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Kenneth A. Adams

COMMENTARY

INURES TO THE BENEFIT AND TRADEMARK LICENSING

By *Kenneth A. Adams**

USE OF INURES TO THE BENEFIT

Inure, meaning “to take effect, to come into use,” features in the phrase *inures to the benefit*, which is a fixture in contracts.

The phrase *inures to the benefit* is used in all kinds of contracts as a wordy alternative to the verb *benefits*. Here’s an example from a credit agreement:

The Borrower hereby acknowledges that the issuance of Letters of Credit for the account of Subsidiaries *inures to the benefit of* [read *benefits*] the Borrower . . .

But apart from this general use of *inures to the benefit*, the phrase is used primarily in two contexts. You find it in the pointless “successors and assigns” provision.¹ And it’s used in trademark license agreements, as well as in other kinds of contracts that include the grant of a trademark license. Here’s an example:

The parties intend that any and all goodwill in the Mark arising from Licensee’s use of the Fund Names shall inure solely to the benefit of Licensor.

This commentary is concerned with the latter use and shows that in that context the phrase is either redundant or an inferior alternative to directly addressing the issue in question.

USE IN TRADEMARK LICENSE AGREEMENTS

Why is *inures to the benefit* relevant to trademark license agreements? *McCarthy on Trademarks and Unfair Competition* offers the following explanation:

A licensee’s use *inures to the benefit* of the licensor-owner of the mark and the licensee acquires no ownership rights in the mark itself. This is the rule at common law and has been

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1. See Kenneth A. Adams, *It’s Time to Get Rid of the “Successors and Assigns” Provision*, *The Advocate*, June/July 2013, at 30.

codified in Lanham Act § 5.3. Thus, properly licensed use by licensees will serve to fortify the legal and commercial strength of the licensed mark.²

The relevant part of Lanham Act Section 5³ states:

Where a registered mark or a mark sought to be registered is or may be used legitimately by related companies, such use shall inure to the benefit of the registrant or applicant for registration.

But why restate in a trademark license agreement what is provided by law? After all, the Lanham Act would apply whether or not *inures to the benefit* language is included.

Generally, it can be helpful to remind contract parties of default rules. For example, if a contract provides for dated signatures, reminding the parties that the contract becomes effective once the last party has signed would help ensure that they know what date to use as the date of the contract. But given that *inures to the benefit* involves not an issue of contract administration but instead a substantive issue addressed in a federal statute, economy would suggest omitting *inures to the benefit* language. Once you start parroting in contracts what statutory law already provides, where do you stop?

Case law hints at two other possible reasons for including *inures to the benefit* in trademark license agreements, namely licensee estoppel and trademark acquisition.

THE LICENSEE ESTOPPEL RULE

First, *inures to the benefit* could arguably be used to provide that the licensee may not use the licensed mark while challenging the mark as being invalid. That principle—known as the “licensee estoppel rule”—has been established by case law, but it’s routine for trademark licensors to insert what is referred to as a “no-challenge” provision in the license agreement to make the estoppel explicit.⁴

In *Papercraft Corp. v. Gibson Greeting Cards, Inc.*,⁵ the plaintiff acknowledged that its subsidiary was estopped from challenging the validity of the trademark at issue, and the court implies that the estoppel arose because of the following provision in the relevant license agreement, to which the subsidiary was party:

2. 3 J. Thomas McCarthy, McCarthy on Trademarks and Unfair Competition § 18:52 (4th ed. 2015) (footnotes omitted).

3. 15 U.S.C.A. § 1055.

4. *See id.* § 18:63.

5. 515 F. Supp. 727, 728 (S.D.N.Y. 1981).

LICENSEE hereby acknowledges that UNIEBOEK and ABRAMS owns [sic] the exclusive rights to any trademark(s) now existing, or which may in the future exist, associated with the LICENSED DESIGNS and LICENSED PRODUCT(S), and agrees that any use of said trademark(s) shall inure to the benefit of UNIEBOEK. LICENSEE agrees not to act or fail to act in a manner adverse to said rights, and agrees to take whatever action is necessary or appropriate to protect UNIEBOEK'S rights in said trademark(s).

That provision contains *inures to the benefit*, but it's not clear whether that phrase was what the plaintiff had relied on, given what's in the balance of the provision. More to the point, it would have been far simpler and clearer to address this issue directly by including a no-challenge provision. The only person justified in invoking *inures to the benefit* in this context would be a litigator who arrives on the scene after a dispute has arisen and has to make the best of what's in the contract.

ACQUISITION OF A TRADEMARK

Second, *inures to the benefit* could be used to support acquisition of a trademark created by a licensee. In *Pinnacle Pizza Co., Inc. v. Little Caesar Enterprises, Inc.*,⁶ the Eighth Circuit Court of Appeals held, based on use of *inures to the benefit* language in the franchise agreement at issue and in the Lanham Act, that a franchisor had reason to believe, despite the franchisee's assertions to the contrary, that it could properly register the phrase at issue as its trademark.

But the court's reasoning doesn't make sense. The provision in question refers to "goodwill associated with said Proprietary Marks." The definition of "Proprietary Marks" in the franchise agreement did not include the trademark at issue, so the franchisor could not establish, as a matter of logic, ownership of the mark by appealing to a contract provision that did not even apply unless the franchisor already owned the mark.⁷

In this context too, *inures to the benefit* language is a distant second-best to addressing the issue directly—in this case, how ownership of a new trademark used by the franchisee is to be handled.

6. 598 F.3d 970, 980 (8th Cir. 2010).

7. See Pamela Chestek, *Get Your Hot-N-Ready Pizza from Any Little Caesars*, Property, Intangible (Mar. 27, 2010), <http://propertyintangible.com/2010/03/get-your-hot-n-ready-pizza-from-any-little-caesars.html>; see also *Keystone Retaining Wall Sys., Inc. v. Basalite Concrete Products, LLC*, No. 10-CV-4085 PJS/JJK, 2011 WL 6436210, at *13 (D. Minn. Dec. 19, 2011) (making this point in a comparable context).

So in both of the above situations, whatever function *inures to the benefit* ostensibly serves would be better handled with language that addresses directly the issue in question.

REFERRING TO GOODWILL ANYWAY

If you nevertheless elect to include *inures to the benefit* in trademark license agreements, make clear the source of the rule by phrasing the language in question as a statement of fact. You could do that by prefacing it with the following: *The parties acknowledge that under Lanham Act § 5, 15 U.S.C.A. § 1055 . . .*

And even if you wish to refer to the Lanham Act, don't use the word *inure*. There's no need to parrot the less-than-stellar language of the statute. The *Restatement Third, Unfair Competition* doesn't use *inure*—instead, it says that “the benefits of the licensee's use *accrue* to the trademark owner.”⁸ An even simpler alternative would be to say *are for the benefit of*.

But the simplest thing to do is to let the Lanham Act speak for itself and omit any mention—whether or not using *inures to the benefit*—of who gets the benefit of goodwill.

8. § 33, comment b (1995) (emphasis added).