

United States Court of Appeals  
for the Federal Circuit

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AUTHENTIC APPAREL GROUP, LLC, RON REUBEN

*Plaintiffs-Appellants,*  
v.

UNITED STATES,

*Defendant-Appellee.*

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*On Appeal from the United States Court of Federal Claims*  
Case No. 1:15-cv-16-MCW, Trial Judge Mary Ellen Coster Williams, S.J.

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**CORRECTED PETITION FOR REHEARING *EN BANC*  
Of AUTHENTIC APPAREL GROUP, LLC**

J. JOSEPH BAINTON  
73 Cross Highway to Devon  
P.O. Box 7071  
Amagansett, NY 11930  
(917) 612-8544  
email: bainton@baintonlegal.com

*Attorney for Plaintiff-Appellant Authentic Apparel Group, LLC*

March 27, 2021

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## CERTIFICATE OF INTEREST

1. The full names of every party represented by the above-named counsel are: AUTENTIC APPAREL GROUP, LLC, and RON REUBEN. Pursuant to Fed. Cir. R. 47(a)(2) Appellants state that they are the only real parties in interest and Appellant Reuben's interest, if any, is limited by the ruling of the Panel's decision.
2. All parent corporations and any publicly held companies that own ten percent (10%) or more of the stock of the party represented by the above-named counsel are: NONE.
3. The names of all law firms and the partners and associates that appeared for the party now represented by the above-named counsel in the United States Court of Federal Claims or are expected to appear in this Court (and who have not or will not enter an appearance in this case) are: J. Joseph Bainton.
4. The title and number of any case known to counsel to be pending in this or any other court or agency that will directly affect or be affected by this court's decision in the pending appeal. *See* Fed. Cir. R. 47.4(a)(5) and 47.5(b): NONE.
5. Information required pursuant to Fed. Cir. 47.4(a): NONE.
6. Information required by Federal Rule of Appellate Procedure 26.1(b) and (c): NONE.

Dated: March 27, 2021

/s/ J. Joseph Bainton

J. Joseph Bainton

*Attorney for Plaintiffs-Appellants*

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## RULE 35(b) STATEMENT

Based on my professional judgment, I believe that the Panel’s decision is contrary to the following decisions of the U.S. Supreme Court and the Federal Circuit: *Wal-Mart Stores, Inc. v. Samara Brothers*, 529 U.S. 205 (2000); *Inwood Laboratories, Inc. v. Ives*, 456 U.S. 844 (1982); *United Drug Co. v. Theodore Rectanus Co.*, 248 U.S. 90 (1918); *Abraham v. Rockwell Intern. Corp.*, 326 F.3d 1242 (Fed. Cir. 2003); *Lockheed Martin IR Imaging Systems v. West*, 108 F.3d 319 (Fed. Cir. 1997); and *Visa, U.S.A., Inc. v. Birmingham Tr. Nat’l Bank*, 696 F.2d, 1371 (Fed. Cir. 1982).

This appeal also requires an answer to the following precedent-setting questions of exceptional importance:

- I. Whether a trademark owner can lawfully transfer an interest in only the “aesthetic aspects” of its trademark pursuant to a license without simultaneously transferring the goodwill of the business in which the mark is used, or that part of the goodwill of the business connected with the use of and symbolized by the mark.
- II. Whether having licensed its trademark a trademark owner can categorically refuse to permit its licensee to use the licensed mark as a source identifier as contemplated by the Lanham Act.

/s/ J. Joseph Bainton

J. Joseph Bainton

*Attorney for Plaintiffs-Appellants*

## **Introduction**

Appellant Authentic Apparel Group, LLC (“Authentic”), respectfully submits that *en banc* review is warranted because a Panel of this Court has established a new and unsubstantiated rule of law that is flatly at odds with over a century of Supreme Court jurisprudence; prior holdings of this Court; the express language of the Lanham Act; and every decision of every other Circuit Court of Appeals to consider the issue of whether an interest in a trademark can be transferred without simultaneously transferring the goodwill of the business in which the mark is used, or that part of the goodwill of the business connected with the use of and symbolized by the mark as expressly required by the Lanham Act. Or, alternatively stated, whether a trademark owner can license only the “aesthetic features” of its trademark while denying its licensee the right to identify the licensor as the source of the licensed goods.

In 2010 Authentic and the Defendant-Appellee United States (the “Army”) entered into a written trademark license agreement pursuant to which the Army licensed a number of specifically identified registered trademarks it owns in exchange for a royalty regimen that included some \$750,000 of “Guaranteed Minimum Royalties” that Authentic was required to pay whether or not it had any revenues from the sale of licensed goods

from which to pay them.

The license agreement contained standard clauses granting the Army/Licensors great discretion over the manner in which its trademarks could be used by Authentic/Licensee and exculpating the Army from claims for damages by its Licensee/Authentic arising from its denial of any particular use of its marks.

The Army claimed, and both the Claims Court and the Panel held, that the Licensors had “discretion” to deny its Licensee the use of the licensed trademarks for “trademark purposes” as those purposes are defined in the Lanham Act, namely “to indicate the source of goods.” 15 U.S.C. § 1127 (1994).

