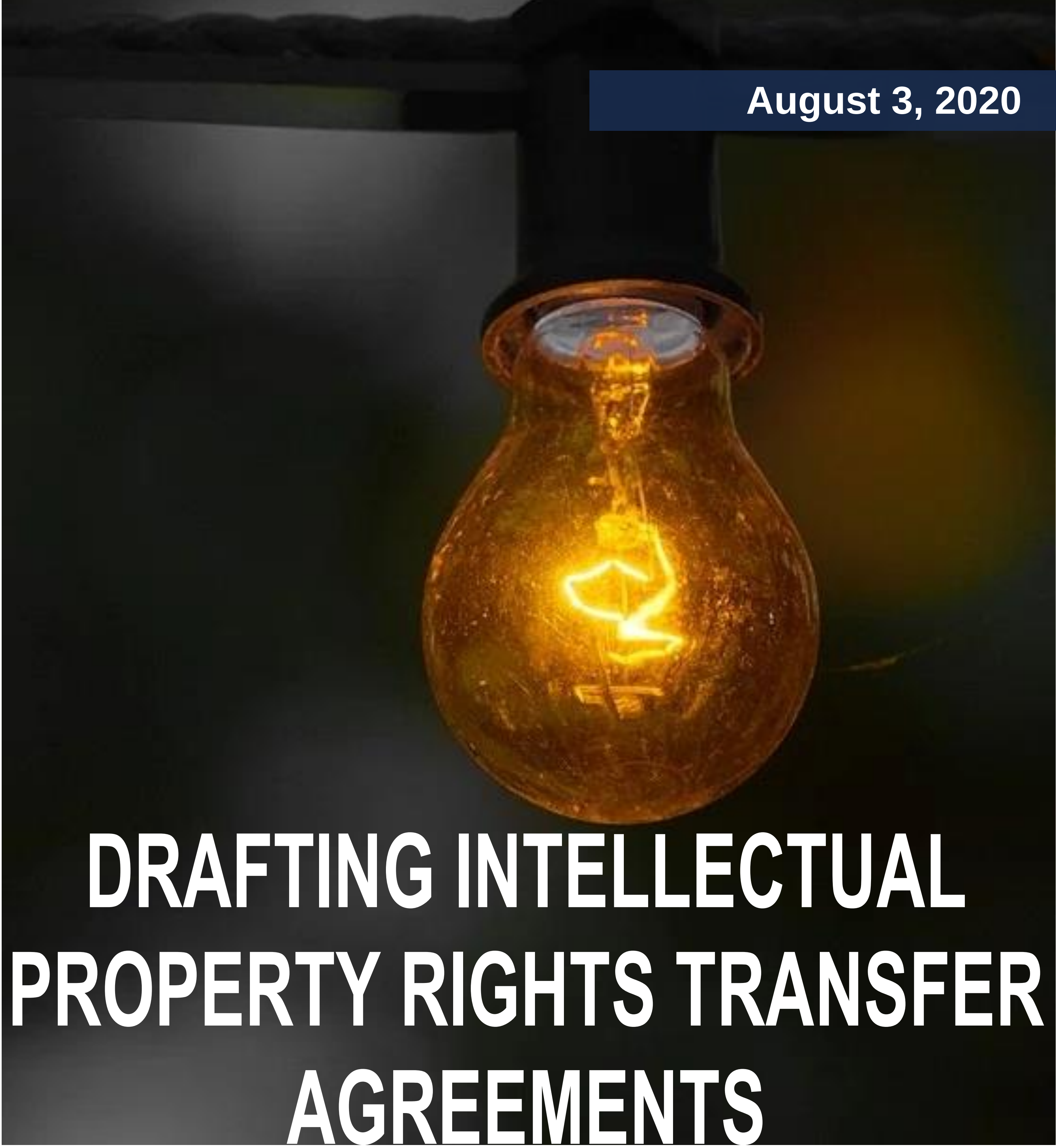

August 3, 2020

DRAFTING INTELLECTUAL PROPERTY RIGHTS TRANSFER AGREEMENTS

- PART II

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SOLICITORS AND ADVOCATES

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In the first part of this series on intellectual property ("**IP**") transfers available here, we discussed the legal provisions governing assignment and license of IP. In this second part, we will discuss the various transfer related clauses in IP assignment and license agreements and the manner in which these clauses must be drafted.

