of China's Digital Game Industry", *pillarlegalpc.com*, January 6, 2021, discusses a number of regulations in China, Lew, Linda, "China's minors face new limits on mobile games in war on gaming addiction", *asiaone.com*, November 5, 2019.
[897] Chinese regulators, claiming games cause nearsightedness and youth addiction, enacted new rules in September 2021, restricting anyone under the age of 18 to one hour of play on Fridays, weekends and holidays and only from 8 p.m. to 9 p.m. on those days. Minors are also banned from playing during the school week. The regulations require game companies to ask for the real names of minors, and minors must register with their real names. Liao, Shannon, "China Restricts Young People to Playing Video Games Three Hours a Week", *washingtonpost.com*, August 30, 2021; Ni, Vincent, "China Cuts Amount of Time Minors Can Spend Playing Online Video Games", *theguardian.com,* August 30, 2021.
[898] Handrahan, Matthew, "NetEase to impose restrictions on young gamers in China", *gameindustry.biz*, January 25, 2019.

restrictions across popular titles.[899] Tencent also introduced a real-name identity verification system and gameplay limits to its mobile title, *Honor of Kings*, in 2017.[900] South Korean authorities monitor and review many game companies on a regular basis, for example, the Fair Trade Commission of South Korea has reviewed unfair consumer practices involving contract clauses for in-game purchases by minors..[901] Practices highlighted as unfair included limited refunds for in-game items, unclear requirements regarding parental approval for underage player sign-up, and extremely limited periods of use for gifted[902] items.[903]

As part of its ambition to make the United Kingdom the "safest place in the world to be online", the UK Government has proposed a radical overhaul of how online content should be regulated. The recently published Draft Online Safety Bill[904] proposes imposing a duty of care on companies within its scope, requiring them to take action to prevent user-generated content or other activity on their online services from causing physical or psychological harm to consumers. To do this, companies will be required, among other things, to complete risk assessments and take steps to reduce the risk of harm they have identified as occurring. In addition, online platforms that have a broad reach or are deemed particularly risky will be subject to additional requirements, including a controversial requirement to screen for "legal but harmful" content. The new regime will be enforced by Ofcom, an existing UK regulator, which will be given extensive new powers to investigate, prosecute and issue GDPR-style fines based on global turnover.

As a result, the average game developer has a challenging job when it comes to protecting itself in a sector where full global compliance is effectively impossible and even substantial compliance is a challenge. It is essential for the developer not only to seek expert legal advice but also to focus initially on its country of incorporation and, subsequently, on its main operational and revenue-generating territories. However, the following pointers can be offered:

1. It is important to think consumer. How would you, as a consumer, respond to a particular feature, development or issue with the game? Thinking consumer first can help resolve many problems before they become legal issues.

2. Most countries will have certain minimum requirements regarding the fulfillment of a developer's obligations to consumers. For example, in the EU, there is a requirement that goods or services sold to consumers must effectively be of "satisfactory quality", for example, a software product has to actually work. This can and has caused controversy when

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[899] Restrictions imposed by NetEase include limiting users under the age of 12 to one hour of gameplay on weekdays and two hours on weekends. For users aged 13 to 18, gaming time is limited to two hours on weekdays and three hours on weekends. Underage players are also banned from logging in from 9:30 p.m. to 8:30 a.m. daily. At the time of writing, these restrictions apply to 15 of NetEase's titles, including *Fantasy Westward Journey* and *Knives Out.*

[900] "Honor of Kings Restricts Play for Minors", *nikopartners.com*, July 11, 2017.

[901] Lanier, Liz, "South Korea's FTC Reviewing In-Game Purchase Clauses", *variety.com*, April 19, 2019.

[902] For example, a character skin purchased and transferred to another user's account would be a "gifted item".

[903] Valentine, Rebekah, "South Korean FTC examining consumer regulations surrounding in-game purchases", *gamesindustry.biz*, April 19, 2019.

[904] Draft Online Safety Bill, May 12, 2021.

a game is released with bugs or errors or otherwise lacked features that had previously been associated with the game.

3. The majority of consumer complaints can be settled directly with consumers provided that a sensitive and proactive approach is taken.

4. However, in some situations, consumers may group together to take action against the developer, for example, via a class action in the United States and in some EU member states,905 or a consumer regulator may take on a claim against the developer or the industry more widely. An example of this is the class action taken against Lilith Games in 2019 for allegedly promoting gambling through in-game loot boxes.[906]

A good way to deal with consumer protection issues is to have an End-User License Agreement (EULA) and/or Terms of Service which set out exactly what a consumer can and cannot do with a game and what happens if the consumer goes beyond those terms. It is important to note that such documents are bilateral – they set out what a consumer can and cannot do as well as what a developer or publisher can and cannot do. Moreover, because these are consumer documents and are not negotiated by the parties, particular attention should be taken to avoid terms that might be considered unfair. Terms should also be intelligible to consumers, which means keeping legalese and technical jargon to a minimum. Indeed, in many countries, a developer must localize terms entirely if it wishes them to be enforceable, for example, a developer seeking to enforce a EULA in China may find it very difficult if the document is not in Chinese. Different countries can also have different laws and interpretations involving EULAs and, as a result, what may be accepted in one country may not be accepted in another. Getting such documents right both legally and cost-effectively can often, therefore, be much more complex than the ubiquity of these documents in the video game industry may suggest.

10.4 – Advertising And Marketing

Marketing a game usually accounts for a significant portion of a game's budget. Moreover, advertising and marketing must comply with local laws and regulations set out by governments and voluntary rating bodies. In this regard, it is judicious to focus first on laws and regulations in the country of incorporation, then in other operational and revenue-generating territories. Laws relating to marketing and game content are as much a product of culture as they are of law, and this leads to variations between countries. For example, Germany is well known for its stringent requirements on game content and marketing and only lifted its total ban on the use of Nazi symbolism in games in 2018,[907] while countries in East Asia, Eastern Europe and the Middle East have strong, often

905 Under the EU Collective Redress Directive, as of 2023, EU member states must allow "qualified entities" (i.e., consumer organizations and public bodies) to commence representative lawsuits on behalf of consumers in a number of areas, such as data protection and consumer law. Qualified entities can seek various forms of redress including compensation, injunctive measures as well as costs of proceedings if the party wins the dispute, otherwise the "loser pays" principle applies. Faegre Drinker Biddle and Reath LLP, "The EU's Collective Redress Directive—The Potential for Collective Consumer Lawsuits: An Introduction*", jdsupra.com*, May 6, 2021; and Anderson, Gemma, et al., "The EU Collective Redress Directive is Coming to Town", *mofo.co*, December 9, 2020.

906 Rizzi, Corrado, "California Class Action Says In-Game Loot Boxes in 'Rise of Kingdoms' Equate to Illegal Gambling", *classaction.org*, December 18, 2019. See Keith Coy v. Lilith Games (Shanghai) Co., Ltd., Case 3:19-cv-08192, N.D. Cal., filed December 17, 2019.

907 "Germany lifts total ban on Nazi symbols in video games", *bbc.co.uk,* August 10, 2018.

morally influenced, rules on advertisable content. Activision Blizzard, for example, self-censored an online comic in Russia that featured two female *Overwatch* characters kissing.[908] Industry insiders believe that this censorship was related to a conflict with Russian laws prohibiting "propaganda" promoting same-sex relationships. Similarly, Electronic Arts (EA) did not release its fighting game, *EA Sports MMA*, in Denmark[909] because of a Danish law restricting in-game product placement of energy drinks.[910] Finally, in 2019, the Chinese State Administration of Press and Publication (SAPP) released new game content guidelines which render some genres, such as poker and mah-jongg games[911], ineligible for approval and ban games that contain blood or corpses or touch on the imperial past of China.[912]

Most countries targeted by publishers have a system that regulates what marketers can say about their products and services and how they can say it; and, while each system has its own nuances, there are some common threads. However, in practice, advertisements are often cleared on short notice, with insufficient time or budget to obtain detailed advice for each territory in which the advertisement will run. In those circumstances, it is not uncommon for game companies to pick one or two jurisdictions known for having a well-established and relatively strict regulatory system to use as a yardstick for the rest of the world. The United Kingdom and the United States have some of the most robust advertising regulation systems and are both key markets in the video game industry. As a result, the rest of this section is written with particular focus on the UK regime, which is not an uncommon choice of yardstick, and comparisons are drawn, where appropriate, with other jurisdictions and the United States.

In the United Kingdom, advertising is governed both by consumer protection law – some of which stems from EU Directives – and a separate self-regulatory system. In this field, consumer protection law is ultimately enforced by regulators such as Trading Standards and the Competition and Markets Authority (CMA) through civil court actions.[913] The UK self-regulatory system was established in 1961 and is one of the oldest in the world. It is administered by the Committee of Advertising Practice (CAP) and the Advertising Standards Authority (ASA), which work alongside each other. In broad terms, the CAP writes policy and issues guidance, while the ASA deals with complaints and code enforcement. The ASA administers two sets of rules, the BCAP Code for broadcast advertising, such as TV and radio advertisements, and the CAP Code for non-broadcast advertising, such as online advertisements.[914] The codes are broadly consistent with the laws that underpin them, but they go into considerably more detail.

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[908] Nabel, Dan and Chang, Bill, *Video Game Law in a Nutshell*, 1st ed., West Academic Publishing, 2018, pp. 293-4.
[909] Good, Owen, "Danes Won't Get EA Sports MMA Thanks to Energy Drink Ban", *kotaku.com*, August 28, 2010.
[910] Nabel, Dan and Chang, Bill, *Video Game Law in a Nutshell*, 1st ed., West Academic Publishing, 2018, p. 296.
[911] Liao, Rita, "China's new gaming rules to ban poker, blood and imperial schemes", *techcrunch.com*, April 21, 2019.
[912] ibid.
[913] Court actions are not uncommon, but the need for regulators to allocate a finite amount of resources means that they usually focus on the more egregious infractions or on cases of persistent non-compliance.
[914] The CAP and BCAP Codes have 22 and 32 sections, respectively, dealing with matters ranging from the definition of advertisements and what is misleading to specific subject areas such as alcohol, vehicles, gambling and health or nutritional claims.

The ASA receives and deals with around 30,000 complaints every year. Complaints can be submitted free of charge by anyone, including competitors. The ASA can also, if necessary, proactively investigate advertisements and receive referrals from other regulators, such as the CMA. If a complaint is upheld after a formal investigation, the ASA will issue a ruling that the advertisement "must not appear again in its current form", requiring the advertisement to be changed. The ASA will typically also ask the advertiser to sign an undertaking confirming that it will abide by the relevant codes in the future.

As a self-regulatory body, the ASA has no statutory powers of enforcement and cannot issue fines or bring prosecutions directly, but it does have access to various other enforcement measures. Its primary enforcement tool is the threat of bad publicity. It publishes decisions on its website and notifies the press, which may, and often does, cover the story. For advertisers which do not comply with a decision, the ASA can add their names to a list of non-compliant advertisers, which is published on its website. It can issue "Ad Alerts" to its members and the media, advising them to withhold services such as access to advertising space. It can also ask search engines to remove a marketer's paid-for search advertisements or take out advertisements of its own to draw attention to a particular advertiser's non-compliance. If all else fails, its legal backstop is a referral to Trading Standards, which has the power to investigate and prosecute for breaches of the relevant laws. Trading Standards has the power to bring both civil and criminal proceedings. Despite its apparent lack of teeth, the ASA has proven effective and, on the whole, tends to achieve compliance.

In the United States, the National Advertising Division (NAD) is a self-regulatory program offered by the non-profit organization, Better Business Bureau (BBB), and performs a similar function to the ASA. The NAD hears and evaluates thousands of complaints each year, brought by businesses against competing businesses with respect to misleading advertisements and offers a non-binding resolution to disputes with the aim of enforcing a high standard of truth and accuracy. An NAD resolution is carefully articulated after a formal examination of case law, federal advertising statutes and input from experts in marketing and research and development. Like the ASA, the NAD writes press releases for each of the disputes it handles. Therefore, businesses which opt to use the NAD dispute resolution process should be aware that both the advertisement concerned and the NAD resolution will be publicly accessible.

As mentioned above, the CMA also has a consumer protection function. This is perhaps the closest equivalent to the Federal Trade Commission (FTC) in the United States. However, the CMA has more extensive statutory powers of investigation and enforcement and sometimes carries out pro-active investigations into a particular sector or business practice. For example, in 2019, the CMA opened an investigation into the supply of online gaming memberships for the Nintendo Switch, Sony PlayStation and Microsoft Xbox, focusing, in particular, on auto-renewals of online gaming contracts, cancellation and refund policies, and terms and conditions.[915]

In the United States, automatic subscription renewals have been drawing greater attention from regulators, law enforcement officials and some state legislatures due to the growing reliance on digital commerce and the increasing numbers of complaints relating primarily to the difficulty of canceling subscriptions and the

[915] Competition and Markets Authority, "Online console video gaming", *gov.uk*, April 5, 2019; and "Sony, Nintendo and Microsoft investigated over online games", *theguardian.com*, April 5, 2019.

lack of disclosure regarding renewals.[916] In 2021, several states introduced bills regulating automatic renewals.[917] Video game companies should be aware of current and evolving state laws to avoid potential problems with respect to subscription services. There have been a few high-profile cases involving prominent companies such as Apple, Direct TV and Sirius XM, which led to settlements in the millions of dollars.[918]

When conducting an investigation, it is not unusual for the CMA to focus on the most prolific players in a particular market, as demonstrated by the above example. The CMA has the power to bring enforcement actions through the courts; however, in most cases, it will first write to traders and give them the opportunity to agree to change their practices and provide written undertakings as a way of resolving the issue.

In the United States, the FTC, using the powers granted to it by the Federal Trade Commission Act, enforces antitrust and consumer protection laws. Consumer protection includes regulating practices that are considered "unfair and deceptive" and, as a result, the FTC polices activities such as television commercials, online tracking and privacy breaches. As in the case of the CMA, the FTC or attorneys general acting on behalf of the consumer can bring actions through the federal court system. It should be noted that state laws also play a significant role in further regulating and defining misleading advertising in the United States.

