Transitional Trademark License Clauses (Pro-seller)

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Form clauses for a buyer's transitional use of a seller's trademarks after a corporate transaction, drafted with terms favorable to the seller. These clauses can be used in connection with an asset purchase, stock purchase, merger or auction where the buyer is obtaining the seller's assets, entities or business but is not obtaining long-term rights to one or more of the seller's trademarks after closing. These Standard Clauses have integrated drafting notes with important drafting and negotiation tips.

DRAFTING NOTE

Read This Before Using Document

Scope of Standard Clause

In a corporate transaction, the target company or acquired business may use certain trademarks that will be retained by the seller after the transaction. In this case, the buyer may need the right to continue using these trademarks for a temporary period after the closing while it transitions away from use. This issue is common in a carve-out or divestiture transaction (see *Practice Note, Carve-out Transactions (http://us.practicallaw.com/7-504-1544)*).

These Standard Clauses are for use in a purchase or merger agreement and allow a target company or business to make limited use of certain of the seller's trademarks that were used in its business before the closing for a relatively brief wind-down period (typically 120 days or less).

These clauses are drafted in favor of the seller and permit limited use of the seller's marks in connection with existing materials and, if applicable, inventory. They also include an optional obligation for the buyer to promptly change any of target company's corporate names that contain any of seller's marks. To ensure protection of the seller's marks, the clauses include quality control and indemnification obligations.

If the buyer requires use of the seller's marks for a longer transitional period (typically more than 120 days), it is customary to enter into a long-form transitional trademark license agreement. If possible, this agreement is negotiated before signing and is attached as an exhibit to the purchase or merger agreement. Alternately, the parties may include a covenant to negotiate a long-form license agreement between signing and closing of the transaction.

For more on trademark and other IP issues in corporate transactions, see *Practice Notes, Intellectual Property: Stock Purchases and Mergers (http://us.practicallaw.com/6-506-9152)* and *Intellectual Property: Asset Purchases (http://us.practicallaw.com/4-509-4845)*.

For an overview on conducting trademark due diligence, see *Practice Note, Trademark Due Diligence in Mergers and Acquisitions (http://us.practicallaw.com/1-508-3551)*.

Assumptions

These clauses assume that the seller owns all of the seller marks' trademarks. If an affiliate or affiliates of the seller own any applicable marks, these clauses should be modified accordingly.

Similarly, the clauses include bracketed language that should be modified based on the transaction structure and whether the buyer is acquiring the seller's business (for example, in an asset sale) or specific seller entities. If the buyer is acquiring multiple seller entities, this language should be revised to refer to the companies, rather than a single acquired entity.

Defined Terms

Certain terms are capitalized but not defined here because they typically are defined elsewhere in the purchase or merger agreement (for example, Business, Buyer, Seller, Closing Date and Law). These Standard Clauses (including the defined terms) should be modified according to the particular purchase or merger agreement into which they are incorporated.

1. Seller's Marks.

(a) <u>Retained Ownership.</u> Buyer acknowledges that (i) as between Seller and Buyer, Seller exclusively owns all trademarks, service marks, trade dress, trade names, domain names and other identifiers of source or origin (collectively, **"Trademarks"**) containing or incorporating [IDENTIFY MARKS], and all variations or acronyms of any of the foregoing, including all registrations and applications for registration thereof and any Trademark confusingly similar thereto or dilutive thereof (collectively, the **"Seller Marks"**), (ii) Buyer and its Affiliates [(including the Acquired Entity)] have no rights, and are not acquiring any rights, to use the Seller Marks after the Closing Date, except as stated in this Section [SECTION NUMBER], and (iii) as of the Closing Date, any and all right of the [Acquired Entity/Acquired Business] to use the Seller Marks terminates and reverts to the Seller.

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Retained Ownership

This clause identifies the seller marks that have been used by the acquired entity or business before the transaction and which the buyer must generally cease using after the closing date.

If these provisions cover a number of different marks, a disclosure schedule can be used to identify the relevant marks.

Seller

If any seller marks, including any domain names, are owned by the acquired businesses or entities, the marks should be transferred to the seller before the closing date. If it is not possible to transfer the marks before the closing date or the transfer may not be effective, then the seller may require:

- A covenant from the buyer agreeing to take all actions necessary or reasonably requested by the seller to transfer all rights.
- A broad exclusive license to the seller covering the period during which the rights are transferred, subject only to the permitted uses specified in these clauses.