As discussed in the first paper of this series, IP can either be assigned or licensed by the owner, allowing the commercial use of the asset in various forms. Apart from this, various other commercial arrangements also lead to the creation of IP. For instance, IP can be created under an employment agreement, a collaboration among multiple persons, a commissioning agreement or a consulting agreement. These are just a few examples. In all the above circumstances, it is important to have an effective contract that clearly establishes the rights held by the parties concerned. In this paper we cover two issues. First, we will look at certain crucial clauses that are an integral part of IP transfer agreements, and broadly discuss the structure and framing of these clauses. Second, we will look at some specific types of agreements dealing with IP creation and transfer, and also cover some of the key commercial and legal aspects of these agreements.

Part I

Generally, in agreements concerning the use and/or transfer of IP, the following clauses are important:

1. **Assignment:**

In any IP assignment, there is a clause specifically assigning/transferring the title in the IP from the assignor to the assignee. This clause must clearly state the extent of the rights that are being granted to the assignee. Assignments must contain express language such as "hereby assigns", which indicates that the assignor is assigning rights in an existing or a future work in the present.[1]

Example: *"Rights granted– X hereby grants, conveys and assigns to Y all the rights in the [Work], including without limitation the following exclusive rights throughout the Territory (as defined in clause [•]) for the Term (as defined in clause [•]) –*

<insert a list of all rights in relation to the [Work] that are being assigned>"

Points to remember:

1.1. Work/invention/mark/property: It is advisable for the agreement to have a specific definition for the work or the invention or other IP that is being assigned. In this way, the assignment clause can be short and precise without having to define the work/invention that is being assigned.

1.2. Indicative list of rights: The assignment clause must contain an indicative list of rights, i.e., a list of ways in which the assignee may use the work/invention. These words are normally borrowed from the statute but drafted in a manner that is consistent with the intent of the parties. For instance, in the case of a cinematograph film, one of the rights assigned would be the right to make, sell, distribute copies of the film and communicate the film to the public.

[1] In *Waterman* v. *MacKenzie et.al*, 138 US 252, the Supreme Court of the United States held that to determine whether an agreement is an assignment or a license, the legal effect of the clauses and the grant must be considered and not the mere nomenclature of the agreement or the headings for various clauses.

2. License:

In an agreement where IP is licensed, there is no transfer of title. Therefore, the agreement must contain a clause demarcating the specific rights of use granted to the licensee. It is advisable to use clear terms such as “hereby grants a license”.

Example: *“Grant of License– The Licensor hereby grants to the Licensee a non-exclusive, non-transferable, non-sub-licensable, non-delegable and conditional license to use in the manner agreed hereinbelow, the Trademark, solely in relation to the business operations of the Licensee, within the Territory and for the Term:*

<insert a list of all rights in relation to the trademark that are being licensed>”

Points to remember:

2.1. Intellectual Property: The IP, whether it is a work/invention or trademark, that is being licensed must be specifically defined in a separate clause. As stated in 1.1 above, it makes for easier and cleaner drafting of the license clause.
2.2. Exclusive/non-exclusive: This is the most important part of the license grant which must clearly indicate whether the license is exclusive or non-exclusive.
2.3. Sublicense/further transfers: If the intention of the parties is that the license remains with the licensee alone, the clause must specify that the licensee does not have the authority to sub-license or further transfer the rights granted under the license.
2.4. Indicative list of rights: Given that a license can be far more limited than an assignment in its scope, it is advisable to include a list of specific uses that are permissible under the license. Further, the licensor may also clarify that the licensee is not permitted to do anything other than what is stated in the license.
2.5. The ownership of any IP must be mentioned, and the licensor must have the right to immediately know when there is a possibility that the IP may have been infringed by a third-party.

3. Term and termination:

The assignment or license agreement must contain separate clauses defining the term and instances when the agreement can be terminated.

Examples:

Term:

a. *“The rights assigned herein shall be irrevocable and shall be vested in the assignee for perpetuity including without limitation, for the full term of copyright protection everywhere in the world and any and all renewals, extensions and revivals thereof.”*
b. *“This License shall come into effect on the Effective Date and shall remain valid and binding on the Parties until such time that it is terminated in accordance with clause [•] of this Agreement.”*
c. *“This License shall come into effect on the Effective Date and shall remain valid for a period of 5 (five) years from the effective date unless it is terminated in accordance with clause [•] of this Agreement.”*

Termination:

"This Agreement may be terminated: a) by mutual agreement of the Parties; or b) on a material breach of any provision of this Agreement by the other Party, provided however that in case of a breach capable of remedy, only if the breach is not remedied by the other Party within the Notice Period. Upon termination: a) either Party shall forthwith hand over to the other Party all documents, material and any other property belonging to the other Party that may be in the possession of the Party or any of its employees or agents; b) each Party shall immediately pay all pending fees or other amounts due to the other Party under this Agreement."