Finally, rating boards, such as the Entertainment Software Rating Board (ESRB), the International Age Rating Coalition (IARC), the Pan European Game Information (PEGI), the Australian Classification Board (ACB), the Game Rating and Administration Committee (GRAC) and the Computer Entertainment Rating Organization (CERO), require publishers' marketing material to comply with their guidelines on age and content regulations. Although such requirements are voluntary and only enforceable by agreement with the relevant rating board, major publishers rarely bypass established rating boards.[919]

10.4.1 – What Forms Of Advertising Are Regulated?

The ASA's responsibility extends to virtually all marketing communications in broadcast and non-broadcast media. The latter is very wide and includes, for example: ads in print, out of home media (such as posters, billboards, etc.), direct mail campaigns; a game developer or publisher's own website; a game developer or publisher's social media channels; and any other online content, including live online streams and pre-recorded videos, paid for and, at least to some extent, editorially controlled by the publisher or developer. This is discussed further in Section 10.4.4 below regarding influencers.

Generally speaking, regulatory regimes are territorial. The UK regime will only apply to advertisements that originate in the United Kingdom or are targeted at

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[916] Torbati, Yeganeh, "Federal officials look to crack down on deceptive subscription marketing practices at broad range of firms", *washingtonpost.com*, June 2, 2021.
[917] Faegre Drinker Biddle and Reath LLP, "Automatic Renewal Laws: Legislation to Watch in 2021", *jdsupra.com*, March 12, 2021, Berge, Ellen Traupman, et al., "Your Renewal Reminder: Enforcement Actions, Lawsuits and Legislative Updates under Autorenewal Laws", *venable.com*, September 15, 2020.
[918] Torbati, Yeganeh, "Federal officials look to crack down on deceptive subscription marketing practices at broad range of firms", *washingtonpost.com*, June 2, 2021.
[919] See Section 10.7 below.

UK consumers. As a result, a US advertisement targeted at US consumers that is shared online and goes viral will generally not be subject to the UK regulatory regime. Overseas advertisements targeted at UK consumers are subject to the jurisdiction of the relevant authority in the country in which they originate if that authority operates a suitable cross-border complaint system.[920] If it does not, the ASA will take action to whatever extent it can.

Most EU member states and some non-European countries have a self-regulatory organization that is a member of the European Advertising Standards Alliance (EASA). EASA coordinates the cross-border complaints system for its members, which include the ASA.

10.4.2 – Common Issues

Advertising codes are very detailed and cover many different scenarios. It is beyond the scope of this book to provide an exhaustive examination of the codes, but the following paragraphs explore some of the more common issues that affect the video game industry.

10.4.3 – Recognition Of Marketing Communications

The principle of separating advertising content from editorial content is almost as old as advertising itself. For decades, marketers have looked for ways to make their advertisements blend into their surroundings in order to improve engagement. Advertorials and native advertising fall into the category of advertisements that seek to blur the line between the two types of content.

In most countries, it is a regulatory requirement that editorial and advertising content be kept separate in a clear manner. The UK regime sets a high bar because it requires that advertising content be "obviously identifiable" as such to the average consumer before that consumer begins to engage with the content in any way. Previous ASA decisions have held that simply clicking on a video thumbnail amounts to engaging with content.

The growth of video and streaming platforms has made compliance with this requirement more difficult in some respects and easier in others. Given the limited space available, it can be difficult to flag a video as advertising in a thumbnail and a truncated title, particularly in a way that is palatable to marketing teams; however, most platforms now provide additional tools for marking content as advertised, promoted or sponsored. These tools should be used when they are available, but they will not always serve as a get-out-of-jail free card because the burden is ultimately on the advertiser to show that it has identified the advertisement in a way that is obvious to the average consumer.

In the video game industry, ensuring that advertising content is obviously identifiable is one of the most common pitfalls encountered in influencer marketing, which is considered in more detail below.

[920] If such complaints are filed with the ASA, the latter will redirect them to a responsible authority under a cross-border complaint system.

10.4.4 – Influencers

The past decade has seen an extraordinary rise in influencer marketing; and global regulators have responded in kind. The CMA[921] and the FTC[922] have produced best-practice guidelines for influencers regarding advertising disclosures. The general point of these regulations is that it must be clear when a commercial relationship underlies an influencer's endorsement. *In September 2019, the FTC charged two social media influencers for promoting an online gambling service in which they had a financial interest they had failed to disclose.*[923] *Moreover, in early 2019, the* CMA secured formal commitments from 16 prominent celebrities, who had repeatedly broken advertising rules, to clearly label any endorsements as such. *The CMA clarified that it* is not only the job of influencers to comply with advertising rules, but also that of the brand they are representing. Significant players in the gaming market, such as EA[924] and Epic,[925] have introduced sponsored content policies in response to the increased regulatory scrutiny. EA's sponsored content policy requires that all influencers and streamers promoting sponsored content of its games clearly mark it with specified hashtags and watermarks.[926]

The use of influencers as a marketing tool is now widespread in the video game industry. Almost anyone can be an influencer and, as such, can be targeted by regulators – even an advertising agency employee can be considered to be an influencer.[927] There are many ways in which an influencer can become liable for an endorsement, for example, a tag, share or like can each constitute an endorsement, even though they are subjectively unbiased. The exponential growth in influencer marketing has led to new challenges for regulators, the most common of which is the failure to properly identify posts as advertising or sponsored content.

Influencers can be commissioned directly or through a media agency, which may have many influencers on its books. In most cases, a written contract is advisable. When an agency is involved, it will typically have a standard form agreement, and there will probably be less scope for negotiation than with a direct agreement. However, a well-known influencer will have more bargaining power to negotiate more favorable terms.

The FTC requires that influencers (1) give their honest opinion about a product and (2) disclose their material connection to the gaming company, such as a personal, family or employment relationship or a financial relationship, i.e., there is payment or an exchange of free or discounted products or services. Depending on the platform, it can be difficult to satisfy the full legal requirements for a disclosure, but the disclosure should, in general, be clear and conspicuous.

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[921] Competition and Markets Authority, "Social media endorsements: being transparent with your followers", *gov.uk*, January 23, 2019.
[922] "The FTC's Endorsement Guides: What People Are Asking", *ftc.gov*.
[923] "CSGO Lotto Owners Settle FTC's First-Ever Complaint Against Individual Social Media Influencers", *ftc.gov,* September 7, 2017.
[924] Alexander, Julia, "EA puts influencers in check with disclosure rules for sponsored content", *polygon.com*, November 16, 2016.
[925] "Fan Content Policy", *epicgames.com.*
[926] "Mehr Transparenz bei Influencer-Kampagnen", *ea.com*.
[927] "The lawsuit also charged that Sony's advertising agency, Deutsch LA, had employees post rave tweets about the PS Vita without disclosing their connection to Deutsch or Sony". See Fair, Lesley, "Game over: FTC challenges Sony's claims for PlayStation Vita and tweets by Deutsch LA", *ftc.gov*, November 25, 2014.

The FTC provides Endorsement Guidelines for influencers and spokespeople to follow.[928] The FTC's concern is whether disclosing a material connection will fundamentally affect how consumers view the influencer's opinion and the credibility of the endorsement. Furthermore, FTC guidelines apply to endorsements outside the United States that can be reasonably foreseen to affect US consumers. If this is applied to video games, an influencer playing a game who comments that the game is good, even in passing, must disclose any material connection to the game company or advertising agency, if such a relationship exists, for example, if a publisher paid for the influencer to play the game, provided the influencer with a free copy of the game or reviewed the content of a video before it was posted.

In the United Kingdom, after a wave of adjudications on this subject, the ASA and the CMA issued joint guidance intended to help influencers and brands understand how content should be identified.[929] In the United States, the FTC released guidelines in 2019.[930]

At the time of writing, the United Kingdom has one of the strictest approaches, so it is worthy of more detailed examination. There are two variables for determining whether or not content must be identified as advertising or the like: "payment" and "control".

In broad terms,

1. when an advertiser pays an influencer and has at least some control over the content created, the end result is considered to be advertising and must be obviously identifiable as such;
2. when an advertiser pays an influencer but has no control whatsoever over the content created, the end result is considered to be sponsored content and should be identified as such;
3. when an advertiser has neither paid the influencer nor exercised any control, the content is considered to be organic content and does not need to be identified in any way; and
4. a situation where an advertiser does not pay an influencer but controls the content is rare in practice and is not included in the UK regulators' guidance. However, on the grounds that the influencer is effectively acting as the brand's spokesperson and is probably doing so in the hope of further, more lucrative engagements with the brand in the future, the prudent approach would be to disclose the relationship.

It is important to note that the concepts of "payment" and "control" are interpreted widely. Payment includes not only cash but also the gifting or lending of goods or services to the influencer, payments for travel or accommodation, the promise of future work or other benefits in kind. Control includes not only telling the influencer what to say but also more subtle input, such as telling the influencer how to say it, requiring the use of specific brand names or hashtags, telling the influencer when to post and at what frequency, or having a contractual right to review the content before it is posted, even if that right is never exercised.

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[928] "Guides Concerning the Use of Endorsements and Testimonials in Advertising", *ftc.gov*.
[929] "Influencers' guide to making clear that ads are ads", *asa.org.uk*, February 6, 2020.
[930] "Disclosures 101 for Social Media Influencers", *ftc.gov*; and "FTC Releases Advertising Disclosures Guidance for Online Influencers", *ftc.gov,* November 5, 2019.

The presence of an existing commercial relationship between a brand and an influencer, such as a brand ambassador, is considered by the ASA to be a strong indication that content posted about the brand by that influencer constitutes advertising. If a complaint is made and, in the course of the investigation, it is argued that the influencer posted the content voluntarily, the ASA can request to see a copy of the brand ambassador agreement or an equivalent document. If the agreement is not disclosed, the ASA can take this into consideration and infer that the brand must have exercised some control over the content.

The inclusion of discount codes or affiliate links is another strong indicator that the content is probably advertising.

In the United Kingdom, there is no prescribed way of identifying advertising as such, as long as it is done in a manner that is obvious to the average consumer. The most reliable method is to include the word “Ad”, “Advert”, “Advertising”, “Advertisement” or “Advertisement Feature”, with or without a hashtag. The ASA and the CMA take the view that other labels are less clear and should be avoided, for example, “Sponsored”, “Supported by/Funded by”, “In association with”, “Thanks to [brand] for making this possible” and “@[brand]”. Likewise, the FTC has found that non-compliant disclosures include, but are not limited to, “sp”, “spon”, “collab”, “ambassador”, “Thanks [brand]”, “Thanks to my friend at [brand]”, any disclosure after the “more”, disclosures in a Comments section, disclosures in an About section or a Biography section, hyperlinks and disclosures that do not travel with the content.

When the brand commissions sponsored content, in other words, it pays for the content but exercises no control over it, a “Sponsored” label would be appropriate. However, “Ad” would also be acceptable and is sometimes preferable when space is limited; it also enables consistency across multiple jurisdictions. In equivocal cases where it cannot be said definitively whether any control was exercised, using the “Ad” label is the safer option.

The label must be displayed in a location that is prominent and “up front” so that it is seen by consumers before they engage with the content. In the context of video content, there are a number of options: the label can be displayed in the video itself, on the thumbnail or spoken by the influencer. All or any of these could work, provided the end result is obvious to the average consumer.

Past decisions have shown that labels placed in social media biographies or video description boxes, particularly if the box has to be expanded to see the label, or buried in a sea of other hashtags are not considered reliable and should be avoided or supplemented with more prominent tags.

10.4.5 – Misleading Advertising

As a general principle, advertising which is likely to mislead consumers is prohibited. The most obvious example is when an advertisement makes misleading claims about a game. Claims include not only text or verbal statements but also visuals, sounds and anything else that the consumer might interpret as an objective claim.

A common pitfall is overpromising the features or performance that a game can deliver. Care should be taken to distinguish between pre-rendered and in-game

footage.[931] If any game features shown in the advertisement, such as game modes, characters or skins, require separate purchases, this should be made clear. It is important to remember that this applies to most online content, including the developer's own website and the sub-pages of digital stores. In the context of early-access beta versions of games, care should be taken not to make claims about features that may not be in the final release.

An advertisement may be misleading if it omits material information or presents such information in an unclear, unintelligible, ambiguous or untimely manner. Material information is information that the consumer requires to make informed decisions about a product. This includes, for example, the fact that an internet connection and subscription are required to play the game or experience the advertised features.

If any particular claim or feature is subject to limitations or qualifications, these must be displayed clearly in the advertisement. Limitations and qualifications can be used to clarify, but must not contradict, the claim. For example, it is best practice not to affix a disclaimer with the label "test footage" or "development footage" at the bottom of a game advertisement containing test footage. Although the text is truthful and, by itself, not misleading, when combined with the game footage, the full message conveys to a reasonable consumer that the final version of the game will include all of the aspects and visuals that are in the footage. Development or test footage is only permissible while the game is still in development and not yet officially released. Otherwise, advertisers should strive to use footage of the official final version of the game in their advertising. Advertisers should also take care to specify on which type of platform the game is being run to display such footage. As another example, advertisers must refrain from showing a real-time mobile multiplayer game over a cellular network unless it is available over most cellular networks.

One recent case in point is *Shepherd v. Google*, where consumers sued Google for over-promising that Stadia could deliver a 4K playing experience for all games and claiming that the cloud-based service was more powerful than gaming consoles. The advertisement neglected to inform consumers that Google Chromecast Ultra is required to play Stadia Games at 4K resolution instead of the 1080p and 1440p resolution experienced by consumers.[932]

An advertiser is also required to hold documentary evidence capable of substantiating claims in its advertising before those claims are made. That evidence may be called upon in the event of an investigation.[933] However, it is the game company's responsibility to only approve pitches that can be substantiated because the game company or a qualified third party is in the best position to conduct tests on the software or hardware. For instance, estimating frame rates and compatibility with hardware, data plans or internet is within the scope of the game company.[934] Therefore, it is critical for the game company to work with the advertiser to validate substantiation claims.