Buyer

During due diligence, the buyer should identify all marks owned by the seller and used by the acquired entity or business. It should ensure that the marks covered by these transitional trademark clauses are not overbroad and that any marks that are important to the acquired entity or business are transferred to the buyer or covered by a long-term license.

For a checklist on trademark due diligence in M&A transactions, see *Trademark Due Diligence in Mergers and Acquisitions Checklist (http://us.practicallaw.com/5-508-3554)*.

Where the buyer is acquiring certain seller entities and the seller holds record ownership of any marks or domain names that should be owned by those entities, the buyer should seek to have the seller transfer ownership before signing. If this is not possible, the buyer should seek a covenant specifying the relevant marks, domain names and jurisdictions, as applicable, and requiring the seller to make the transfer before the closing date or as soon as practicable thereafter. If the transfer in certain jurisdictions cannot be made for a significant time after the closing date, the buyer can seek a licensing arrangement for the right to use the marks or domain names until the transfer is practicable.

(b) [Corporate Names. Promptly after the Closing Date, but no later than [ten (10)] Business Days thereafter, Buyer shall cause the Acquired Entity to (i) file amended articles of incorporation (or equivalent organizational documents) with the appropriate Governmental Authorities changing its corporate name, “doing business as” name, trade name and any other similar corporate identifier (each, a **“Company Name”**) to a Company Name that does not contain any Seller Mark, and (ii) provide Seller with any additional information, documents and materials that Seller may request to evidence those filings. On and after the Closing Date, Buyer shall not represent that it is, or otherwise hold itself out as being, affiliated with Seller [or any of its Affiliates].]

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Corporate Names

Seller

The seller should include this optional clause if the buyer is acquiring any entities with names that incorporate any of the seller’s marks.

The seller should propose a short period of time after closing for the buyer to begin changing the relevant entities’ corporate names, for example the ten-day period included in these clauses.

Buyer

During due diligence, the buyer should identify all relevant entities with names that incorporate any of the seller's marks.

If the name is used solely as a corporate name and is not otherwise known by the public, a brief transition period may be sufficient. However, the buyer may still seek up to 30 days to undertake the required filings.

If the entities use the name as a trademark or the name is otherwise known by the public, the buyer should determine whether a long-term license or broader rights to the name are required. In particular, to avoid consumer confusion, the buyer or the seller may wish to specify any new entities were "formerly known" under the seller's name. The buyer's right to identify any entities in this manner should be expressly negotiated.

(c) <u>Transitional Trademark Use and Transition Efforts.</u>

(i) For [one-hundred and twenty (120)] days after the Closing Date (the **"Transition Period"**), [Buyer/the Acquired Entity/the Acquired Business] may use and distribute all of its existing stock of signs, business cards, letterheads, invoice forms, advertising, sales, marketing and promotional materials, and other documents and materials containing or bearing any Seller Mark (**"Existing Stock"**) in connection with the Acquired Company's continued operation of the Business during the Transition Period solely in a manner consistent with the [Buyer's/Acquired Entity's] operation of the Business immediately prior to the Closing Date. In the context of entering into or conducting any contractual relationship [Buyer/the Acquired Company/the Acquired Business] shall make clear to all other parties to the contractual relationship that [Buyer/the Acquired Entity/the Acquired Business], rather than Seller, is entering into or conducting the contractual relationship.

(ii) Promptly after the Transition Period, Buyer shall cause the [Acquired Entity/Acquired Business] to (A) remove or obliterate all Seller Marks from the remaining Existing Stock or (B) cease using and distributing its Existing Stock.

DRAFTING NOTE

Transitional Trademark Use and Transition Efforts

Seller

These seller-favorable clauses limit the buyer's rights in the marks to use in connection with the wind-down of existing materials. Given its limited scope, the provision is not drafted as an express license grant.

These clauses include a 120 day wind-down period. While a shorter transition period can be specified, the parties should consider entering into a long-form transitional trademark license agreement if a transition period greater than 120 days is used.

Depending on the transaction, it may be necessary for the buyer to have broader rights during the transition period or a longer transition period. It is generally reasonable for the seller to grant those rights in connection with the transaction to the extent they are necessary for a proper transition. For example, the buyer may need to use the marks in connection with:

- Finished products and packaging materials in an inventory sell-off (see *Inventory Sell-off*).
- Internet and intranet web sites.

If the buyer must retain ownership or control of any domain name incorporating any seller marks for such use after the closing, the seller should include a provision specifying that after the necessary transition period the buyer will transfer all rights and control of the domain name to the seller.