Points to remember:

3.1. Term: The term of the assignment or license can be anything that the parties choose. However, the outer limit of the grant is determined by the term specified in the statute for the IP. For instance, the term of a patent is 25 (twenty- five) years from the date of the application beyond which period the invention enters the public domain.

3.2. Termination: This clause must be drafted with care and caution bearing in mind the agreement between the parties. Further, if the agreement involves promises that can only be performed by a specific individual, termination by such party must not be permitted. In any event, if the assignment is irrevocable in nature, termination must not be permitted unless there is a material breach and terminating party must be required to serve adequate notice. Once the agreement is terminated, the IP will revert to the assignor or the licensor, as the case may be. Any IP that still remains with the transferee must be returned to the transferor or destroyed (when appropriate) upon termination.

4. Territory:

The territory for which the IP is assigned is crucial to be specified in the agreement. The same IP can be assigned or licensed to two or more separate entities for use and exploitation in different territories. If this is not clearly specified in the agreement, the territory might be deemed to be India as a whole. This would render any subsequent assignment or license impossible to carry out.

Example: *"The assignment/license granted herein shall be exercisable within the territory of India ("Territory")."*

5. Consideration:

The agreement must contain a clause on consideration or fees/payment to be made for transfer of the IP. This clause must define the manner in which payments will be made by the assignee or licensee. There are several ways in which payment terms can be structured; some of the most common modes are discussed below:

5.1. **Lumpsum payments:** IP rights can be granted in exchange for a lumpsum payment where the grantee can pay a specific sum of money in the manner prescribed under the agreement. This amount can be paid either as a single payment or in instalments.

Examples:

a. *“In consideration of Licensor granting a license to use the Intellectual Property in terms of this Agreement, the Licensee shall pay a monthly fee of Rs. [●] ([●]) to the Licensor (“License Fee”).*

The Licensee shall pay the License Fee to the Licensor by way of wire transfer, no later than [7 (seven) days] prior to the commencement of each month.”

b. *“As consideration for all the rights granted and assigned in the Intellectual Property by the Assignor, the Assignee agrees to pay a sum of Rs. [●] ([●]) to the Assignor in the following manner:*

i. *Rs. [●] ([●]) via <insert mode of payment> on the Execution Date;*

ii. *The remaining sum of Rs. [●] ([●]) via <insert mode of payment> no later than <insert date>.”*

Points to remember:

5.1.1. In the event the parties agree on payment in instalments, the agreement must clearly specify the schedule.

5.1.2. The mode of payments which are acceptable to both parties must be specified.

5.1.3. The agreement must also provide for consequences of delay in payment, if any.

5.1.4. The payments clause must specify the taxes, if any, that are deductible.

5.2. **Royalty:** In consideration for the rights granted, the assignor or licensor may also require that royalty be paid. Typically, royalty payments will be a portion of the sales revenue earned by the use/exploitation of the IP rights granted.

Examples:

a. *“In consideration of the rights granted in clause [●], the Licensee shall pay to Licensor a royalty (the “Royalty”) equal to [●]% of Net Sales occurring during the Royalty Term. The royalty under this clause shall be payable no later than 5 (five) business days after the last day of every quarter.”*

b. *“Royalty will accrue upon distribution of any copy of [software] delivered or sold in the manner specified in clause [●]. Rs. [●]/[●]% of the sale price of any copy of [software] shall be payable as royalty on each copy sold. All accrued Royalty shall be paid to the Licensor within [●] days after the end of each fiscal quarter, which ends on the last day of each of March, June, September and December. Payments shall be accompanied by a report stating the number of units of [software] sold/distributed in the relevant quarter, and the calculation of the royalty payment.*

Points to remember:

5.2.1. While royalty is typically represented as a percentage portion of the net sales revenue, it can be structured in any manner as the parties deem fit.

5.2.2. Royalty must be payable for the royalty term, which can either be for the whole term of the agreement or only a part of the term.

5.2.3. The schedule for payment must be specific and must always be accompanied by proper accounts for the relevant period showing the manner in which royalty payments have been calculated.
5.2.4. The agreement must also provide for consequences of delay in payment, if any.
5.2.5. The payments clause must specify the taxes, if any, that are deductible.
5.2.6. The method and frequency of invoicing must also be included.

6. Representations, warranties and covenants:

Apart from the representations and warranties that are usually included in agreements, including in relation to capacity and execution, there are certain specific warranties that should be included in IP related agreements.