As a general rule, advertisers should be cautious with substantiation claims, innovation claims, market superiority claims, astroturfing, and coupons and

[931] Green, Dominic, "Sega Sued Because Scenes in Ads For Video Game Weren't Identical to Actual Game", *businessinsider.in*, May 2, 2013.
[932] "Shepherd v. Google LLC et al.", *unicourt.com*.
[933] For the United States, see "Advertising Substantiation Principles", *ftc.gov*.
[934] Batchelor, James, "ASA bans misleading Homescapes, Gardenscapes ads", *gamesindustry.biz*, October 13, 2020.

discounts. Such claims and, in the case of the astroturfing,[935] tactics are more likely to influence customers to make a purchase decision and are, as a result, more likely to impose liability on the advertiser and the game company if the product does not deliver what the advertisement claims. It is important to always be honest and disclose any information necessary to make the claim truthful.[936]

10.4.6 – Microtransaction Disclosure

Games that incorporate microtransactions can easily mislead consumers, especially since they initially appear to be free to play. These games bait consumers into a fun experience, then require them to pay to progress or succeed in the game. Advertisements for freemium games should take care not to underplay the significance of microtransactions in achieving what consumers would consider to be normal gameplay. Unless made clear in the advertisement, a game which is described as "free" but contains onerous time-gating mechanisms if no premium currency is spent could, therefore, be considered misleading.

The ESRB in the United States and PEGI in Europe have both set rating standards for platforms and game companies to follow. Past decisions have shown that relying on microtransaction warnings displayed as standard in app stores may not be sufficient since, in most cases, they do not appear in the body of the advertisement.[937] If a game includes microtransactions, both platforms and game companies must label the game appropriately or face regulatory action from the ASA or the FTC.

Public reaction can also be compelling, as was the case when EA pre-released *Star Wars Battlefront II*. The pre-released version had a steep retail price and required further payments for players to advance characters. Such microtransactions, however, were tied to loot boxes, which are randomly generated virtual property (loot boxes will be discussed in Section 10.5). Following public backlash, which led to an EA post becoming the most downvoted post in Reddit history, EA overhauled the game by disabling microtransactions and changing loot box rewards to ensure a more balanced playing field.

10.4.7 – Email Advertising

In the United States, the CAN-SPAM Act and the Telephone Consumer Protection Act (TCPA) govern email and telephone communications, respectively. The CAN-SPAM Act does not cover transactional messages that are primarily intended for the benefit of the consumer and not to convey a marketing message. A commercial message, on the other hand, is actionable and violators face a fine of up to $16,000 for each email violation. If an email recipient reasonably interpreting the subject line would conclude that the

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[935] The deceptive practice of presenting an orchestrated marketing or public relations campaign in the guise of unsolicited comments from members of the public.

[936] Game companies should remember that investors may have grounds to make a claim against them for damages suffered as result of misleading claims. See, for instance, the ongoing saga of the 2020 release of *Cyberpunk 2077*.

[937] For a recent case in the United Kingdom, see "ASA Ruling on PLR Worldwide Sales Ltd t/a Playrix", *asa.org.uk*, September 30, 2020.

message contains an advertisement or promotion, it is considered to be a commercial message.

Senders must identify the message as an advertisement at the beginning of the message. This can be achieved by refraining from using deceptive subject lines, domain names and email addresses as well as other deceptive routing information that the recipient will see immediately. More importantly, senders should provide recipients with a clear and conspicuous method to opt out of future communications.

Unlike the CAN-SPAM Act, the TCPA provides a private right of action and a potential fine of $500 per violation. As a result, a large number of cases are filed each year for TCPA violations, with settlements in the tens of millions of dollars. Callers must obtain prior written consent to make robocalls and texts. The consent must be obtained without being required as a condition of purchasing a good or service.

Callers are also liable for robocalls to reassigned wireless numbers when the new subscriber or customary user of the number has not consented to the communication. This is subject to a limited, one-call exception for cases where the caller did not have actual or constructive knowledge of the reassignment.

Like senders under the CAN-SPAM Act, callers under the TCPA must inform the recipient that the message is for marketing purposes and provide a clear and conspicuous method for opting out of future communications.

10.4.8 – Sweepstakes And Contests

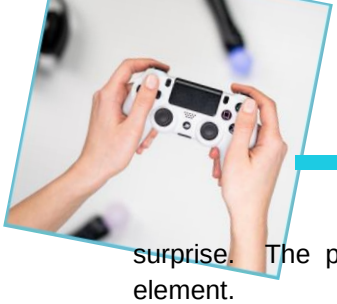
Game companies may use sweepstakes and contests to generate buzz around a game and solicit new players. In the United States, sweepstakes and contests are clearly demarcated; however, game companies may conflate the two, causing frustration among participants due to the improper application. Some states even view these marketing tactics as parallel to gambling. It is, therefore, crucial to know what constitutes sweepstakes, contests and gambling to avoid criminal prosecution under these state laws.

Gambling has three elements: chance, consideration and a prize. States differ on what constitutes chance, but generally speaking, any game mechanic that is based on luck rather than skill will probably be considered to involve chance. Consideration is anything of real value, from substantial effort to cash money. A prize is also anything of real value.

For sweepstakes, a winner is determined by chance but, unlike gambling, participation cannot require consideration. In other words, game companies should not charge an entry fee or demand that participants invest substantial time and effort to enter, unless they include an alternative entry method that is free, such as mail-in or online entries. All participants must be treated equally, no matter the entry method. Alternative titles for sweepstakes are “giveaway”, “drawing” and, for charitable organizations, “raffle”.

A contest winner is determined by skill, which can be demonstrated using substantial time and effort. Most states permit game companies to charge an entry fee, unlike sweepstakes.

Game companies may also choose to hold a “surprise and delight” promotion. In this scenario, there is no marketing or disclosure beforehand; it truly is a



surprise. The promotion must also be infrequent to maintain the surprise element.

10.4.9 – Social Responsibility

Advertisements must not cause serious or widespread offense, nor must they cause fear or distress without any justifiable reason. This is a broad category and breaches can take many forms, including cultural or religious insensitivity, gender stereotyping, graphic imagery, jump scares and shock tactics.

In all cases, advertisements should be appropriately targeted. The steps taken by the advertiser to ensure that an advertisement is not served to inappropriate audiences are a key consideration in investigations under this category. Advertisements in untargeted media are likely to be construed as being addressed to the public at large, including children.

It is also relevant to mention behavioral advertising at this point. Behavioral advertising involves tracking web users across different websites to create web user profiles in order to deliver targeted advertisements and draw them towards specific websites. Game companies or advertising agencies that use behavioral advertising in the United States must comply with three rules. They must

1. license the AdChoices icon from the Digital Analytics Association;
2. place the AdChoices icon on each advertisement that uses behavioral advertising; and
3. disclose in their privacy policy or privacy statement that they use behavioral advertising.

For online advertisements, it is recommended to use the targeting and age-gating mechanisms offered by online platforms, particularly the advanced targeting mechanisms. However, responsibility for targeting ultimately lies with the advertiser. Relying on a platform's mechanisms will not automatically mean that this obligation has been discharged, particularly since many "soft" age-gating mechanisms are easily circumvented by underage audiences. Particular care must be taken when an advertisement features violence, anti-social behavior, alcohol or sex or could be seen as condoning dangerous or unsafe practices.

As you would expect, societal norms vary by country and region: something that is considered harmless in one country may be considered extremely offensive in another. Some countries have very specific restrictions, which can also evolve over time. For example, in the United Kingdom, members of the royal family should generally not be shown in marketing communications without prior permission; only incidental references unconnected with the product being advertised may be considered acceptable.

10.4.10 – Children

It is worth making a special note regarding children. The marketing of products to children is heavily regulated, from food products to toys, and the resulting legal requirements also apply to video games. The CMA has produced guidelines on

the marketing of free-to-play games to children.[938] The basic requirements are that game marketing should be truthful and supported by factual evidence, not misleading to consumers and targeted at appropriate consumers. Failure to meet these requirements can result in both consumers and local marketing law authorities taking action against game developers.

Game advertisements which are targeted at or likely to appeal to children or which themselves feature children are treated more stringently and are subject to additional rules. In the United Kingdom, for example, there are strict rules for preventing the exploitation of children's credulity, loyalty, vulnerability or lack of experience. Among other things, when an advertisement is addressed to or targeted directly at children, it must not include a direct exhortation to children to buy an advertised product or persuade their parents or other adults to buy an advertised product for them. Past decisions have shown that the concept of "direct exhortation" is interpreted widely, as is the concept of what is "addressed to or targeted directly at children". As an example, pop-up messages within a mobile game encouraging players to purchase additional currency or a premium subscription have been held to breach this rule.

In some cases, direct exhortations can be avoided by adjusting language and presentation, for example, by not using the imperative mood or employing nudge and push tactics, such as displaying a large "Buy" button next to a much smaller "Cancel" button.

Whether or not a game is targeted at children is ultimately determined by the regulator, which may not take the same view as the game company. Regulators may consider a wide range of factors, such as whether a game contains bright colors or animated characters, as many games do.

The ICO Age-Appropriate Design Code in the United Kingdom[939] and the German Youth Protection Act[940] are the latest examples of regulators in Europe setting out principles for advertisements in games likely to be accessed by children.

In the United States, the Children's Online Privacy Protection Act (COPPA) and the Children's Advertising Review Unit (CARU) are important names to know. COPPA applies to all forms of digital games that (1) are directed towards children who are 13 years old and younger, and (2) knowingly collect personal information from those children. In order for a game to be directed at children, many elements must be considered, such as graphics style, audio and subject matter. Personal information is also broadly defined, so game companies should exercise caution and always ask for consent.

Game companies must ask for parental consent before collecting personal information from children in the above age group. This can be achieved by using a neutral age gate to verify the age of the consenting user prior to accessing the game. Parents must also have the right to review, edit and opt out of collection.

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[938] Office of Fair Trading, "The OFT's Principles for online and app-based games", *assets.publishing.service.gov.uk*.
[939] Denham, Elizabeth, "Age appropriate design: a code of practice for online services", *ico.org.uk*.
[940] Hilgert, Felix and Sümmermann, Philipp, "New obligations for providers and platforms: Germany reforms youth protection law", *gameslaw.org*, February 10, 2020, Croll, Jutta, "New youth participation law in Germany: PARTICIPATION of children is a top priority", *blogs.lse.ac.uk*, March 12, 2021.

A good privacy policy or privacy statement should include the types of information that are collected, how the information is used and whether or not any third parties will be involved or have access to the information.

CARU is an FTC-approved, self-regulated body that enforces COPPA by providing guidance on compliance with its provisions. Its primary purpose is to protect children from deceptive or inappropriate online advertising. As with NAD, CARU rulings require the voluntary participation of the offending advertiser; however, cases can be referred to the FTC for review and for enforcement of a CARU ruling. CARU is also very prestigious in the United States, so it is advisable for advertisers to adhere to CARU recommendations.

10.4.11 – Third-Party IP Rights

The inclusion of third-party material that may be protected by copyright, designs or (un)registered trademark rights in an advertisement involves additional risk given the prominence of the content and its consumer-facing nature. There are nuances to this but, as a general rule, it is prudent to keep advertising and all other consumer-facing elements as free of third-party material as reasonably possible, unless a license has been obtained. [941]

10.4.12 – Where To Find Additional Resources

If an advertising or creative agency has been instructed on an advertising campaign, it would generally be expected to flag potential regulatory issues. In some cases, the agency may also have access to its own lawyers. When contracting with an agency, it is important to identify which party is responsible for clearing an advertisement in each relevant territory and which party bears liability if something goes wrong.

Otherwise, advertising codes tend to be reasonably accessible and easier to read than raw legislation. Most regulators, including the ASA and the CMA in the UK, also publish guidance on code interpretation, which is worth consulting as a first port of call.

In the United Kingdom, the CAP offers a bespoke copy clearance service, through which advertisers can obtain advice on potential issues with their advertisements. At the time of writing, the service is free of charge with a 24-hour turnaround or can be accelerated at a cost. This can be useful for smaller, more straightforward queries. However, it should be noted that the advice given is not binding on the ASA or any other regulator, so following the advice does not guarantee compliance.

In the United States, the FTC publishes and updates Endorsement Guidelines and Frequently Asked Questions on its website.[942]

Ultimately, it may be necessary to consult an advertising lawyer for more complex or problematic queries or in cases where it would not be desirable to disclose the content of an ad to a regulator in advance is not a desirable option, obtaining input from an advertising lawyer may be necessary.

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[941] For more information on IP rights and licensing, see Chapters 2 and 4.
[942] "The FTC's endorsement guides: what people are asking", *ftc.gov*.

10.5 – Monetization And Loot Boxes

Game monetization[943] has evolved considerably since one of the industry's earliest models – the "insert-coins-to-play" model. Monetization methods continue to diversify with the evolution of games and gaming devices. *World of Warcraft* is considered to have pioneered the subscription model[944] by charging a monthly fee in addition to its base price. Today, there is a plethora of monetization models, including, but not limited to, premium games,[945] downloadable content (DLC),[946] free-to-play models,[947] season passes,[948] rewarded videos,[949] battle passes,[950] games as a service,[951] and in-game advertising.[952] Each of these models is perceived differently by the public and treated differently by regulators.

One model that has recently attracted scrutiny from regulators is loot boxes. Loot boxes are randomized mechanisms within games that yield in-game items of varying rarity. For example, in *Counter-Strike: Global Offensive*, players can pay $2.49 for a sealed "weapon case" that can provide anything from a desirable, rare skin (i.e., a cosmetic upgrade) to an undesirable, common gun.[953] Prices may vary for individual loot boxes, but revenue generated by this form of monetization reaches tens of billions of dollars. According to a study by Juniper Research, loot boxes generated an estimated $15 billion in 2020, with mobile gaming accounting for the majority of the revenue. Revenue is projected to reach $20.3 billion by 2025. However, the growth rate may slow due to new business models, governmental regulation and end-user frustration.[954]

Loot boxes have been widely criticized in the media for their resemblance to gambling mechanisms.[955] There has also been a global push to regulate loot boxes in order to protect vulnerable players, such as children, from excessive spending and gambling. Regulatory bodies around the world are questioning the legality of randomized loot boxes, whether they qualify as a gambling mechanism and, if so, whether they are exploitative. There is no consistent global approach

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[943] Monetization refers to the process of generating revenue from a game. This is often achieved through advertising (e.g., banner advertisements, icon drops and incentivized downloads), limitation removal (e.g., removing advertisements for a price or paying for more energy, turns or lives), a virtual economy (e.g., paying for characters, resources, advantage-giving items, upgrades or customizations) and/or merchandising (e.g., branded shirts).

