Appendix D: Incentives: Profit Sharing

Profit Sharing Royalties: Commercial Theater
- Standard contract 1920’s-1980’s
  - the author received a maximum 10% royalty (for musicals, 6% shared among book author, composer, and lyricist)


• Since the mid-1980’s, a new Approved Production Contract, limited gross-revenue shares until investors had recouped.

• The theatre owner once received 25-30% share of gross revenue for providing the house, stagehands, ushers, box-office staff, etc.
• By 1980’s, theatre owners separated their landlord and risk-bearing roles and take to a fixed fee to cover the house expenses plus 5-10% of gross box-office revenues.

• Investors in a show divide 50% of net profits among themselves; the other 50% goes to the producer.

• If the play runs 21 performances or more in New York, the producer also claims around a 40% share of the author’s revenues from subsequent productions (in North America), motion pictures (worldwide), television, and original-cast recording.

• Author’s royalty capped at 5% of gross revenue unless that revenue sufficiently exceeded running costs.

– Director a fixed fee plus a royalty of 5% or less
– “Name” actors variable shares that aggregated to less than 10%
– Producer a small 1-2% for “office expenses.”

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Profit Sharing

• Accounting achieved notoriety in Buchwald v. Paramount
  – The movie Coming to America grossed $350 million, but showed an $18 million loss for profit participation contracts

• Various ways to depress accounting profits.
  – Overhead allocations
  – Revenue allocations
    • Exclude videocassette sales
  – Selling of a package of films to a television network, with the package price is allocated among the individual films so as to reduce accounting profits.

• A profit-sharing contract beats one that lacks a profit-incentive component, but it does not maximize the deal’s value unless parties can negotiate and commit to ideal levels of individual effort.


• Agent and the artist can reach the simpler agreement that each takes 50% of every revenue dollar, but then each under-invests.

• The dollar cost that adds the last dollar to the revenue stream brings only 50 cents to the party who spends it.


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– “Name” actors variable shares that aggregated to less than 10%
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Gain Sharing Plans

• Employees given chance to share in corporate productivity gains through increased earnings

Source: Caves, Richard E. Creative Industries: Contracts Between Art and Commerce.