6.1. The person granting the rights must represent that he has the sole and absolute ownership of the IP and is therefore entitled to grant rights either by way of assignment or license.
6.2. The person granting the rights must also represent that the IP in which the rights are being granted does not infringe any third party's IP rights.

7. Indemnity

The person granting the rights must ordinarily indemnify the other party from any legal proceedings or costs arising as a result of defective title in the IP or any third-party claims of infringement. The person granting the rights, especially in a license, must be indemnified against all illegal and improper uses of the IP including indemnification against any legal proceedings that may arise as a result of such actions of the grantee.

8. Further assignments:

Depending on the rights being granted and the discussions between parties, the rights that are being transferred may be further assigned by the parties. Note however, there must be a clear bar on further assignment of rights and obligations especially when the promises made by the parties concerned are personal in nature.

9. Standard form clauses:

Other than the specific terms detailed above, all the standard form clauses that find their place in other agreements must also be included in IP assignments and licenses.

PART II

In this part we will discuss certain specific types of agreements and clauses in relation to copyrights, patents and trademarks.

1. Copyright:

1.1. **Film-related agreements:** The producer of a film is the author of a film.[2] The producer enters into several agreements including with writers, composers of music, etc. in order to

[2] Section 2(d) and 2(uu), Copyright Act, 1957.

create various works which will be included in the film. An effective contract between the producer and other authors such as the music composer, writer, etc. would help avoid any disputes as to the ownership of the film and the use of other content in the making of the film. The producer also enters into agreements with financiers to finance the making of the film, and with distributors and digital partners. Some aspects of these agreements have been discussed below:

1.1.1. Agreement with composer of music: It is industry practice for the producer of a film to engage the music composer to compose the music and the background score for the film. Under the Copyright Act, 1957 ("**Copyright Act**"), the composer is the author of the musical work. It is often the case that until the release of the film the producer retains the copyrights in all the musical works by entering into a contract of service with the music composer.[3]

The producer, as the owner of the copyright in the musical works under a contract of service, can either retain all the copyrights or assign the rights to a music label. Usually, when the producer assigns the rights in the musical works to a music label, the producer, who is the owner of the film, retains the right to use the sound recording as a part of the film, and the music label would then hold the rights in the sound recordings and the underlying musical works, and can commercialize such music through sales or further licenses. The basic goal here is for the producer to leverage the rights in the music in a profitable manner.

While this is generally the industry practice, it is legally possible for a composer to retain the rights in his works. Such an agreement would encompass a limited license from the composer allowing the use of the musical works in the film by the producer.

1.1.2. Agreement with lyricist: Similar to the composer, the lyricist is also engaged by the producer to write the lyrics for various songs that are usually part of Indian films. Copyrights in lyrics, which are literary works as per the Copyright Act, will be retained by the producer or transferred by him to the music label. The lyricist is also eligible to receive unassignable royalty from the use of the lyrics.

Points to remember:

i. To protect the interests of the producer, the agreement with the composer and lyricist must contain a clause that clearly states that all the IP in the musical and literary works will belong to the producer.
ii. In appropriate circumstances, it is also prudent to include a clause giving creative control over the final product to the producer.
iii. As discussed in Section 1.2.2 of the first paper in this series, composers and lyricists continue to retain unassignable royalty rights in the musical works.
iv. These agreements must contain a clause with specific timelines within which the composer must deliver the musical works.

1.1.3. Agreement with writers: The producer of a film usually engages more than one writer to write the story, script, screenplay, dialogues, etc. These works amount to literary

[3] Section 17, Copyright Act, 1957.

works under the Copyright Act. It has been held by the Madras High Court in *Thiagarajan Kumararaja v. Capital Film Works*,[4] that the producer of a film has the rights to *dub* the film into any number of languages and this right is part of her copyright under Section 14(d) of the Copyright Act. On the other hand, it has also been held that the producer can *remake* the film in any number of languages only if she owns the script because remaking a film would require changes being made to the underlying script. Therefore, where a producer proposes to remake the film in various languages, apart from permission to use the script for the making of the film itself, the producer needs to entirely retain the copyrights in the script in order to be able to remake the film.[5]

Points to remember:

i. If it is the intention of the producer to make remakes or sequels of the film, it is advisable for her to ensure that she owns the script. Whether the agreement is a contract of service or otherwise, it is prudent to have an IP clause specifically stating that the producer seeks to own the script.
ii. On the other hand, if the writer owns the script, any remake can only be made with a license from the writer.
iii. The contract must specify the degree of creative control each party has over the script or story.
iv. If the producer seeks to own the script in its entirety, she must also ensure this includes the characters and other distinctive elements of the script.[6]
v. This agreement must contain a clause with specific timelines within which the writers must deliver the scripts.