[944] A subscription model is a model in which players pay at regular intervals, e.g., monthly, to access the game, and there are often continual releases of new content. There is also another type of subscription model that is closer to the Netflix model, in which a payment is made on a monthly basis to access a library of content. Apple Arcade is an example of this type of model.

[945] Premium games are games that have a high up-front cost but do not feature in-app purchases.

[946] Downloadable content is additional content that can be downloaded for a game, such as extra maps or levels.

[947] Free-to-play models are games that are free but often make heavy use of in-app purchases.

[948] Season passes are discounted packages for current and future DLC packs for a video game, in addition to its base price.

[949] Rewarded videos are video advertisements placed in games that reward users, for example, with free in-game items, virtual goods or content.

[950] Battle passes are season passes that encourage further gameplay to unlock tiered cosmetic items and/or in-game currency to progress in the game. Most battle passes include a free option to unlock some items. There is also an option to pay a premium to obtain greater rewards from the battle pass. This is the monetization model used in popular games such as *Fortnite* and *Apex Legends*.

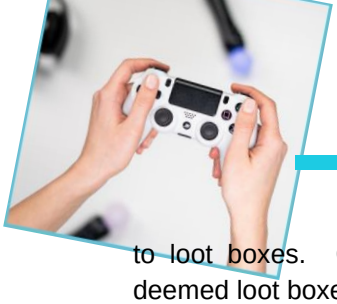
[951] See Chapter 1.

[952] In-game advertising corresponds to advertisements within games, including, but not limited to, rewarded video advertisements, playable advertisements, interstitial advertisements and banner advertisements.

[953] Zendle, David, et al, "Adolescents and loot boxes: links with problem gambling and motivations for purchase", *Royal Society Publishing*, Issue 6, June 2019.

[954] Dealessandri, Marie, "Loot boxes to generate $20bn by 2025", *gamesindustry.biz*, March 9, 2021.

[955] Busby, Mattha, "Loot boxes increasingly common in video games despite addiction concerns", *theguardian.com*, November 22, 2019.



to loot boxes. Gambling regulators in the Netherlands and Belgium have deemed loot boxes to be subject to local gambling laws. Conversely, the Polish Ministry of Finance reviewed loot boxes in 2019 and determined that they were not gambling mechanisms.[956] Slovakia has determined that loot boxes fulfill its national gambling criteria and is considering taking regulatory steps.[957] The Chinese Ministry of Culture has introduced a regulation requiring developers to reveal the odds of loot boxes. The Korea Association of Game Industry, K-Games, requires members to disclose the drop rates, even though there is no strict legal requirement to do so. In the United Kingdom, at the time of writing, most loot boxes do not fall within the current legal definition of gambling, but they continue to be a thorny, headline-making topic, and there are growing calls for the law to be reviewed. The result of this international inconsistency is that loot boxes, and occasionally entire games, are removed in some countries yet remain operational in others. The topic attracts scrutiny not only from gambling regulators but also consumer regulators. The Swedish Consumer Agency, for example, has also been instructed to investigate loot boxes. The prominence of this topic in global media indicates that there may soon be further regulation.

Game creators remain divided about loot boxes, but there is a clear movement towards industry self-regulation. In the United States, the FTC loot box investigation resulted in several large publishers, including Nintendo, Microsoft and Sony, committing to disclose the odds of loot boxes in their games. *Other* publishers have stated that they will "implement a similar approach", including Activision Blizzard, Bandai Namco Entertainment, Bethesda, Bungie, Electronic Arts, Take-Two Interactive, Ubisoft, Warner Bros., Interactive Entertainment and Wizards of the Coast.[958] Although it is unclear what this similar approach will be, there has been some implementation in a number of these publishers' new games. For example, Ubisoft announced that its *Assassin's Creed* series will no longer have loot boxes or random gear;[959] Bungie announced that it will no longer be offering loot boxes in *Destiny 2*;[960] and Riot Games announced that *Valorant*[961] will not include loot boxes.

Gambling industry regulation increasingly impacts the game industry, particularly with the nascent convergence of the two industries in some fields. In a highly controversial decision, the World Health Organization (WHO) classified "gaming disorder" as a new type of mental health condition.[962] This disorder is characterized by impaired control over gaming, with the continuation or escalation of gaming despite the occurrence of negative consequences. It appears that the WHO decision was partly informed by the increased regulatory scrutiny of loot boxes. One year after it added "gaming disorder" to its list of addictive behaviors, WHO praised games for their usefulness during the COVID-

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[956] *Giuffré,* Vincenzo, *"Gaming loot boxes reviewing in Poland and in Australia", gamingtechlaw.com, March 11, 2019.*

[957] Cerulli-Harms, Annette, et al, "Loot boxes in online games and their effect on consumers, in particular young consumers", *europarl.europa.eu*, July 2020.

[958] Hall, Charlie, "Microsoft, Nintendo and Sony to require loot box odds disclosure", *polygon.com*, August 7, 2019.

[959] Hargreaves, Jim, "Assassin's Creed Valhalla won't have loot boxes or random gear", *thesixthaxis.com*, May 29, 2020.

[960] Valentine, Rebekah, "Bungie will no longer sell randomized loot boxes in Destiny 2", *gamesindustry.biz*, March 10, 2020.

[961] Brown, Fraser, "Valorant will have a battle pass and sell cosmetics, but it won't have loot boxes", *pcgamer.com*, March 5, 2020.

[962] "Addictive behaviours: Gaming disorder", *who.int*, September 14, 2018.

19 pandemic as a healthy way to socially distance while maintaining a social connection.[963]

10.6 – Other Regulations

Game industry regulation continues to develop in many directions that are beyond the scope of this book. Physical products, such as games and merchandise, are subject to product liability laws as well as various regional product labelling requirements.

Antitrust law, or competition law as it is known outside the United States, has taken on greater prominence with the recent cases involving disputes between some of the largest players in the game industry challenging existing market structures with potentially billions of dollars at stake. . In August 2020, Epic Games launched separate antitrust lawsuits against Apple and Google, alleging the platform operators abused their respective market positions by mandating a share of transaction fees on every in-app purchase. This followed Epic Games' Fortnite being removed from both stores for term violations after Epic Games introduced a direct payment mechanism to intentionally bypass each store's mandatory 30% fee.

In September 2021, the first of what may be many decisions from various courts operating under different laws and regulations throughout the world and even within a country dealing with antitrust issues was handed down by a CA court, which ruled that Apple was not a monopoly. Nevertheless, it had violated CA's anti-competitive laws with its anti-steering rules payment rules (at the time of writing, the case is currently under appeal).[964]

These cases are particularly interesting because these types of issues usually come from external sources, such as government regulators, although that will happen as well.

With the growth of esports, sport regulation may become applicable to some parts of games. The interaction between games and broadcasting on platforms such as YouTube may, over time, lead to broadcasting regulation having an impact on games. The growth of the cloud both as a means of distribution and a factor in game production will also raise issues as the cloud gradually becomes subject to greater regulation. This is essentially the result of the increasing success and prominence of the game industry as well as its convergence with other creative and digital media.

It is not yet known how regulated the game industry will become, although there is certainly a trend towards increased regulation. The video game industry is evolving rapidly and not afraid to innovate. A pertinent example here is the increasing popularity of non-fungible tokens in video games and the related issue of cryptocurrency regulation. It follows that, as the game industry becomes a more complex sector in which to operate, the time is fast approaching (if it is not already here) when game developers and publishers will need to tread carefully in their business endeavors and seek more frequent legal advice.

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[963] Canales, Katie, "The WHO is recommending video games as an effective way to stop the spread of COVID-19, one year after adding 'gaming disorder' to its list of addictive behaviors", *businessinsider.com*, April 1, 2020.
[964] See Section 1.8.5.

10.7 – Ratings

10.7.1 – Age Ratings And Content Descriptors

In all the major video game markets, a developer or publisher ("submitter")[965] will typically need to obtain a rating for a game prior to its release, irrespective of whether the game is sold at retail, digitally downloaded or released on a mobile device. Since several different parties may be involved in the rating process, especially if a game is released worldwide, it can be challenging for a first-time submitter to navigate the various steps. However, it is essential to get age ratings correct not only because it is a legal requirement in many countries but also because it is important to provide some guidance to consumers on what might be appropriate content for specific age categories (i.e., children) and ensure that consumers are not misled, failing which there may be considerable reputational harm to a game's business. This section will briefly discuss the various issues associated with obtaining a rating for a game.

A game's rating indicates the suitability of the game for various age groups[966] and, depending on the rating board, also provides guidance to consumers, usually parents, on whether a game is suitable for a consumer under a certain age.[967]

The Pan European Game Information (PEGI) rating system, for example, which was launched in 2003 and is currently used in more than 35 countries,[968] has five age categories. These are depicted in the table below. Certain elements in a game will automatically result in a particular rating no matter how extensive it appears in a game. For example, a game that contains illegal drugs, alcohol or tobacco will receive either a PEGI 16 or PEGI 18 rating.

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[965] For the purpose of this section, a submitting party includes both publisher and developer.

[966] Rating boards do not determine whether a game is good or bad, nor do they indicate the level of difficulty or skill.

[967] See "Video game content rating system", *en.wikipedia.org,* for a chart of the various age classifications used in a number of countries. Many of the video game rating boards are government bodies and may also rate other entertainment content such as films, television and publications.

[968] PEGI was formed in 2003 and replaced a number of individual national rating systems with a single system. It is used by the following countries: Albania, Austria, Belgium, Bosnia and Herzegovina, Bulgaria, Croatia, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Greece, Hungary, Iceland, Ireland, Israel, Italy, Kosovo, Latvia, Lithuania, Luxembourg, Malta, Moldavia, Montenegro, the Netherlands, North Macedonia, Norway, Slovakia, Slovenia, Poland, Portugal, Romania, Serbia, Spain, Sweden, Switzerland and the United Kingdom. See "The PEGI organization", *pegi.info*. Germany is not a member of PEGI and instead has its own rating board called the Unterhaltungssoftware SelbstKontrolle (USK). In view of the past political climate in Germany, the rating board is extremely restrictive, especially with regard to hate crimes, symbols and extreme blood. The USK states on its site that it has "the strictest age classification rules in the world." See "Types of classification procedures", usk.de. Given the strictness of USK rules, it is fairly common for games to be released later in Germany than in other major game markets and/or with significant graphical or other changes.

THE PAN EUROPEAN GAME INFORMATION (PEGI) RATINGS	
	The content of games with a PEGI 3 rating is considered suitable for all age groups. The game should not contain any sounds or pictures that are likely to frighten young children. A very mild form of violence (in a comical context or a childlike setting) is acceptable. No bad language should be heard.
	Game content with scenes or sounds that can possibly be frightening to younger children should fall in this category. Very mild forms of violence (implied, non-detailed or non-realistic violence) are acceptable for a game with a PEGI 7 rating.
	Video games that show violence of a slightly more graphic nature towards fantasy characters or non-realistic violence towards human-like characters would fall in this age category. Sexual innuendo or sexual posturing can be present, while any bad language in this category must be mild.
	This rating is applied once the depiction of violence or sexual activity reaches a stage that looks the same as would be expected in real life. The use of bad language in games with a PEGI 16 rating can be more extreme, while the use of tobacco, alcohol or illegal drugs can also be present.
	The adult classification is applied when the level of violence reaches a stage where it becomes a depiction of gross violence, apparently motiveless killing or violence towards defenseless characters. The glamorization of the use of illegal drugs and of the simulation of gambling, and explicit sexual activity should also fall into this age category.

Moreover, ratings are typically accompanied by content descriptors, which may also be accompanied by icons.[969] Under the PEGI system, for example, the content descriptors cover the following areas, as illustrated in the table below: (i) Bad language; (ii) Discrimination; (iii) Drugs; (iv) Fear; (v) Gambling[970]; (vi) Sex; (vii) Violence; and (viii) In-Game Purchases.[971]

[969] In Japan, for example, a content icon appears on the back of packaging, indicating why a game received a certain rating from the Japanese rating board (CERO). The icons are grouped into nine categories, which include: (i) love; (ii) sexual content; (iii) violence; (iv) horror; (v) drinking or smoking; (vi) gambling; (vii) crime; (viii) controlled substances (drugs); and (ix) language.

[970] Since 2020, PEGI has assigned an 18+ rating for any game that teaches gambling to players. Examples of gambling according to PEGI would include games that teach the rules of card games or explain the rules of horse racing. However, the rule does not apply retroactively involving games re-released provided the game is not altered, and is not triggered by the presence of loot boxes in a game.

[971] For more information, see the PEGI website, *www.pegi.info.*

CONTENT DESCRIPTORS	
	Bad Language – The game contains bad language. This descriptor can be found on games with a PEGI 12 (mild swearing), PEGI 16 (e.g., sexual expletives or blasphemy) or PEGI 18 rating (e.g., sexual expletives or blasphemy).
	Discrimination – The game contains depictions of ethnic, religious, nationalistic or other stereotypes likely to encourage hatred. This content is always restricted to a PEGI 18 rating (and likely to infringe national criminal laws).
	Drugs – The game refers to or depicts the use of illegal drugs, alcohol or tobacco. Games with this content descriptor are always PEGI 16 or PEGI 18.
	Fear – This descriptor may appear on games with a PEGI 7 rating if they contain pictures or sounds that may be frightening or scary to young children or as 'Horror' on higher rated games that contain moderate (PEGI 12) or intense and sustained (PEGI 16) horror sequeces or disturbing images (not necessarily including violent content).
	Gambling – The game contains elements that encourage or teach gambling. These simulations of gambling refer to games of chance that are normally carried out in casinos or gambling halls. Some older titles can be found with PEGI 12 or PEGI 16, but PEGI changed the criteria for this classification in 2020, which made that new games with this sort of content are always PEGI 18.
	Sex – The game depicts nudity and/or sexual behavior or sexual references. This content descriptor can accompany a PEGI 12 rating if the game includes sexual posturing or innuendo, a PEGI 16 rating if there is erotic nudity or sexual intercourse without visible genitals or a PEGI 18 rating if there is explicit sexual activity in the game. Depictions of nudity in a non-sexual context do not require a specific age rating, and this descriptor would not be necessary.
	Violence – The game contains depictions of violence. In games rated PEGI 7, this can only be non-realistic or non-detailed violence. Games rated PEGI 12 can include violence in a fantasy environment or non-realistic violence towards human-like characters, whereas games rated PEGI 16 or 18 have increasingly more realistic-looking violence.