Inventory Sell-off

The buyer may require the right to use the seller marks in connection with finished products, as well as existing packaging, labels and, in some cases, other materials. In particular, it may require this right when acquiring specific assets, including the seller's existing inventory.

The seller may include inventory, labels, packaging and other materials, as applicable, within the definition of "Existing Stock," and therefore prohibit the buyer from using them after the transition period.

The seller may instead want the buyer to cease using any product packaging within the transition period, but otherwise permit it to exhaust its inventory as soon as possible. In this case, the following additional clause may be used:

> [Buyer may exhaust all inventories of finished products [included in the Acquired Assets] that contain as part of the physical products any of the Seller Marks, but not labels and packaging[[, advertising][, marketing][, sales] [and] [promotional] materials] incorporating the Seller Marks, which are covered by clause [c/[OTHER CLAUSE]] above; except that Buyer shall use all reasonable efforts to dispose of such finished products promptly before the end of the Transition Period.]

Alternately, the seller can include an additional clause specifying a distinct inventory sell-off period. In this case, a longer negotiated period can be specified for use:

> [For [two-hundred and forty (240)/[OTHER NUMBER]] days after the Closing Date (the **"Inventory Sell-off Period"**), Buyer may use the Seller Names to the extent necessary to allow Buyer and its Affiliates and their designees to market, distribute and sell the Products [in the Territory], utilizing the labels and packaging[[, advertising][, marketing][, sales] [and] [promotional] materials], in each case, existing on the Closing Date or used to produce finished goods inventory of Products as of the Closing Date. Promptly following the expiration of the Inventory Sell-off Period, Buyer shall, and shall cause its Affiliates to, destroy and dispose of all labels and packaging [and all [advertising][, marketing][, sales] [and] [promotional] materials], in each case, in its possession or subject to its control, bearing any Seller Names.]

Buyer

The buyer should ensure that the specified transition period and scope of use are sufficient for it to operate the acquired businesses or for the acquired entities to operate after closing.

The buyer's due diligence of the acquired entities' or business's use of the seller marks will be important for these purposes.

Where a broader or long-term license is required, the buyer should seek either:

- An express license in the purchase or merger agreement.
- A long-form transitional trademark license agreement.

(d) Quality Control and Trademark Protection.

(i) [Buyer shall/Buyer shall ensure that the Acquired Entity/Business] (A) use[s] the Seller Marks only in the form and manner consistent with which, and in connection with goods and services of a level of quality equal to or greater than the quality of goods and services in connection with which, [Seller/the Acquired Entity] used the Seller Marks immediately prior to the Closing Date, and (B) [comply/complies] with all applicable Laws and industry practice in connection with its use and distribution of the Seller Marks and Existing Stock. All goodwill and improved reputation generated by the [Buyer's/Acquired Entity's/Business'] use and distribution of the Seller Marks inures solely to Seller's benefit.

(ii) Buyer and its Affiliates [(including the Acquired Company)] may not nor attempt to, nor permit, enable or request any other Person to: (A) use any Seller Mark in any manner, or engage in any other act or omission, that tarnishes, degrades, disparages or reflects adversely on a Seller Mark or Seller's or its Affiliates' business or reputation, or that might dilute or otherwise harm the value, reputation or distinctiveness of or Seller's goodwill in any Seller Mark; (B) register or file applications to register in any jurisdiction any Trademark that consists of, incorporates, is confusingly similar to, or is a variation, derivation, modification or acronym of, any Seller Mark; or (C) contest the ownership or validity of any of the Seller Marks including in any litigation or administrative proceeding.

(iii) [Seller may immediately terminate the license in this Section [SECTION NUMBER] if Buyer or its Affiliates fail to comply with the terms and conditions in this Section [SECTION NUMBER] [or otherwise fail to comply with Seller's reasonable directions in relation to the use of the Seller Marks].]

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Quality Control and Trademark Protection

A trademark owner must exercise quality control over third parties' use of its trademarks to avoid:

- Damaging the reputation of its products or services.
- Abandoning the mark on the basis that the mark no longer functions as an indicator of source and quality.

This provision sets a minimum quality control requirement keyed to the seller's standards before closing and otherwise obligates the buyer to not challenge or otherwise damage the marks. For a transitional use provision, this general standard is appropriate.

For more on trademark quality control, see *Standard Document, Trademark License Agreement: Drafting Note: Quality Control (http://us.practicallaw.com/8-500-7097)*.

Buyer

As part of its due diligence, the buyer should ensure that it understands the manner in which the seller marks have been used and whether there are any special requirements for use.