1.1.4. <u>Agreements engaging principal director, actors and other individuals</u>: Under Indian law, a director of a film does not have any copyrights in any aspect of the film. Therefore, producers in India can enter into a regular contract of service with the director. There will be certain circumstances where the director is also the scriptwriter, in which cases there can be a common agreement which includes the terms in 1.1.3 above and the contain clauses covering her directorial responsibilities. The director will be remunerated for her services.

Additionally, there are agreements that the producer enters with actors and other artists. These agreements will define the roles and responsibilities of the actor and her remuneration. The actor or other artists typically do not own any of the copyrights in the content or the character.

1.1.5. <u>Credits clauses under 1.1.1 to 1.1.4</u>: The parties to these agreements must also approve the manner in which each of these persons is credited in the film.

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[4] 2018 (73) PTC 365 (Mad).

[5] For similar issues arising out of making a sequel of a film, *see,* Ian Eagles "Copyright and the Sequel: What Happens Next?" in F MacMillan (ed), New Directions in Copyright Law, Vol 6, (Edward Elgar Publishing, UK, 2007) pp. 35-65. *See also, Zee Entertainment Enterprises Limited* v. *Ameya Vinod Khopkar Entertainment and Ors.*, MANU/MH/0512/2020.

[6] For an overview of issues arising out of character- related rights, *see, Arbaaz Khan Production Private Limited* v. *Northstar Entertainment Private Limited and Ors.*, 2016 (67) PTC 525 (Bom).

Example: *“The Parties agree that the Composer shall be credited in the film as “Music by ______” by the Producer. The Composer shall have no copyrights in the sound recordings or the Musical Works in the film by way of such credits.”*

1.1.6. Financing agreement/film investment agreement: The producer can enter into agreements with various persons for raising funds to make a film. These agreements can be structured in many ways and might in certain cases result in transfer of ownership of IP. Some types of investment agreements are discussed below:

i. Film investment agreement: The producer and the third-party investor can agree to co-produce the film. In these cases, the parties must arrive at a revenue sharing arrangement. The co-producer will also have a share in the IP that is consequential to the extent of investment.

ii. Rights agreement: The producer can, in exchange for money, grant the financier some right in the IP. For instance, if the producer seeks an investment of Rupees Fifty Lakhs, he can grant the dubbing rights, or overseas distribution rights in exchange for the same. Such agreements work just like assignments or exclusive licenses but are a useful way in which producers can raise funds.

1.1.7. Theatrical distribution agreement: Producers must also enter into various distribution agreements with several distributors for distributing the film in theatres in various territories. Essentially, what the distributor receives under these agreements is a limited license or assignment to communicate the film to the public through theatrical distribution. The term of these agreements is limited to the period during which the film would be distributed in theatres.

Example: *“In consideration of the mutual promises, payments and other terms contained herein, Producer hereby exclusively [assigns/licenses] to the Distributor the right to communicate the Film to the public only via theatrical distribution in the Territory for the Term.”*

1.1.8. Production of television/web-series/other shows/online content: For the production of any other content, all the agreements described in 1.1.1 to 1.1.8 will be used. However, the manner in which the IP is shared and owned may differ depending upon the facts and circumstances of each case. For example, let us say XYZ Pvt. Ltd. is producing a stand-up comedy special with a prominent comedian Mr. P. The parties can agree that the content will be written, performed and, therefore, owned by Mr. P, and where XYZ Pvt. Ltd. only takes a commission and a share of the revenue.

1.2. **Album production:**

1.2.1. Agreements with music composers and lyricists: These agreements are similar to the agreements described in 1.1.1 and 1.1.2 above. The producer of the sound recording may engage composers and lyricists and seek to retain the copyrights in the underlying works along with the sound recording he produces and owns.

1.2.2. Agreement with the singers/other artists: The singers and other artists are usually engaged under a contract of service to sing in a studio, which performance is recorded, edited and produced into a sound recording at the instance of the producer. The singer does not own the copyright in the musical work, literary work or the sound recording itself.

1.3. **Digital distribution of copyrighted works:** Songs, films or any other copyrighted content can be distributed and communicated to the public through a variety of digital platforms. Today, most popular among these are OTT platforms such as Netflix, Prime Video, etc. Typically, these entities enter into either an exclusive license with the owner of the content for a particular term and for a specific territory. Since these entities are able to geo-block the content, they avail territory specific licenses for various titles. Therefore, a TV series that is available in the United States of America on X OTT service, may instead be available on Y OTT service in India. These entities do not seek a complete transfer of title typically but restrict themselves to a license for a specified term.