	In-game purchases – The game offers players the option to purchase digital goods or services with real-world currency. Such purchases include additional content (bonus levels, outfits, surprise items, music), but also upgrades (e.g., to disable ads), subscriptions to updates, virtual coins and other forms of in-game currency.

In the United States and Canada[972], ratings from the Entertainment Software Rating Board (ESRB),[973] which was formed in 1994, comprise three components: (i) rating symbols suggesting what the appropriate age should be for players, based on the six rating categories depicted in the table below;[974] (ii) content descriptors; and (iii) interactive elements, which indicate interactive or online features of a game, such as in-game purchases or location sharing or the presence of unrated content generated through user interaction. Under the ESRB system, there are more than 30 descriptors covering different levels of violence, sex, nudity, gambling and drug, alcohol and tobacco usage. Furthermore, in April 2020, the ESRB modified the "In-Game Purchases" label to add "(Includes Random Items)" when a game offers randomized items for purchase, including loot boxes and *gacha* mechanics. The original "InGame Purchases" label will continue to be used when games offer only non-randomized purchases, such as skins, DLC and cosmetics.[975]

[972] While individual countries in Latin America have not adopted the ESRB ratings, Mexico and other parts of Latin America have, unofficially and without any known objection or opposition from the ESRB, embraced the ESRB rating system due to the abundance of US edition games and/or dedicated SKUs for Mexico being imported from the United States. Some of these games may include localized Spanish packaging or English/Spanish bilingual versions that may feature the ESRB icons and content descriptors. The ESRB originally created bilingual editions to help expand awareness of the rating system within the Hispanic market in the United States.

[973] The ESRB, which is part of the Entertainment Software Association, was formed in response to congressional hearings examining the connection between violence and video games in 1993. For a video of the full hearings, see "1993 Senate Committee Hearings on Violence in Video Games", *youtube.com*. As early as 1983, the US Surgeon General suggested that soon-to-become iconic arcade video games, such as *Asteroids*, *Space Invaders* and *Centipede*, were a leading cause of family violence. You make the call. For an *Asteroids* clip, see "Asteroids - Arcade - Top 70s Video Games (Atari 1979)", *youtube.com*.

Until the ESRB was formed in 1994, there was no universal rating board and, instead, the two biggest companies at the time, Nintendo and Sega, imposed their own rules for regulating content. Sega introduced a rating system, while Nintendo regulated content but did not have a rating system. Sega's rating system comprised three categories: GA (General Audience): Suitable for all; MA13 (Mature Audiences - Ages 13 and over); and MA-17 (Mature Audiences - Ages 17 and over). See "List of video game rating systems organized by country", *gamicus.fandom.com*. Following the Senate committee hearings in 1993, the game industry was informed that it had one year to propose a self-regulatory system or else the government would step in. Shortly thereafter, the ESRB was born, avoiding some form of government oversight.

[974] Over the years, some rating tiers have been retired and new ones introduced. In 2005, the ESRB introduced the E10+ rating. In 2018, it retired the EC (Early Childhood) rating. Ratings can also influence how games are promoted and marketed, since rating boards also impose guidelines in this area. For example, under the ESRB guidelines, it is not possible for a rated game to cross-promote a game with a more restricted rating. As a result, a T-rated game is prohibited from cross-promoting an M-rated game, but an M-rated game can promote a T-rated game. Advertising is overseen by the Advertising Review Council (ARC). See *https://www.esrb.org/ratings/principles-guidelines* covering advertising guidelines imposed by ARC.

[975] *"Introducing a New Interactive Element: In-Game Purchases (Includes Random Items)", esrb.org, April 13, 2020.*

THE ENTERTAINMENT SOFTWARE RATING BOARD (ESRB) RATINGS	
EVERYONE	EVERYONE Content is generally suitable for all ages. May contain minimal cartoon, fantasy or mild violence and/or infrequent use of mild language.
EVERYONE 10+	EVERYONE 10+ Content is generally suitable for ages 10 and up. May contain more cartoon, fantasy or mild violence, mild language and/or minimal suggestive themes.
TEEN	TEEN Content is generally suitable for ages 13 and up. May contain violence, suggestive themes, crude humor, minimal blood, simulated gambling and/or infrequent use of strong language.
MATURE 17+	MATURE 17+ Content is generally suitable for ages 17 and up. May contain intense violence, blood and gore, sexual content and/or strong language.
ADULTS ONLY 18+	ADULTS ONLY 18+ Content suitable only for adults aged 18 and up. May include prolonged scenes of intense violence, graphic sexual content and/or gambling with real currency.
RATING PENDING	RATING PENDING Not yet assigned a final ESRB rating. Appears only in advertising, marketing and promotional materials relating to a physical (i.e., boxed) video game that is expected to carry an ESRB rating and should be replaced by a game's rating once it has been assigned.

Depending on the platform, a rating will generally be required by a governmental body, the hardware manufacturer,[976] an app store[977] or content licensors.[978] Participation in the ESRB and PEGI is voluntary; however, businesses that choose not to rate their game may find that many retailers, particularly in the United States, will refuse to distribute the game as a result.

One of the challenges faced by a submitter[979] is dealing with the various rating boards since they each employ different procedures and criteria when rating a game. Rating boards may have different (i) standards for achieving particular ratings; (ii) submission policies and processes, including the elements to be submitted for different platforms; (iii) classifications and content descriptors; (iv) time frames for reviewing materials; (v) procedures for challenging a rating; and (vi) submission fees.

In response to the plurality of rating systems, the International Age Rating Coalition (IARC) was founded to provide a globally streamlined age classification system. IARC was created by a coalition of rating authorities from across the globe, including the ESRB, PEGI, USK (Germany), ClassInd (Brazil), GRAC (South Korea) and ACB (Australia). As such, most of the major rating agencies participate in IARC. In order to obtain an IARC rating, which only applies to digital products and participating storefronts, developers must complete an IARC questionnaire about the game's content. A rating is then assigned instantly by an automated process that is based on the different factors examined by each participating rating system. The IARC system analyzes international standards and assigns a localized rating for the game and also provides a generic rating for countries not covered by one of the participating rating authorities.[980] Regional IARC authorities monitor the game after it is made available to the public to ensure the rating is accurate.[981] At the time of writing, participating storefronts include the Microsoft store, the Nintendo eShop, Google Play, PlayStation Store, Microsoft's Xbox Live Store, and the Oculus store.[982] Compared to the more formalized process of submitting games to each individual rating authority, this approach to game rating is attractive since it allows developers to submit a single application that covers a number of regions. It is also quick and free of charge, although there are other costs involved in using the IARC system.[983]

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[976] Console manufacturers require games to be rated prior to their release. See "Frequently Asked Questions", *esrb.org*. Furthermore, in the event that a country does not have a rating system, some console manufacturers will have the right to reject a game if, in their opinion, it contains elements with excessive violence or sexual content, inappropriate language or other elements they deem unsuitable. See PlayStation, "Global Developer & Publisher Agreement", *sec.gov.*

[977] "App Store content rating system", *rating-system.fandom.com*.

[978] Owners of intellectual property that license rights to a submitter for its game will typically require that the game be rated and, in most situations, receive a specific rating. A licensor of a children's property will not want to be associated with a rating stating that content in the game is not suitable for children in a particular age category.

[979] If a developer has entered into an agreement with a publisher to have its game distributed, the parties will need to determine which party will submit the game to the various rating boards. Depending on how many rating-board submissions are required, the parties will also need to negotiate which party will bear the costs and whether those costs can be recouped from revenues earned from the distribution of the game.

[980] "IARC Ratings Guide", *globalratings.com*.

[981] "How IARC works", *globalratings.com.*

[982] "About IARC", *globalratings.com*.

[983] Although game submission is free of charge, there are underlying costs associated with using the IARC rating process. Participating in the IARC program involves paying a licensing fee to use the platform and its backend technology, which integrates with IARC-approved digital storefronts and provides publishers access to generic ratings. In addition, developers must pay a license or access

THE INTERNATIONAL AGE RATING COALITION (IARC) GENERIC RATINGS	
	*Suitable for all age groups. Some violence in a comical or fantasy context is acceptable. Bad language is not permitted.*
	*May contain some scenes or sounds that are frightening for children. Mild violence (implied or non-realistic) is permitted.*
	*Violence involving fantasy characters and/or non-graphic violence involving human-looking characters or animals is permitted. Non-graphic nudity, mild language and simulated gambling are also permitted but sexual expletives are not.*
	*Realistic violence, sexual activity, strong language, use of tobacco and drugs and the depiction of criminal activities are permitted.*
	*Graphic violence, including depictions lacking motive and/or directed towards defenseless characters and sexual violence are permitted. May also include graphic sexual content, discriminatory acts and/or the glamorization of illegal drug use.*

At the time of writing, China has no comprehensive age-rating system like PEGI or ESRB, although the government announced in December 2020 that a new system called the “Online Game Age-Appropriateness Warning” will be

fee to the different rating boards with which they choose to generate a rating using the IARC submission process. The fees depend on the number of apps or products released as well as the developer’s annual revenue. As result, fees may fluctuate from year to year. If a developer is only releasing one game in a few territories, it may be more economical to submit the game manually to each rating board; however, this may be more time-consuming. If a developer plans to submit a number of games for a rating, the IARC system may be a useful alternative.

implemented. China's new age ratings will be divided into three categories: 8+, 12+ and 16+ distinguished by the colors green, blue and yellow, respectively.[984] Games in China are heavily regulated so the ratings will probably add another layer of oversight and focus on providing information on the suitability of a game for a particular age category.[985]

10.7.2 – Factors In Rating A Game

When determining a rating for a game, most rating boards will primarily focus on potentially contentious scenes that may include: : (i) violence; (ii) language; (iii) sex and nudity; (iv) drug use; (v) criminal acts including hate crimes; (vi) content which is deemed culturally or otherwise inappropriate; and (vii) the theme of the game itself. In addition, many rating boards will also factor in gambling, possible discrimination and any rewards for acts such as violence, drug use or sex.[986] The level of player involvement in any of the aforementioned contentious scenes will be considered. For example, whether players simply observe a criminal act taking place or actively participate in one will impact the age category to which a game can be marketed. Rating boards may also consider structural elements of the game, such as monetization and reward or advancement systems.

While the various rating boards list the factors they use to determine a rating, the way in which some of the broad limitations may be applied can sometimes make it difficult for a submitter to determine what may or may not be acceptable within a certain age category or even in a game. For example, GRAC may consider the presence of anti-societal or anti-governmental messages in its rating decision. Similarly, the Entertainment Software Rating Association in the Islamic Republic of Iran is responsible for classifying games according to (among other things) the presence of violations of religious values or social norms. Furthermore, various countries may treat a particular subject matter such as violence differently and, as a result, certain types of violence may be acceptable in one country but not in another.[987] EA's simulation game, *The Sims 4*, for example, received a plethora of different ratings globally, from 6+ in Germany to 18+ in Russia.[988] Age ratings in Germany are mostly concerned with violence and, although it is possible to kill a character in *The Sims 4*, there is no explicit violence, which led to this low age rating.[989] The 18+ rating in Russia is believed to be related to *The Sims 4's* portrayal of same-sex relationships.[990] A game's

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[984] See Dealessandri, Marie, "China introduces new age rating system", *gamesindustry.biz*, December 18, 2020. This article is based on an article that first appeared in the *South China Morning Post*.

[985] Moreover, Chinese regulators prohibit content that violates or threatens the Chinese constitution, national security or political climate; games that promote racism or religious cults; and obscene content featuring drug use, extreme violence or gambling. Extreme violence would include images of dead bodies and pools of blood. See "A new online game ethics committee is formed in China, *nikopartners.com*.

[986] For example, when determining a rating for a game, the ACB takes into consideration rewards to players engaging in certain acts, such as violence. See "Australian Classification", *classification.gov.au*.

[987] In the United States, the video game *Saints Row IV* received a Mature rating. However, in Australia, the ACB banned the sale of the game based on the initial game rating submission citing sexual violence and the use of incentives or rewards for illicit or proscribed drug use. It was the first game to receive an RC (Refused Classification) in Australia. Golding, Dan, "Australia's Ban of Saints Row 4 is emblematic of a conservative culture", *theguardian.com*, June 25, 2013. *Mortal Kombat*, an extremely popular and violent game, was banned in Germany when it was first released worldwide. Lober, Andreas, "A short history of banned games in Germany", *gameindustry.biz*, March 17, 2020.

[988] Marvin the Robot, "How are age-based gaming ratings set?", *kaspersky.co.uk,* March 24, 2016; and "The Sims 4 rated 'mature' in Russia", *bbc.co.uk*, May 12, 2014,

[989] Ibid.

[990] "The Sims 4 rated 'mature' in Russia", *bbc.co.uk*, May 12, 2014.

rating is a strong indicator of what a particular culture deems appropriate, and the global range of ratings shows how widely this can vary. For this reason, game developers must think carefully about the content of their games and the impact this may have on their rating.

10.7.3 – Submissions And Review

Ratings For Physical Games

While physical game submissions vary depending on the country or region, the submitter must typically provide: (i) a completed application with a description of the game and the most contentious scenes involving, for example, violence and sex; (ii) a video that captures an overview of the game and all its pertinent content, including gameplay, cut scenes and hidden content, along with the most extreme instances of how any contentious content appears in the game; (iii) the appropriate submission fees; and (iv) a signed terms and conditions agreement. Upon receipt of the submitted information, the rating organization will review the material and determine the rating and any appropriate content descriptors.

The PEGI rating process is outlined in the table below. The process consists of pre-release verification via PEGI and post-release verification via IARC.[991] For games that are only downloadable, for example, from digital and mobile platforms (e.g., Google Play, Nintendo eShop and Oculus VR Store), both the ESRB[992] and PEGI[993] generally use IARC to provide immediate ratings and content descriptors, as determined by answers to a questionnaire.

