

ROYALTIES LAW AND LEGAL DEFINITION

5 A royalty is a percentage of gross or net profit or a fixed amount per sale to which a creator of a work is entitled which is agreed upon in a contract between the creator and the manufacturer, publisher, agent and/or distributor. Inventors, authors, movie makers, scriptwriters, music composers, musicians and other creators contract with manufacturers, publishers, movie production companies, producers, and distributors to be paid royalties in exchange for a license to manufacture and/or sell the product.

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10 Royalties are payments made by one company (the licensee) to another company (the licensor) in exchange for the right to use intellectual property or physical assets owned by the licensor. For example, software giant Microsoft invented the Windows operating system for personal computers as a means of managing files and performing operations. Computer manufacturers such as IBM and Compaq
15 pay a royalty to Microsoft in exchange for being allowed to use the Windows operating system in their computers. Other common situations in which royalties are paid include the following:

- 20 a) In the fashion industry, designers such as Ralph Lauren and Calvin Klein license the right to use their names on items of clothing in exchange for royalties. For example, they may sign a contract with a company that makes jeans that allows the company to place the designer's name on the jeans.
- 25 b) In book publishing, authors are commonly paid an advance on future royalties based on percentage of sales price; after sufficient sales have been made to "pay back" the advance, the authors received additional royalties paid periodically.
- 30 c) In the music industry, royalties are paid to music copyright holders and to songwriters by radio stations and anyone else who derives a commercial benefit from the copyrighted material.
- 35 d) In the television industry, popular satellite TV services such as Direct TV and cable television services pay network stations and superstations a royalty rate so that they can broadcast those channels over their systems.
- e) In the oil and gas industry, companies pay landowners a royalty rate for the right to extract natural resources, such as petroleum and natural gas, from the landowner's property. Similar agreements exist in the mining industry for minerals such as copper and silver.