Points to remember:

i. The agreements must contain a schedule detaining the timeline for delivery of prints and materials to the platform along with the technical specifications for such materials.
ii. Clauses must specify the manner of use of any trademarks and other artwork belonging to either party.
iii. The consideration or license fee can pe paid in a single lumpsum payment or be divided into instalments.

1.4. **Book publishing agreements:** These agreements are entered between the authors of books and publishers. Under the Copyright Act, the author of a literary work has the right to make copies of her work and sell them. However, such rights are normally transferred to publishing houses that have the means to mass produce the book and aid in the distribution of the work. This may also include various formats in physical or digital form. The rights granted could also include the right to translate the books into various languages. Typically, the author retains the right to make film/television adaptations of the book.

Example: *"The Author grants the Publisher the exclusive right during the Term to reproduce, print, publish, distribute, translate, display and transmit the Work, in whole and in part, in the Territory, in such languages and formats as agreed to between the Parties. It is clarified that no film, motion picture, television, radio, dramatic or other adaptation rights are granted to the Publisher and the Author can exploit such rights."*

Points to remember:

i. Publishing agreements must contain detailed clauses on when the author will deliver the work to the publisher.
ii. The acceptance of the work for publication is usually left to the discretion of the publisher.
iii. The author gives the publisher the sole and exclusive right to publish and distribute the work. The author, however, may retain other rights such as the right to translate the work, the right to make adaptations, the right to make films, etc.
iv. The author is usually paid a certain advance amount on the date of signing of the agreement. Additionally, royalties may be paid to the author for the sale of each copy of the work payable as a percentage portion of the net sales revenue earned by the publisher.
v. The onus of receiving any prior approvals for copyrighted works to be included in the book usually lies with the author.

1.4.1. Option Purchase agreements: Such agreements are typically entered into between the author of the book and a producer. The agreement grants an option to a purchaser to avail an assignment or a license at a future date to make film/television/digital adaptations of the book. For example, A, the author of a book, can enter into an option-purchase agreement with B who wants to make a film-adaptation of the book. The option purchase agreement will give B a specific timeframe for some groundwork such as testing the viability of the project, raising funds, etc. At the end of the option period, B can exercise the option and have the adaption rights assigned or licensed to her. The author is usually offered an option-fee for the period during which the grantee-purchaser holds on to the option. Once the option is exercised, the parties can enter into an assignment or a license agreement as the case may be.

1.4.2. Adaptation agreement: If the film is based on a story or book written by a third-party upon which the producer seeks to rely, then the producer may avail an adaptation license from the author of the literary work.

1.5. **Software license:** In India, software is a subject matter of copyright law. The person writing and creating the program holds a copyright over it. The software can therefore be licensed by the owner for use by another entity. Software licenses are normally granted by companies to their users usually based on a subscription fee model.

Example: ***"****Entity hereby grants the customer a non-exclusive, non-sublicensable, non-assignable, world-wide license to use the Service solely for the internal business operations of the customer in accordance with the terms of use specified herein."*

1.5.1. Platform licenses for user-generated content: If the software is such that it allows the creation, storage and dissemination of user-generated content, the entity licensing the software must also take a license from each user to store and disseminate the user-generated content. For instance, with applications such as YouTube or TikTok, such a license would be required from the user. The clause must clarify that the user agrees to a non-exclusive, non-sublicensable, non-assignable, royalty-free license to be granted to the entity for the use of the content while the user continues to retain all the copyrights in the content.

1.5.2. Software as a service: Typically, in these agreements, there is an entity that has developed a software and provides services that aid in the productive use of such software. The entity enters into an agreement with the customer granting a customer a license to use the software for its business operations while the entity retains the IP in the software.

Example: *"The Company agrees to license and grant access and right to use the Application to the Subscriber and provide to the Subscriber all other services necessary for the productive use of the Application, including, initial setup and installation, user identification, user account and password change management, data import/export, remote technical support, maintenance, training, backup and recovery, and change management ("Services") as further set forth in Schedule [•] of this Agreement."*

Points to remember:

i. These agreements must contain a clause preventing any reverse engineering of the software and controlling security breaches. This would also include clauses pertaining to data security and data protection.
ii. The data that belongs to the customer will continue to belong to her while the licensor/service provider will continue to own the software.

1.5.3. Software development agreement: In certain cases, one may choose to engage the services of a third-party software developer to develop a software or product under a contract of service. For instance, A may have a concept or idea but may not have the expertise to engineer the product. A can engage the services of B, third-party developer, to develop the product. B will be remunerated for his services. But A, whose resources (typically monetary resources as A would bear the operational costs) were expended on developing the product, will be the owner of the IP in the product.