THE PEGI RATING PROCESS	
PEGI **(pre-release verification)**	• all packed games for Microsoft consoles • all games (downloadable and physical) for Sony PlayStation consoles • all packed games for Nintendo consoles • most PC games (downloadable and physical)

[991] Pan European Game Information, "How we rate games" *pegi.info.*
[992] Entertainment Software Rating Board, "Ratings Process", *esrb.org.*
[993] Pan European Game Information, "How we rate games", *pegi.info.*

IARC (post-release verification)	• all games and apps in the Google Play Store (for Android devices, since Spring 2015) • all games and apps in the Microsoft Windows Store (for Windows PCs, smartphones and tablets, since December 2015) • all games and apps in the Nintendo eShop (since December 2015) • all games and apps in the Oculus VR Store (since January 2017)

In the event that submitted content, whether sold at retail or digitally downloadable, is not accurately or fully disclosed, there may be significant repercussions for the submitter, including (i) fines; (ii) removal of games from sale; (iii) withdrawal of a rating; (iv) in the case of a retail game version, a request for the game to be re-labelled or stickered to reflect the new rating; or (v) a change in the rating or accompanying rating descriptors.[994] As a result, it is critical for the submitter to understand and follow the procedures and regulations imposed by the various rating boards.

When a game receives a rating, a submitter can generally (i) accept the rating; (ii) revise the game or delete contentious scenes in order to receive a less restrictive rating; or (iii) appeal the rating. It is important that the submitter allow enough time not only for the submission process but also for any revisions that might be required for a particular country or region in order to achieve a desired rating.

A submitter should have an understanding of the applicable rules and regulations when planning a game so that it has a general idea of what rating it would like to achieve and what material may pose a problem. Submitters should also consider whether it is worth jeopardizing a desired rating for the sake of a particular scene containing potentially contentious material, such as a character being shot or using profanity, that could lead to a more restrictive rating and cause a delay in the game's release.

Once a game receives a rating, the submitter must ensure that the rating and any applicable content descriptors are displayed in the appropriate places, such as in the game, on the packaging and in the marketing materials, if applicable, pursuant to the rating board's guidelines. In addition, submitters may need to abide by rules that restrict where advertisements for certain categories may appear and what type of content may be shown.[995] It follows that, depending on the circumstances, there can be a powerful incentive to attempt to achieve a particular rating, for example, if a higher-than-expected rating may prevent the game from reaching significant audiences.

[994] In some situations, retailers have removed games from shelves and requested that the game publisher accept product returns. Activision Blizzard, "2020 Annual Report", *investor.activision.com*.
[995] "Ratings Guide", *esrb.org*.

For DLC, the content does not generally need to be reviewed, provided it is consistent with the game's rating and content descriptors. In this situation, the rating assigned to the game will be applicable to the DLC. The ERSB and PEGI only require the material to be submitted if the content exceeds the rating assigned to the existing game.[996] For example, there may be more violence or more intense violence in the DLC than in the game, resulting in a different rating for the DLC. A project called Bonaire, believed to be online DLC for Rockstar's game, Red Dead Redemption 2, was refused classification in Australia prior to its publication, meaning that it was effectively banned.[997] It has been speculated that the ban was due to the use of illicit drugs in the DLC.[998]

Ratings For Online Games

Rating bodies have traditionally focused primarily on ensuring that offline PC and console games obtain ratings, partly because such games historically constituted the largest sector in the game industry. However, as discussed elsewhere in this book, there has been a significant rise in online gaming in recent years, usually with players being able to interact through multiplayer functionality. It is possible with digital taking on greater relevance that in the foreseeable future games will be required by the various platforms to list a rating that may come about from federal and/or state pressure.

It has become fairly common for "traditional" core PC and console games, such as massively multiplayer online games like Activision Blizzard's World of Warcraft, to be given ratings under the ESRB, PEGI and other standards. In one sense, this appears relatively straightforward because such games share many similarities with traditional games rated by these authorities. However, the methodology is often slightly different: whereas a traditional game, such as Super Mario, can be played solo several times in virtually the same way by an examiner exploring its content, a purely online game such as Wargaming's World of Tanks is dependent on simultaneous play by many people and, as a result, the audiovisual content displayed in any one session can vary significantly.

Games accessible by digital download from third-party platforms such as Steam, Epic Games Store, Ubisoft Connect (formerly Uplay) and Origin are essentially unregulated unless the platform implements its own system. There is no consistent approach across platforms. Steam, for example, allows for age gating before a game's page is viewed, leaves space on store pages for PEGI ratings and also allows pages to feature mature content warnings. Nonetheless, it is important for developers and publishers of online games to remember the basic purpose of age ratings, namely, the protection of children and the explanation of game content to consumers.

Ratings For Mobile Games

Many mobile game ratings differ from console and PC game ratings because they are primarily governed by age-rating requirements defined by the platforms themselves. The Apple App Store, for example, utilizes its own rating system. A

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[996] "Ratings Process", *esrb.org*; and "How we rate games", *pegi.info*.
[997] Prescott, Shaun, "A Rockstar title called 'Bonaire' has been refused classification in Australia", *pcgamer.com*, August 19, 2019.
[998] ibid.

rating is typically determined instantly on the basis of a submitter's declarations regarding game content. Games in the Apple storefront are rated according to four different categories:

THE APPLE APP STORE AGE - RATING SYSTEM	
4+	Apps in this category contain no objectionable material. This rating has two sub-classifications: • made for ages 5 and under: this app is suitable for children aged 5 and under, but people aged 6 and over can also use this app. • made for ages 6 to 8: this app is suitable for children aged 6 to 8, but people aged 9 and over can also use this app.
9+	Apps in this category may contain mild or infrequent occurrences of cartoon, fantasy or realistic violence; and infrequent or mild mature, suggestive or horror-themed content which may not be suitable for children under the age of 9. This rating has one sub-classification: • made for ages 9 to 11: this app is suitable for children aged 9 to 11, but people aged 12 and over can also use this app.
12+	Apps in this category may also contain infrequent mild language; frequent or intense cartoon, fantasy or realistic violence; mild or infrequent mature or suggestive themes; and simulated gambling which may not be suitable for children under the age of 12.
17+	The consumer must be over 17 years old to purchase the app. Apps in this category may also contain frequent and intense offensive language; frequent and intense cartoon, fantasy or realistic violence; frequent and intense mature, horror and suggestive themes; and sexual content, nudity, alcohol, tobacco and drugs which may not be suitable for children under the age of 17.

Conversely, Google Play Store's rating system for Android games adheres to the ratings defined by the relevant country's rating authority, for example, the ESRB for North and South America, PEGI for Europe and GRAC for South Korea. When a territory is not represented by a participating rating authority, the IARC system is used to suggest the age appropriateness of an app or game.

Ratings have become an important part of game development and publishing, but determining what a submitter must do to comply with the various rules and regulations can be a challenging undertaking. As a result, it is critical for the submitter of a game to understand when a game must be rated, how a game is rated and what factors are considered during the rating process in each country

or region and for each device type, in order to reduce costs and potential delays in a game’s release.

CHAPTER 11

CONFIDENTIALITY AGREEMENTS AND DEAL MEMOS

11.1 – The Purpose Of Confidentiality Agreements

The confidentiality agreement,[999] also referred to as a non-disclosure agreement (NDA) in most situations,[1000] is typically the first agreement that the developer will engage in when considering entering into a business relationship with a third party. Such an agreement might be signed with (i) a publisher interested in distributing or financing the developer's game; (ii) a licensor that controls a property or software that the developer may be interested in for a game; (iii) a console or mobile manufacturer that is interested in distributing a game under development; (iv) an investor; or (v) talent or a contractor/vendor that may provide services on the development, sales and marketing of the game. In all these situations, one or both parties will be providing information to the other party that is not publicly known and the disclosing party will want to maintain confidentiality, as the information may provide it a competitive advantage. The disclosing party will thus provide confidential information to a receiving party only on the condition that the information remains confidential, except under specific and limited circumstances.[1001]

Confidentiality agreements should be in writing, thereby providing important benefits, one of which is avoiding subsequent disagreements on what was agreed upon by the parties. Moreover, the written agreement will be required under various jurisdictions to protect trade secrets and will make enforcement easier in the event of a dispute.

The question of which party is providing confidential information will determine some of the negotiating points in the NDA. In most situations between a developer and publisher, the developer might be providing the most sensitive

[999] Certain confidential information may also be protected by trade secrets. For more information on trade secret protection, see Chapter 2.

[1000] Developers and publishers will want to enter into confidentiality agreements with employees to ensure that any information provided to the latter, including trade secrets, remains confidential. Indeed, failure to take reasonable proactive steps such as requiring employees to sign confidentiality agreements could result in the loss of a trade secret. Typically, developers and publishers will ask employees to sign separate confidentiality agreements as part of their employment relationship. Alternatively, employers can include clauses covering confidentiality in an employment agreement.

[1001] A party that is merely receiving information may decide not to enter into a confidentiality agreement out of concern that the agreement makes them more liable to litigation. In this event, the disclosing party must determine if it wants to proceed with discussions, as there may indeed be claims that can be made if the receiving party uses confidential information without approval and without a signed agreement. The best practice is for the disclosing party not to disclose the information until the initially sought after agreement is signed.

information, such as a game design but the publisher could also be providing confidential information that it does not want to release publicly, such as information about its business and future sales and marketing plans.

To determine if there is an interest to publishing the developer's game, the publisher will need to obtain information about the game, including the type of game the developer is hoping to discuss with the publisher, the game's story, the gameplay, the projected release schedule, monetization models and the budget. At the same time, the developer will want to know certain information about the publisher, to feel reassured about the latter's financial strength and distribution capabilities. It will also want to learn about previous publishing commitments that might be relevant. For example, a developer might want to know certain financial information about a publisher that may not be publicly disclosed, especially if it is not publicly traded. If the parties negotiate a deal by which the publisher finances the game, the developer will need reassurance that the publisher has the financial resources to finance, market, exploit and sell the game. In a licensing situation, the licensor (i.e., the owner of the intellectual property that is the subject of a license) will generally want to obtain information about the licensee (i.e., the party interested in licensing a property for a product, such as a video game), to confirm that the licensee has the resources and capability to distribute a product using the license.

Another example of when confidentiality agreements will need to be signed is with the introduction of new platforms and devices between the console manufacturer and a publisher creating a game. Because of the time it may take to develop a game, a publisher will want to start development as soon as possible so that the game potentially could be released at the same time or shortly after the console's street date. In this case, the console manufacturer or mobile device manufacturer will need to share design and hardware specifications and other information about the device prior to its public release, to allow the publisher to develop the game. At the same time, the publisher will need to share non-public information with the platform owner about the game, including its design and projected release. Typically, whenever a platform manufacturer is releasing information about a new platform or device, the NDA will be very favorable to the platform manufacturer, as it is crucial that none of the features be disclosed prior to any public announcement about the device.

NDAs are usually temporary if the parties form a relationship, as they are in time replaced by confidentiality clauses in a subsequent agreement between the parties. Sometimes, the NDA will be referenced and incorporated into the agreement. At the same time, companies will also want to take other measures to protect their confidential information, including trade secrets, as previously discussed in Chapter 2.

11.2 – The Major Issues In A Confidentiality Agreement

The major issues covered in a confidentiality agreement will include the names of the parties, what the parties consider confidential for the purposes of the agreement, what the confidential information can be used for, what information will not be considered confidential, the level of care in treating confidential information, the circumstances in which confidential information might need to be disclosed, what happens in the event that information is disclosed in breach of the agreement, and an acknowledgment that discussions between the parties do not mean that the parties have entered into any deal other than the confidentiality agreement. Agreements will specifically state that the confidentiality agreement is neither exclusive nor a license.

Another issue involving the confidentiality agreement between a publisher and a developer – or between a console manufacturer and a developer – will be the publisher's request that the developer acknowledge that the publisher receives other submissions for games and may also be working on projects that may seem similar to the game being revealed to the publisher.

Indeed, the publishers may be working on multiple games and communicating with third parties about potential games, so it will want to ensure that the developer providing confidential information will not sue for misappropriation of the developer's concept in the event that the two sides decide not to form a relationship and a game is later released that the developer considers to resemble the game it tried to pitch to that publisher. The agreement's language (i.e., the legal terms) therefore may stipulate that the developer acknowledges that the publisher receives numerous submissions of similar concepts from other parties and may also be working on a similar project and that no consideration will be owed in the event the publisher releases a similar game.

This is a difficult area because the developer needs to determine if there are parties interested in distributing and/or financing its game and yet will also have to acknowledge that the publisher may release a game with similar aspects. A publisher could be currently working on a game with a similar concept, or it could receive a proposal for a similar game later. Consequently, a developer that accepts this language in the agreement – and in most situations they might have to – should try to negotiate additional language stating that the publisher must show, if need be, that they had independently created materials or designs for a similar game prior to having entered into the confidential relationship with the developer.

Another potential controversial issue may be a request by the receiving party that the disclosing party acknowledge that some persons receiving confidential information may retain that information because it stays in their memory (i.e., the residue of a negotiation).[1002]

[1002] While the receiving party will agree not to use the information prohibited by an NDA, there is always the possibility that a person may use that residual information in another unrelated project.

11.3 – The Major Terms In The Confidentiality Agreement

11.3.1 – Preamble

The first section will typically include a preamble that introduces the parties to the agreement. It should include the address of the companies' principal place of business, the date on which both parties sign the agreement, and the date the agreement comes into effect (the "effective date").[1003] Generally, this section will be filled in by the second party signing the agreement. In addition, it is advisable to include, if applicable, the country or state where the company was incorporated or where the business entity was formed. This will be helpful in the event that there is a dispute with the agreement and the jurisdiction of applicable laws must be determined.

In addition to the preamble, some parties will also include information about the agreement and the reasons why the parties are entering into the relationship. For example, language may be included stating that the parties are interested in possibly entering into a business relationship and therefore have decided to enter into a confidentiality agreement whereby either one or both parties will exchange confidential information.

The preamble will also probably include language stating what each company does. In a publisher-developer relationship, the agreement might state that the publisher is in the business of publishing, distributing, marketing and selling video games and that the developer has developed or is developing a game.

The preamble can be helpful in determining the intent of the parties in discussing a confidentiality agreement. However, US courts have been split on whether the information in a preamble that discusses the reasons for a party entering into an agreement has any effect on establishing the intent of the parties. At the very least, each party should ensure that the language in the preamble is accurate, to avoid any potential problems later in the event of a dispute between the parties.

