

Sharing in Success: How to Compensate Your Team Through Revenue Sharing

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Who Am I?

Video game lawyer

**Practice focused on representing
indie studios**

**Frequently create Revenue
Share Structures**

What is that?

**Legal agreement or corporate
structure**

**Each person gets a % of game
profits**

TWO Purposes

1. Incentivizes the development team

**By providing a chance to
participate in the game's
success**

2. Decreases financial outlay

**Supplementing immediate
compensation with the revenue
share**

**Instead of \$50k
(which the studio can't afford)**

\$25K cash compensation
+
5% revenue share

**Chance of earning exponentially
more through revenue share
than an increase in salary**

Two common revenue sharing structures*

*** Creativity is the limit, lots of permutations possible**

**Simplicity is often easiest to create
and understand
+
cheapest (see: lawyer)**

1. REVENUE SHARING AGREEMENT

2. EQUITY-BASED REVENUE SHARING

1. REVENUE SHARING AGREEMENT

**Written agreement between
studio and each developer**

**Agreeing to pay a percentage of
game profits to the developer**

Takes the form of a royalty

Grants can be on a one-on-one basis:

***Following Commercial Release, the
Company shall pay Kellen X% of
Game Net Revenue (the "Royalty")***

OR based on a set-aside “pool”

**Pool is a percentage of game net
revenue, allocated among
participants**

***The Company shall allocate 15%
of the Game's Net Revenue to
the Royalty***

Small (up to 5 people) team?

Individual grants work

Medium – large team?

Pool is critical

Simplest, cheapest structure

Most common

2. EQUITY-BASED REVENUE SHARING

**Developers receive shares in a
company**

**Shareholding % corresponds to
their revenue share**

**Takes the form of a dividend on
the shares**

**I don't want someone to receive
revenue share for a game they
did not work on!**

**Create a separate share class for
each game:**

Common shares – Founders

**Game 1 shares – Game 1
Developers**

**Game 2 shares – Game 2
Developers**

Complex and costly to create

**Coexists nicely with raising investment in
the game.**

**Investors and developers can share
revenue together.**

Rare

I do these 5% of the time

Regardless of the structure...

5 KEY CONSIDERATIONS

ONE

% OF GAME REVENUE TO ALLOCATE

Look at analogous structures:

Startup stock option plans

**15-20% of company's shares
allocated to employee
compensation**

Not an arbitrary determination

of people you plan to hire

% you're willing to give away

Don't forget the publishers %

15% pool and 50% publishing agreement revenue share
VS

15% pool and 85% publishing agreement revenue share

**No guaranteed formula to
determine %**

TWO

HOW CALCULATED

Net revenue vs. gross revenue

Gross revenue
=
all revenue from the game
(no subtraction for expenses)

Dangerous!

**Risk that you won't have the
funds to pay**

**Almost always based on net
revenue**

Game gross revenue

-

**[platform fees, returns, chargebacks,
publisher payments, taxes etc.]**

**Company sets costs deducted
from gross revenue to arrive at
net revenue**

THREE

HOW REVENUE SHARE IS EARNED

Common approaches:

Time based

$$\frac{X's \text{ time spent on the game}}{\text{Everyone's time spent on the game}}$$

Indies hate time keeping

Milestone based

Grant a person a particular %

BUT

**Subject to completion of a
milestone**

**Prorated based upon completion
(or only earned upon
completion)**

**Completion determination made
by company
(acting reasonably)**

Passage of time

Grant a person a particular %

**Earned over the development
cycle**

**10%
“vesting”
over 10 months
(earns 1% a month of work)**

**10%
“vesting”
over 10 months
with a 3-month cliff**

Lean toward simplicity

FOUR

NON-GAME REVENUE

DLC, MERCHANDISE, SEQUELS

**Include or exclude from revenue
share?**

**Simple rule: developer included
in the royalty only if they
worked on the content**

**Tracking and calculations get
complicated quickly**

DLC/Merchandise

**Treat each revenue source as a separate
calculation**

**(does not work in an equity revenue
sharing structure)**

Sequels

**ALWAYS create a new Revenue
Sharing Agreement, Plan or
Share Class for sequels**

FIVE

TERMINATION

Fixed Duration

Ex. 5 years

Monetary cap

**Ex. Until \$100,000 in royalties
distributed**

Best?

Mixed

***Until the earliest of: (1) 5 years;
or (2) \$100,000 in royalties
distributed***

Avoid a perpetual term

Plan for termination

Unfortunately, may need to end

**Ex. if company/game bought,
revenue share should terminate
(perhaps a final payout?)**

Plan for hard financial times

**Company can't pay or harmful to
pay?**

Not often cause for termination

**BUT company can delay payment
until it's able to, acting
reasonably**

**Admittedly, an element of trust
required**

TO SUMMARIZE

Two types of plan

Revenue Sharing Agreement (individual grant or pool)

Equity based revenue sharing

95% of the time

**Revenue Sharing Agreement is
best**

**Create a % royalty pool based
on your hiring plans**

Consider how % vested

Hourly Milestone Passage of Time

**Consider DLC/Merchandise in
the plan but split sequels out to
a new plan**

Plan for termination

End date or payout cap

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