Example: **"***The Service Provider agrees that all original works that are made by the Service Provider (solely or jointly with others) using the Company's resources, or any other assistance that may be provided by the Company, pursuant to this Agreement, are protectable by copyright as "works made under a contract of service" under the Copyright Act, 1957.*

The Service Provider hereby agrees to transfer and assign all intellectual property rights that may be developed or created by it pursuant to this Agreement without any claim over any such work, and waives any other right that the Service Provider may have in law."

1.5.4. Application programming interface ("API") integration agreement: APIs are tools that permit interaction between various software intermediaries. In API integration agreements, (i) a party licenses its API (either on an exclusive basis or on a non-exclusive basis) to another party for integration of its API into the software (in the form of an app or website), or (ii) two parties propose to integrate their software to create a new product.

Points to remember:

i. In these agreements, there must be a two-way obligation to keep the licensee's tool/programme and the licensor's API fully functional and usable at all times.
ii. These agreements would also contain clauses on data security, data protection and covenants on the basis that security breaches will be controlled and monitored.
iii. It must be specified that the integration agreement will not result in any transfer of IP and each party will continue to hold their IP rights. However, a limited right to use the tool and the API will be licensed to the other party for the duration of the agreement. In case a new product is created both parties hold rights in the IP jointly.

2. Trademark:

Trademarks can be assigned or licensed irrespective of whether they are registered or unregistered trademarks. Generally, all assignments and licenses of trademarks must be in conformity with the principles and rules under the Trademarks Act, 1999.

Apart from what is covered in Part I of this article, the following must be noted while drafting clauses on assignments and licenses of trademarks.

Assignment:

Points to remember:

i. The grant clause in an assignment agreement must clearly specify whether the mark is being assigned together with the goodwill of the business or not.
ii. Assignment agreements must contain a clause/schedule describing all the trademarks that are being assigned, and details pertaining to their registration.
iii. The assignor must agree to execute all necessary documents in order to record the assignment with the Registrar of trademarks under Section 45 of the Trademarks Act.

License:

Points to remember:

i. <u>Prevention of naked licensing</u>: While licensing a trademark, the terms of use need to be specific and clear. If a license permits the unbridled use of a trademark without any quality assurance measures in place, such a license amounts to 'naked licensing'. The clause must also state that the mark can only be used in relation to the goods and services specified in the agreement. Quality control is essential to protect the interests of both the licensor and the end-user of the product.
ii. There must be a separate clause defining the uses of the mark by the licensee that are permitted and uses that are strictly disallowed and not within the ambit of the license.
iii. The agreement must also include a clause stating that no rights in and to the trademarks are being transferred or assigned by virtue of the license.
iv. The more control the licensor would like to exercise over the use of the mark, the stronger must be the quality, use and termination clauses of the agreement.
v. It must be specified that the licensee shall not have the right to further assign or license the mark to any third-party.

Apart from these issues, transfer of trademarks through assignment and license might involve larger commercial arrangements that impact the creation, use and transfer of trademarks. Some of these are discussed below:

2.1. **Transfer of trademark under a franchise agreement:** Franchisors typically have proprietary methods of doing business and own trademarks which consumers come to solely associate with the business of the franchisor. Internationally renowned brands such as McDonalds or Krispy Kreme follow this business model where their businesses have proprietary elements which they license to local businesses all over the world. The businesses which acquire a license of this kind under a franchise agreement will have the right to set up a local unit of the franchisors business and run it as per the terms of the franchise agreement.

2.1.1. Use of the franchisor's trademark: The main condition as to the use of the franchisor's trademark is that the franchisee will be permitted to use the franchisor's trademark in accordance with the terms specified in the franchise agreement. Please note that the agreement must clarify that this is a limited use license granted to the licensee and does not result in transfer of ownership. Further, in relation to the franchisor's business, the franchisee shall not have the right to any mark other than the ones that it is authorized to use under the franchise agreement.