11.3.2 – Confidential Content, Exclusions And Permitted Uses Of Confidential Information

The content deemed confidential by the parties will be the subject of another section that the parties will need to negotiate, the terms of which will vary depending on the type of deal signed between them. Confidential information will most often include information provided by the disclosing party, whether disclosed orally or in writing, that is labeled as confidential or that the receiving party should know is confidential under the circumstances. In developer-publisher NDAs, the terms of the confidentiality agreement and discussions

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Often, it is difficult to determine what information may fall within this residual exception. For developers, this language is problematic and should be avoided; however, depending on the bargaining power of the parties, it may be difficult to remove from an NDA.

[1003] The effective date can be prior to the day the agreement was signed, as the parties will want to consider treating any information that may have been exchanged prior to the signing of an NDA as confidential.

between the parties, as well as the developer's game designs, story, budget, programming, and technical information, will be considered confidential.[1004]

A publisher will want to include other aspects as part of the confidential information, such as potential marketing and sales information, business forecasts, any unannounced release schedule, and company business information that the developer may want to know to ensure the publisher's financial viability and business plans. In addition, in most situations, any information created by the receiving party based on the confidential information provided by the disclosing party might also be deemed confidential and owned by the disclosing party. For example, if a publisher suggests game design features based on the confidential information provided by the developer, this information would then be owned by the developer.[1005]

Certain information that may be deemed confidential can still be disclosed if it falls within one of the exceptions agreed on by the parties. These exceptions ordinarily include:

- information that can be shown by documentation to have been independently developed prior to the parties having entered into discussion;
- confidential information that had already been disclosed publicly through no fault of the receiving party;
- confidential information that was disclosed by a third party to the receiving party with no obligation to maintain the confidentiality of the disclosed information; and
- confidential information that was disclosed pursuant to a court order or legally required to be disclosed by a public company.

Although each party may want to stipulate information as confidential in the agreement and therefore kept from public disclosure, the parties may agree that in certain circumstances confidential information may be released. Those circumstances might include a requirement by federal, state or local law; a court order; legal proceedings; or a securities filing (e.g., in accordance with United States Securities and Exchange Commission regulations). However, the party obliged to disclose the information must provide reasonable advance notice to the disclosing party so that the latter has the opportunity to seek a court order to prevent or limit the disclosure of that confidential information.

The NDA will also discuss what the receiving parties will be permitted to do with the confidential information. The language will typically state that the information can be used only to help determine whether the parties desire to pursue a business relationship. Consequently, the NDA will impose limitations on who can receive and review confidential information, usually allowing disclosure on a

[1004] If the developer provides software to another party, language may appear in the agreement stating that the receiving party will not reverse engineer, decompile or disassemble any software.

[1005] However, the agreement may also contain language stating that information in any feedback provided by the receiving party shall not become part of the original disclosing party's confidential information. On the other hand, it may also state that both parties are free to use that information without any restrictions and that it is provided as a perpetual, worldwide, royalty-free "as-is" license. This language protects the receiving party from any claims for using the feedback information.

"need-to-know" basis to people who will be required to abide by the confidentiality agreement. These are the persons involved in the decision-making on whether to establish a business relationship. Confidentiality agreements will also typically allow advisors, contractors, outside counsel and financial personnel to have access to the confidential information, subject to their signing a confidentiality agreement or other legal document binding them to confidentiality.

11.3.3 – Level of Care And Length Of Term

As part of the agreement, the parties will commit to a certain minimum level of care in handling confidential information. In doing so, the disclosing party will be guaranteed that the level of care will at least be equivalent to the level of care the receiving party would use to protect its own confidential information. If the parties agree to a level of care standard determined either by the receiving or disclosing party or by an industry standard, then each party must make sure that it knows exactly what that level of care will include. Depending on the significance of the confidential information, the disclosing party may also request that certain measures be taken to protect the confidential information, including:

1. limiting access to it by employees of the receiving party, so that only those involved in decisions based on a potential deal would be entitled to access the information;
2. requiring employees or any approved third parties who have access to the confidential information to sign a separate confidentiality agreement, although in many situations employees could already be covered under their employer-employee agreement, which should include a confidentiality provision covering these situations; and
3. the information must be stored in a secure place with limited accessibility (e.g., locked cabinets or software files with restricted access).

The parties will also need to agree on the amount of time the information must remain confidential.[1006] This varies widely and usually depends on the type of information being exchanged and the potential deal between the parties. In some instances, the period may be relatively short, since the information may become obsolete in a few months. But other agreements may impose a requirement of a few years or even perpetual confidentiality. However, the period should be reasonable and in relation to the type of information exchanged. For example, marketing information might have a term of one to three years, while technology might be much longer.

Upon expiration or termination of an NDA, the parties will establish the procedures by which the confidential information is either returned or destroyed, at the disclosing party's option. In the event that there are software files or many documents or other material, it may be easier and more cost-effective for the

[1006] Confidentiality agreements typically have terms shorter than the obligation to maintain the confidentiality of information. For example, a confidentiality agreement may have a term of only six months, but the obligation to maintain the confidentiality of information may last longer and therefore survive the expiration or termination of the agreement. In addition, the parties generally have the right to terminate a confidentiality agreement at any time without cause, subject to the survival clauses.

receiving party to either delete or destroy the material and provide confirmation of destruction, usually through a certificate of destruction signed by an officer of the receiving party who verifies the destruction. However, in some situations it might be impractical to acknowledge that all the confidential information has been destroyed, as files can be stored in a backup network system. The parties thus need to negotiate additional language to deal with this scenario.

11.3.4 – Breach And Injunctive Relief

What happens when a party breaches the agreement and discloses confidential information? Mitigating the damage can be challenging even with a proper agreement: not only can the damage be difficult to prove, but there are also severe obstacles to recapturing information once it is publicly disclosed. Nevertheless, the benefits of having a confidentiality agreement that covers limiting exposure of information and monetary damage, etc., far outweigh the obstacles.

If an unauthorized disclosure of confidential information occurs and does not fall under one of the exceptions to the agreement, the non-breaching party will generally first seek to put a halt to the distribution of that confidential information. In some situations, the disclosing party might need to seek a court order to do so. For example, the disclosing party may seek injunctive relief, whereby the court might issue an order to prevent the further distribution of any confidential information. To obtain injunctive relief in the United States, the moving party (i.e., the claimant) must show at least that the damage is irreparable and that monetary damage cannot be determined. However, different jurisdictions have different requirements for obtaining injunctive relief, and that which is required in one country may thus be different in another country.

Since the value of confidential information is based on its secrecy, it may be difficult to ascertain its value if it is disclosed (especially if it has future value) and thereby qualifies for equitable relief. For this reason, the parties will generally agree that a party disclosing confidential information in violation of the agreement acknowledges that the above requirements will have been met without any need for a court to decide the issue, thereby making it easier to obtain injunctive relief. They will also agree that the non-breaching party is not required to post a bond or guarantee. In addition to having the right to seek injunctive relief under the terms of the agreement, the non-breaching party will also have the right to pursue any other remedy that may be available by law or otherwise available to them.

11.3.5 – No Commitment To A License Agreement

Confidentiality agreements will often include language stipulating that the execution of an NDA does not mean that the parties will subsequently enter into any other type of agreement, whether it be a distribution, licensing or publishing agreement, and that the parties have no expectations that they will enter into a subsequent agreement. In addition, while either one or both parties will own or control the confidential information being shared with the receiving party, the disclosing party will note that it is making no representations or warranties as to

the accuracy of the information and that it is being provided "as is." This term is used avoid any later claims by the receiving party that it relied on the representations and warranties made by the disclosing party to move forward with signing the confidentiality agreement.

11.3.6 – Additional Terms

The confidentiality agreement will also include language generally referred to as "boilerplate" language and will include some of the terms discussed in Chapter 12.[1007] While the term "boilerplate" is used to describe provisions that are typically standard in agreements, it is very important that the developer review the provisions and make sure they are acceptable. In most instances, very few revisions may be needed, except when dealing with issues about what law will be applied in the event of a dispute (e.g., the law of a particular country or the law of a particular state); where disputes would be resolved (e.g., what country or state or county) and how disputes will be resolved (e.g., arbitration or court proceedings).

For a developer, these are important issues because the place where a matter is litigated may greatly affect the costs of the litigation and enforceability. Costs will have a big impact on whether a party decides to even proceed with litigation. Big companies undoubtedly realize that the burden of cost may be greater for small companies, including developers, and thereby are aware that developers may be reluctant to file a claim. One significant clause that must be added by the developer is that, in the event of a dispute, the prevailing side will be entitled to compensation for any legal fees and other costs incurred as a result of the claim. Usually, such compensation is limited to "reasonable" costs and expenses but provides for court costs and expert witness fees.

11.4 – Deal Memos: Purpose, Benefits, And Potential Problems

> "It took longer to make one of Mary Pickford's contracts than it did one of Mary's films."

Sam Goldwyn, one of the big studio bosses in the 1930s and 1940s said this about negotiating a deal with the famous actress Mary Pickford, who later became one of the founders of United Artists.[1008]

Although Sam Goldwyn's quote dealt with negotiating a deal involving talent in the film industry, it can be just as true in other sectors of the entertainment industry, including video games, music and licensing. Because of the urgency in

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[1007] Even though it has nothing to do with confidentiality, some agreements may also include a non-solicitation clause whereby one or both parties agree not to solicit or hire employees from the other party for a given period of time. If the parties accept this language, they need to be careful that the period not necessarily be the same period applied to maintaining the confidentiality of information, especially if it is long. The non-solicitation provision may be unenforceable in some jurisdictions if the language is not specific enough.

[1008] "Mary Pickford", *yourdictionary.com*

starting game development, launching distribution, acquiring a license for a game or locking in the services of talent, there are many situations in which the parties may not necessarily have enough time to negotiate a long-form agreement that would include the complete agreement and all the terms and conditions between the parties. This could be particularly true if a developer is trying to release a game to coincide with a film's release, an event (e.g., the start of a sports season) or the Christmas holiday season. As a result, the parties might negotiate what is typically referred to as a deal memo, term sheet or memo of understanding.

The deal memo will usually be a binding agreement between the parties, although enforceability may vary according to the jurisdiction. It generally covers the major business terms of a deal, thereby allowing the parties to proceed with the understanding that a long-form agreement will eventually be signed between the parties. However, as developer-publisher deals become more complex, deal memos might slowly phase out.

For example, a publisher might be interested in releasing a developer's game in November or December, which have traditionally been the biggest sales months for video games.[1009] With development time taking an average of two to three years for a major budgeted console and for PC games (that for annual sports games take less than a year), a publisher will most likely want to sign a deal quickly to confirm the major terms in a development deal with a developer if it hopes to release the game during the holiday season. Thus, by entering into a binding deal memo, development can begin as soon as it is signed.[1010] This can also be advantageous for a developer, as a deal with a publisher might provide it with the necessary funds to begin development. For publisher-developer deal memos involving development whereby the publisher finances development, the agreement might include:

1. a description of the game to be developed;
2. a milestone schedule, which would include the developer's delivery obligations and deliverables, the amount of money paid to the developer, and when payments would be made;
3. rights granted, including rights involving potential sequels;
4. ownership issues dealing with the game, development tools, and source code;
5. royalty amounts and how they are calculated;
6. when statements will be issued;
7. representations and warranties at least covering the rights in the game; and
8. specific legal issues such as (a) where a dispute would be resolved, (b) what law would be applied in the event of a dispute, and (c) confirmation

[1009] "Video Game Sales Are Extremely Seasonal", *statista.com*, November 25, 2020.
[1010] In some situations in which a long-form agreement is pending, a publisher that has signed a term sheet will supply the developer with monthly payments.

that the deal memo will remain in effect until a long-form agreement is entered into between the parties subject to a time frame.

As deal memos will typically be drafted by the publisher, the initial terms will usually tend to be more favorable to it. However, it is important that the developer negotiate certain terms in addition to the ones listed above. Indeed, as these terms might be binding, depending on whether the parties agree to a binding term sheet, any additional business commitments made by the publisher should be listed in the deal memo. This may include any type of marketing expenditure by the publisher or obligation to obtain rights for the game (e.g., trademarks, music).

While deal memos serve many useful purposes, they also present some significant potential risks. Since deal memos usually cover only the major business points, there will be some terms that may not be covered, and ambiguities in the deal memo may result in problems later between the parties. For example, during development, it is possible that issues may arise that were not addressed in the deal memo, and, in the event the long-form agreement has not been signed, issues may go unsolved, possibly resulting in disputes between the parties.

One of the main goals behind a deal memo is to formalize an agreement quickly. For this reason, they tend to have few pages and therefore do not address every issue. Nor will they include the detail that is usually included in a long-form agreement. Therefore, if a deal memo is binding, it is essential to make sure that all of the major business points, responsibilities and obligations are addressed, even if just briefly, so that the parties are not surprised by an important term in a long-form agreement.

Because long-form agreements may take time to negotiate, draft and execute, deal memos are now incorporating more terms, including representations and warranties as well as accounting provisions to name a few. However, as more terms become part of the negotiations, there is a greater risk that negotiations will take longer, defeating the purpose of a deal memo. That which eventually gets incorporated into a deal memo may depend on the relationship between the parties as well as the money involved in the deal. If it is a new business relationship and little is known about the other party, then most likely additional terms will be added to the deal memo to provide further protections and assurances for the parties. If the parties have done business in the past and have already established a relationship, then fewer provisions may be needed in the deal memo because of the previous trust built up between the parties. Whatever the case, developers should be cautious when relying only on a deal memo, and they need to ensure that their rights are protected and that obligations are clearly spelled out to avoid unnecessary costs and risks.

CHAPTER 12

COMMON CLAUSES IN AGREEMENTS

All agreements contain common clauses, usually referred to as "boilerplate provisions." These will typically appear at the end of an agreement, under the "miscellaneous" section. Many lawyers recycle boilerplate language from previous agreements, but, even though lawyers will probably be the only people reading this section, it contains important provisions that will have an impact on the signatories in the event of a problem with the agreement. For this reason, the signatories should carefully read and understand these clauses. Their importance has become all the more apparent since the coronavirus crisis, which has led to problems because of the "*force majeure*" clause (See Section 12.8).