If these provisions remain limited to winding down use of existing materials, it is unlikely that any special requirements will need to be considered.

(e) Internal Records. [Buyer/The Acquired Company] may not use the Seller Marks after the end of the Transition Period, except that [Buyer/the Acquired Company] may at all times after the Closing Date retain, solely for its internal business purposes, records and other historical or archived documents containing or referencing the Seller Marks.

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Internal Records.

This provision limits the buyer's use of the seller marks after the transition period to the retention of materials containing or referencing the seller marks for internal business purposes.

Buyer

The buyer should seek a broader acknowledgement of its rights to use the seller marks on a non-trademark or fair use basis. In particular, the buyer can revise the provision to expressly permit use of the marks:

- To describe the history of the acquired entities or businesses.
- As required by applicable law.
- As permitted by applicable law.

The buyer can argue that this language is intended to ensure that it is made no worse off than any other third party.

(f) Disclaimer and Indemnification. Seller hereby disclaims all express and implied representations and warranties concerning the Seller Marks and all responsibility or liability under this Section [SECTION NUMBER] for claims by third parties after the Closing Date arising out of or relating to the use of any Seller Marks by Buyer or its Affiliates [(including the Acquired Company)]. In addition to any other available remedies, Buyer shall indemnify and hold harmless Seller and its Affiliates, officers, directors, employees, agents, successors and assigns from and against all Claims by third parties after the Closing Date arising out of or relating to (i) [Buyer's/the Acquired Company's] use of any Seller Mark in accordance with the provisions of this Section [SECTION NUMBER], other than claims that the Seller Marks infringe or dilute the Intellectual Property or other rights of any third party, or (ii) [Buyer's/the Acquired Company's] or its Affiliates' use of any Seller Mark in violation of this Section [SECTION NUMBER].

DRAFTING NOTE

Disclaimer and Indemnification

Seller

Where transitional trademark use is addressed in a purchase or merger agreement, it is customary for the seller to disclaim all liability for the use of the trademarks and provide no additional representations or warranties.

The agreement may include provisions that cover the use of the seller marks before the closing, including indemnification by the seller. However, those provisions should be separately negotiated.

This provision also includes an indemnity by the buyer for its use of the seller marks as permitted by or in violation of the agreement. The indemnity for permitted use is subject to a reasonable carve-out for infringement and dilution claims, as the seller is the party positioned to be aware of and defend such claims.

The parties should determine whether to reference the agreement's indemnification procedures in this clause.

Buyer

The buyer should seek to avoid indemnifying the seller for its use of the seller marks.

The buyer can argue that a broad indemnity is not warranted due to the limited trademark use permitted under these clauses. However, the seller will in turn argue that it is permitting use of the marks as a concession to the buyer and it is therefore reasonable for the buyer to provide an indemnity.

(g) Equitable Relief. Buyer acknowledges that (i) the Seller Marks are valuable to Seller, (ii) any breach of this Section [SECTION NUMBER] by Buyer or its Affiliates [(including the Acquired Company)] will cause Seller irreparable injury, and (iii) the remedies at law for a breach of this Section [SECTION NUMBER] are inadequate and the resulting damages cannot readily be measured in monetary terms. Without limiting any of Seller's other rights and remedies, and notwithstanding anything in this Agreement to the contrary, in the event of any breach or threatened breach of this Section by Buyer or its Affiliates [(including the Acquired Company)], Seller may obtain and will be entitled to any injunctive or other equitable relief that a court of competent jurisdiction deems proper (including an order restraining any threatened or future breach), on use of affidavit evidence or otherwise, and without furnishing proof of actual damages or posting a bond or other surety.

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Equitable Relief

Seller

Where a trademark owner permits a third party to use its mark, any misuse of the mark may be detrimental to the seller and its reputation. This is the case even if the use is on a transitional basis. In this context, the seller may prefer to prevent or mitigate a misuse of its marks by means of an injunction, rather than relying on damages for breach of the agreement.

This provision aims to persuade a court to exercise its discretion in favor of the seller by granting an injunction or other equitable relief in the event of a breach or threatened breach of this section. The provision also specifies that seller's right to seek an equitable remedy is without limitation to any other rights and remedies that it may have. However, the presence of the clause does not guarantee that a court will issue an injunction or order specific performance because whether relief is granted is ultimately in the court's discretion.

Buyer

The buyer may argue that the limited trademark use permitted under these provisions makes it unlikely that the seller will suffer irreparable harm from any use and the seller should, at minimum, have to prove actual damages in connection with any claim.

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