Example: *"The Franchisee agrees that the Franchisor is the sole and exclusive owner of the TRADEMARKS and has the absolute right to control the Franchisee's use of the TRADEMARKS. For removal of doubts, the Franchisee agrees and affirms that it has not acquired any right, title or interest in the TRADEMARKS and that its limited right to use the TRADEMARKS is governed by the terms of this agreement. Further, the Franchisee agrees that it shall not register, in its name or in the name of any associated entity or person, any trademark, logo or domain name that is identical or similar to the TRADEMARKS."*

Points to remember:

i. The franchisee must not be permitted to take any action against any infringer without the prior consent of the franchisor. It is best for the franchisor to initiate any legal action as the sole and absolute owner of the mark.
ii. If the agreement is terminated, any action taken by the franchisee in respect of the trademarks must revert to the benefit of the franchisor and the franchisee must stop associating itself with the trademarks of the franchisor.
iii. There must be a clause allowing the franchisor to terminate the agreement if the trademark is used in a manner that would bring disrepute to the business of the franchisor.
iv. There must be clauses controlling the use of the trademark by the franchisee in advertising and marketing literature.

2.2. **Marketing Agreement:** A marketing agreement allows a third-party a limited right to display the trademarks of the licensor while marketing, advertising and selling products that belong to the licensor.

Points to remember:

i. This agreement has to specify that the licensor continues to own the trademark and this agreement does not result in any transfer of ownership.
ii. Such a license must specify the manner in which the trademark is permitted to be used. Any contravention of such use restriction would amount to a material breach of the agreement.

3. Patent:

Patents can be assigned or licensed for specific purposes meaning that patent rights can be granted to make, sell or import the subject matter of a patent.

Some specific agreements pertaining to patentable subject matter are discussed below:

3.1. **Technology transfer agreement:** Technology transfer agreements (**"TTA"**) involve the licensor transferring its IP and know-how to the transferee for a specific period of time and for a specific purpose. A large part of arrangements of this nature would depend on the specific facts and circumstances of each case. Not everything that is transferable under a TTA will be IP. One part of the transfer may relate to the licensing of IP such as patents or software for specific purposes, while the other would include information and know-how. Clauses in relation to the sharing of information and other know-how are strictly contractual and are secured by having strong confidentiality clauses in the agreement.

Points to remember:

i. The agreement must define the IP or the technical know-how to be transferred clearly. The definition must be tightly worded so as to cover only what is necessary, failing which, the licensee will secure access to more than what was intended by the parties.
ii. The territory within which these rights can be exercised must be specific, and the term must also be specified. The term must be agreed upon based on prevailing norms of the Reserve Bank of India and other regulations in this regard. The termination clause must specify the consequences of early termination, reversion of the IP to the licensor, and, to the extent possible, destruction of any confidential material or information within the possession of the licensor.
iii. Consideration including royalty payments must be structured properly.
iv. As far as the know-how is concerned, the confidentiality clause matters the most. The confidential information must be clearly identified as such. If the information is highly technical, this clause must be drafted in an industry specific manner. The consequences for any breach must be clearly identified.
v. The tax liability under TTAs varies based on whether the parties are Indian or would include foreign collaborators. The tax liability clause must identify the manner in which all taxes must be paid.
vi. TTAs involve heavy obligations on both parties. The licensor must ensure that the technology is used properly and for that ensure that the licensee, at all times, has the technical capabilities that are required to achieve it. This may include training, testing, quality control and other measures. The licensee will have the responsibility to use the technology to the fullest, make all payments on time and to maintain confidentiality throughout the duration of the agreement.
vii. Use of other IP, i.e., brand names or other literature, must be carved out through separate clauses defining all permissible uses.

4. Employment agreement:

Employment agreements must typically contain a blanket clause allowing the use and transfer of all IP created by the employee, during the course of employment, by and to the employer, especially where the employee is a senior member of the team. The clause also grants exclusive rights in all such IP to the employer**.**

Example: "*The Employee agrees that all and any work executed and performed in the course of employment, whether or not conducted on the premises of the Company but related to the* *business of the Company, is being done on behalf of the Company. In this regard any discoveries, inventions, work created, data produced, concepts, ideas, creations and discoveries belong to the Company. The Employee hereby agrees to transfer and assign all intellectual property rights that may be developed or created by her without any claim over any such work, and waives any other right that she may have in law.*

The Employee further agrees to execute, upon the request of the Company all necessary papers and otherwise provide proper assistance to enable the Company to obtain for itself (and to vest legal title in the Company), patents, copyrights, or other legal protection for such inventions, discoveries, innovations, improvements, original works of authorship, trade secrets and technical or business information in any and all countries."

In this article, which is the second of the two-part series on transfer of IP, we have discussed the manner in which various clauses in an IP transfer agreement must be drafted. There are several ways in which these agreements can be structured, but it is important to keep in mind the intention of the parties and the extent of rights that are to be granted. Similarly, rights must be granted in such a manner that would allow the full and proper use of the IP. Note that the example clauses given in this article are only indicative, and in any agreement, these clauses must be drafted to suit the relevant purpose and context.

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