Agreements will vary in scope according to how the clauses are defined, and some may not include all the clauses. Typically, the drafter of the agreement will favor their client, but, with the exception of assignment rights, the terms described in the sections below should be reciprocal. Furthermore, different countries may treat some of these provisions differently. For example, a court in a country may allow for litigation to proceed in that country despite the jurisdiction stipulated by the parties in the original agreement.

12.1 – Jurisdictional Issues

In this section, the parties will agree on how disputes will be settled, what law will be applied in the event of a dispute and where the dispute will be resolved. This is a sometimes-overlooked section because it typically appears at the end of an agreement, but it is also critical as it will have huge impact on not only deciding disputes but also on costs, which can include hiring local counsel, travel and time away from the workplace.

Because of the high costs of litigation, it is important to determine which party will pay for legal fees, including attorney fees, court costs and expenses for witnesses. Will each party pay their own costs regardless of the outcome of a dispute, or will the party that loses the dispute pay for agreed-upon costs of the other party, which might be actual or reasonable costs? The answers may not be so clear-cut, as a litigation case could include numerous disputes. In this event, what happens if one side is successful on some disputed matters but not others, and what will be considered reasonable compensation?

The parties first must agree on whether court proceedings or arbitration[1011] will be the forum for resolving a possible dispute. Each has its advantages and

[1011] In binding arbitration, a third party resolves the disputes. Its decisions are usually binding on the parties, and most arbitration judgments have very limited appeal rights. (See 9 U.S.C. Section 10.) However, certain matters cannot be decided by arbitration. Cannady, Cynthia, *Technology Licensing and Development Agreements*, Oxford University Press, 2013, pp.194-197. Whether arbitration is binding or not, the parties must decide on procedures for the arbitration as well as the process for selecting one or more arbitrators. Typically, these are former judges or lawyers with experience in the particular area in dispute.

disadvantages. The main difference is widely perceived to be that arbitration can result in a faster resolution; lead to a settlement that can remain confidential; and, depending on the jurisdiction, incur lower costs.[1012] However, this will depend on the complexities of the dispute.[1013] The fact that arbitration may cost less is a reason why some parties may not want to arbitrate, with the reasoning that the higher costs of litigation will serve as a deterrent against lawsuits.

In addition to deciding how a dispute will be resolved, the parties will also need to agree on where it will be resolved and what law will apply. In the United States, state law and interpretation of the law will vary from state to state. Laws will also vary according to country. For example, depending on where the parties are located and where they conduct business, the parties may agree to use the law of one of the US states where they are located, but in many situations, the parties may operate out of different states or countries, thereby creating a problem. In most situations, the party enjoying greater leverage will typically be able to dictate the law that will apply, as well as the location where any dispute will be resolved. This is significant because of the costs that will be incurred by the other party for travel and/or for hiring local counsel to advise it on the contract or provide help in any litigation.

If the parties have equal bargaining positions and opposing choices on where a case would be heard, there are some possible options that the parties may agree to on this issue. However, there are drawbacks with any of those options. One option, though not ideal, is that the parties select a neutral site, provided there is some form of business conducted in that jurisdiction. For example, in the United States, a publisher in California and a developer in Michigan may elect to hear any litigation in New York. Because the entertainment industry has played a dominant role in both California and New York, there is an advantage to having cases heard in those jurisdictions, which are more familiar with entertainment-related issues. A similar scenario may exist for two companies located in different countries, which is becoming more and more common as developers can now be found worldwide. For example, a game developer in continental Europe and a publisher in the United States may agree to settle their dispute in England. The fact that both companies would need to spend a lot of money to litigate a dispute may, moreover, serve as a deterrent against proceeding with litigation.

Another option for the parties would be to agree that the claimant party would need to bring the action in the jurisdiction where the other party is located. For example, a company located in New York suing a California publisher would need to bring the action in California. However, one problem is that a court from one jurisdiction may apply law from another jurisdiction, which could lead to uncertainty and increased costs. In such cases, arbitration and UNCITRAC might be a good alternative.[1014]

[1012] One reason why arbitration may be a less costly alternative is that the parties agree to limit discovery and interrogatories, thereby limiting legal fees, which will often be the party's biggest expense. Also, there are no juries in arbitration proceedings.
[1013] The parties can decide that an arbitration is confidential, subject to certain terms and conditions.
[1014] Latham and Watkins, *Guide to International Arbitration*,, 2017.

12.2 – Waiver, No Joint Ventures And Severability

Each of these sections of the agreement relate to issues of contractual formation, construction and enforcement, which are local and not harmonized. Some are dealt with by local laws but can be deviated from by contract.

Regarding Waiver, a party's decision not to enforce the other party's strict performance of any provision of the agreement does not constitute a waiver of its rights to later enforce such a provision or any other provision in the agreement. For example, a publisher does not lose its right to pursue an action against the developer at a later date if it believes a problem can be resolved without litigation.

The "No joint ventures" section confirms that an agreement does not create a joint venture, a partnership or any other type of business relationship that would allow one party to bind or commit the other party to any deals.

The "Severability" section comes into play when a particular provision of the agreement is held to be unenforceable or invalid under the law, provided the provision is not material that would change the intent of the parties. According to severability, the parties agree that the agreement will continue in full force and effect as if that provision was not part of the agreement. To avoid doubt, it is a good idea to list those sections that might be so significant that, if one is removed, the affected party would not have entered into the agreement, and then to negotiate and agree on replacement language.

12.3 – Assignment

Assignment provides the right for a signatory to the agreement to either transfer all its rights and obligations or parts of the agreement to a party not a signatory to the agreement. This is a significant provision because a party that enters into a deal may want to deal only with the other party that signed the agreement. For instance, when a party decides whether to enter into a business relationship, it will typically consider factors such as the quality of the work of the other party and its reputation. As a result, the first party may want to restrict the rights of or impose additional obligations on the other party with regard to assignments. For example, an agreement can provide for the following in the event that one party wants to assign its rights: (i) assignment shall be subject to the prior written approval of the non-assigning party;[1015] (ii) a party assigning its rights must guarantee that the assignee assumes all responsibilities under the terms of the agreement; and (iii) if the assignee fails to perform, then the party originally assigning the rights must be held accountable for the failures of the assignee.

Whether a party can assign or not will also depend on the bargaining position of the companies and the type of agreement. In a publisher-developer agreement, the developer will typically not be allowed to assign, as the publisher has specifically entered into the agreement because of the developer's talents in creating a game. On the other hand, a publisher may be allowed to assign its

[1015] Usually, this limitation may include language stipulating that approval will not be unreasonably withheld. However, this can cause problems, as there could be a dispute on what is deemed reasonable. The parties may therefore elect to list parties that an agreement may not be assigned to (i.e., competitors of one of the signatories to the agreement).

rights under the possible restrictions listed above or in the context of mergers and acquisitions.

In licensing agreements, the licensor will generally have unlimited right to assign its rights, whereas the licensee's rights will permit assignment only when subject to licensor approval. In addition, in certain circumstances, the licensor may require additional payment or other obligations to permit the assignment, based on the assumption that the licensed property may bring additional value to the parties engaged in the assignment and that the licensor should consequently be further compensated as a result of the assignment.

One exception to the assignment usually agreed upon by the parties is that a party will be allowed to assign its rights to an affiliate. An affiliate will usually be defined as an entity that directly or indirectly controls, is controlled by, or is under common control with the party seeking to assign its rights.

It is important that the agreement contain language stipulating that the parties have the right to assign, as some jurisdictions may prohibit an assignment if it is not specified in the agreement.

12.4 – Survival

This section notifies the signatories to the agreement that certain sections in the agreement will remain in effect even after its expiration or termination. Generally, this obligation will include some of the representations and warranties, indemnification, possible payment if money is owed after the term, issuing of statements, sell-off period for retail inventory, audit rights, issues dealing with lawsuits, confidentiality, and the right for the distributor to continue honoring previous agreements with consumers such as subscription services. The parties may want to add a time limit (which can vary) on how long clauses would survive. For example, a representation and warranty may continue for one year from the expiration of the agreement.

12.5 – Notices

This provision will detail the procedures and the personnel who will need to be notified in the event a notice needs to be sent to the other party as required under the terms of the agreement. For example, a notice will have to be sent by a publisher to a developer in the event of a breach of the agreement. The language in the section will specify the circumstances under which notice must be provided. These will typically include a breach, a change of address, and an assignment of rights. Otherwise, notices involving day-to-day activities such as approvals can be provided by e-mail. In addition, the agreement will specify the person or parties that must receive notice for it to be effective. Generally, notice will be provided to the signatory of the agreement, with a copy to the legal department of the company, if applicable. It is sometimes better to have more than one person listed to ensure that the notice reaches the right people. It is also important to remember that people leave companies, making it important to ensure that the other party receives its notice.

The notice provision will also specify where notice needs to be sent (usually the address listed in the preamble of the agreement) and how notice will be sent. Notice should be sent in a way that enables verification of receipt of the notice and of the date the notice was sent. Most companies will therefore agree that overnight courier, hand delivery or “return receipt requested” registered mail will suffice as proof that notice has either been delivered or received. This is important because the agreement will state when the notice becomes effective, and acknowledgment that the notice has been sent is required if a party needs to respond within a set period. Finally, an agreement may state when the notice shall be deemed effective, and this date will usually be a few days from the sending of the notice or the date on which notice is received. This becomes important when a party needs to cure a potential breach within a set period.

12.6 – Entire Agreement And Revisions

This section notes that the expressed language in the agreement is what will dictate the relationship between the parties and that any previous or later discussions on the deal will have no relevance to the agreement. Consequently, any revisions to the agreement must be in writing and signed by either both parties or the party affected by the revision. This is important because making a promise to the other party entails taking on certain obligations, and if it is not included in the agreement, it will not be part of the deal.

12.7 – Reserved Rights

In agreements in which property is licensed or is granted to a licensee, the owner of the intellectual property should add language to the agreement that states that all rights not expressly granted to the licensee by the licensor are reserved by the licensor. Indeed, since the licensee will want to obtain the broadest grant possible, the licensor will want to limit the rights granted because additional rights would typically result in additional consideration and certain rights may have been granted to another party. Furthermore, as new forms of distribution and new platforms emerge, the licensor may not want to give rights away without understanding the potential business models for these emerging platforms and distribution channels.

12.8 – Force Majeure

This is a clause that protects one or more parties from a breach of an agreement caused by an occurrence that is beyond the breaching party’s control and may force the suspension of the agreement. For example, a *force majeure* event may occur and materially affect a party’s ability to either perform its obligations or resolve a breach, and as a result the agreement will be suspended for an agreed length of time. In the United States, this clause is contractual and is not mandated by law. Therefore, inclusion of a *force majeure* clause in an agreement and the content included under *force majeure* are subject to negotiations between the parties.

Parties should be careful when reviewing what is considered as a *force majeure* event, as the draft agreement might include a number of events that might not justifiably be an act beyond the control of the party claiming it. At the same time, a *force majeure* clause may not include all the events that a party should consider included under the clause. The recent coronavirus pandemic is an example in which parties may not have been covered under the *force majeure* language of their agreement. In many jurisdictions in the United States, courts interpret the *force majeure* language narrowly. Courts may thus be hesitant to consider an event as one of *force majeure* if it is not included in the language of the clause, even if this latter contains "catch-all" language such as "including but not limited to."

Acts that might fall under a *force majeure* clause include acts of God, natural disasters such as earthquakes and floods, war, epidemics/pandemics, disease, contagion, and acts of terrorism and explosions, provided the act is not caused by the party claiming *force majeure.* Government acts including enactment of new laws may also be included. In addition, some agreements may also include labor disputes, riots, cyber-attacks on computer systems, shortage of materials and any other cause reasonably beyond the control of the parties.

The coronavirus pandemic is a recent example of parties claiming *force majeure*, as there have been unprecedented disruptions to the global economy. The pandemic was very quick to hit all aspects of the video game industry worldwide, leading to delays in game development, shutdown of businesses and supply lines causing delays in hardware and software distribution, labor shortages, cancellations of major industry events, and the closing of retail outlets and corporate headquarters to name just a few effects. As a result, some companies claimed they were unable to perform many of their contractual obligations and sought relief based on the *force majeure* clause in their agreement.

If a *force majeure* event occurs, the contract will typically be suspended for a length of time equivalent to the duration of the event. During this time, the affected party will usually be required to at least employ good faith efforts to either perform its obligations, including seeking alternative means to perform them, or to cure a possible breach. However, the suspension cannot continue indefinitely, and a limitation therefore exists, of usually 30 to 90 days. But the time frame is subject to negotiation, and it is possible that even a short delay caused by a *force majeure* event may in some instances make the agreement worthless. If the affected party is unable to perform its obligations or cure its breach prior to expiration of the suspension period, then the other party may have the right to terminate the agreement.

It is important that an agreement list the following: (i) what qualifies as a *force majeure* event; (ii) how long it can continue until one of the agreed-upon remedies goes into effect; (iii) the remedy if the agreement cannot be cured, which may include termination, lowering of fees, or the refund of money; and (iv) how it affects contractual obligations such as payments, especially if services have been performed or revenue received from past actions but not yet paid. The challenge of the *force majeure* clause in the United States is that, while *force majeure* events by nature might be hard to predict, the drafter of an agreement should list as specifically as possible what they want to include under the clause. Courts appear to be construing this clause narrowly and are reluctant to grant an event not listed in the *force majeure* clause as qualifying as a *force majeure*

event. Furthermore, an event that may make an obligation difficult or impractical (including for financial reasons) to fulfill does not mean that it falls under a *force majeure* event.

Finally, when a party claims *force majeure*, it is important that they: (i) review the agreement and facts carefully to determine whether a *force majeure* event may have occurred; (ii) provide proper notice as per the agreement; and (iii) consider alternative ways in which to resolve the problem prior to claiming *force majeure*. Otherwise, courts, such as those in the United States, will probably take an unfavorable view of an argument that an agreement could not be performed because of an alleged *force majeure* event.

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Web Sites

There are hundreds, but these are some of the author's favorites. Law firms also have set up sites and there are podcasts and blogs on games.

- Esports Observer - Esports observer.com/https://www.sportsbusinessjournal.com/Esports.aspx
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- Operation Sports - https://www.operationsports.com/
- Pocketgamer - https://www.pocketgamer.biz/
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- Video Game Law - https://videogamelaw.allard.ubc.ca/author/jfestinger/
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