In denying Authentic its contractual rights under the trademark license the Panel held:

Authentic’s argument is based on rights that Authentic did not have, namely an alleged “right to identify [the Army] as the source/sponsor of the licensed goods.” *See* Appellants’ Br. 45. Under the law, because Authentic was itself the source of the licensed goods, Authentic could not have had the right to mislead consumers to believe that the Army was the “source.” *See, e.g., Visa, U.S.A., Inc. v. Birmingham Tr. Nat’l Bank*, 696 F.2d, 1371, 1375 (Fed. Cir. 1982) (“A key objective of the law of trademarks is protection of the consumer against being misled or confused as to the source of the goods or services he acquires.”).



Slip Op. at 10.

The Panel's Opinion goes on to state:

Even if the approved uses could be characterized as "decorative," which is not entirely clear, Authentic fails to explain why that should categorically remove them from the class of uses that the Army should be permitted to license.

Slip Op at 13.

The Panel's Opinion thus holds that a trademark owner may lawfully refuse to permit its licensed marks to be used as a source identifier and therefore that the marks may be licensed solely for aesthetic purposes.

### **ARGUMENT FOR REHEARING EN BANC**

This Court's decision in *Visa, U.S.A. , Inc. v. Birmingham Tr. Nat'l Bank*, 696 F.2d, 1371 (Fed. Cir. 1982), cited by the Panel, squarely held that an interest in a trademark cannot be transferred without simultaneously transferring the good will associated with "the portion of the business" with which "the mark is associated." This Court held:

Unlike patents or copyrights, trademarks are not separate property rights. They are integral and inseparable elements of the goodwill of the business or services to which they pertain. "Since goodwill is inseparable from the business with which it is associated" (*Avon Shoe Co. v. David Crystal, Inc.*, 171 F. Supp. 293, 301, 121 U.S.P.Q. 397, 403 (S.D.N.Y. 1959) aff'd, 279 F.2d 607, 125 U.S.P.Q. 607 (2d Cir.), cert. denied, 364 U.S. 909, 81 S. Ct. 271, 5 L. Ed. 2d 224 (1960)), when one speaks of the transfer of goodwill that accompanies a mark, one necessarily means the transfer of the portion of the business or service with which the mark is associated.

*The consequence is that a mark may be transferred only in connection with the transfer of the goodwill of which it is a part. A naked transfer of the mark alone--known as a transfer in gross--is invalid.*

This was the rule at common law (see *United Drug Co. v. Theodore Rectanus Co.*, 248 U.S. 90 (1918)), which section 10 of the Lanham Act (15 U.S.C. § 1060 (1976)) adopts in its provision that a mark is "assignable with the goodwill of the business in which the mark is used, or that part of the goodwill of the business connected with the use of and symbolized by the mark." The Court of Customs and Patent Appeals, the decisions of which bind us (see *South Corp. v. United States*, 690 F.2d 1368, 1370, 215 U.S.P.Q. 657, 658 (Fed. Cir. 1982) (en banc) ), frequently has recognized and applied this rule. See, e.g., *Hy-Cross Hatchery, Inc. v. Osborne*, 303 F.2d 947, 49 Cust. & Pat.App. 1163, 133 U.S.P.Q. 687 (1962). See also *Glamorene Products Co. v. The Procter & Gamble Co.*, 538 F.2d 894, 190 U.S.P.Q. 543 (Cust. & Pat.App.1976); *Sterling Brewers, Inc. v. Schenley Industries, Inc.*, 441 F.2d 675, 169 U.S.P.Q. 590 (Cust. & Pat.App.1971); *J.C. Hall Co. v. Hallmark Cards, Inc.*, 340 F.2d 960, 52 Cust. & Pat.App. 981, 144 U.S.P.Q. 435 (1965); 1 J. McCarthy, *Trademarks and Unfair Competition*, Sec. 18:1 (1973).

*Id.*, 696 F.2d 1375. (Emphasis added.) As the opinion expressly states, its holding tracks word for word the governing provision of the Lanham Act. 15 U.S.C. § 1060 (1976).

Thus, the Panel's holding that the Army could transfer to Authentic an interest in its trademarks for use solely for aesthetic purposes without also transferring the good will associated with those marks arising from the identification of the Army to consumers as the source of goods bearing its trademarks (a) fails to follow the common law as announced by the Supreme Court in 1918 in *United Drug Co. v. Theodore Rectanus Co.*, 248 U.S. 90 (1918); (b) fails to follow *Visa, U.S.A., Inc.*; (c) grants the Army/Licensors monopoly rights in

aesthetic features prohibited by the Supreme Court in *Wal-Mart Stores, Inc. v. Samara Brothers*, 529 U.S. 205 (2000) and *Inwood Laboratories, Inc. v. Ives*, 456 U.S. 844 (1982); and (d) fails to follow the Lanham Act’s statutory requirement that a trademark is "assignable with the goodwill of the business in which the mark is used, or that part of the goodwill of the business connected with the use of and symbolized by the mark." 15 U.S.C. § 1060 (1976).

The rule against a “transfer in gross” of trademark rights applies to trademark licenses as well as trademark assignments. *E.F. Pritchard Co. v. Consumers Brewing Co.*, 136 F.2d 512, 518-519 (6<sup>th</sup> Cir. 1943) (“a naked license to use a trade-mark is of no more validity than a naked assignment thereof.”); *Arthur Murray v. Horst*, 110 F. Supp 678, 679-680 (D. MA 1953) (“There is no dispute that a naked license without either transfer of good-will, the communication of a trade secret, or provisions for supervisory control of the product or services is invalid because of the public deception likely to follow.”).

The Panel’s decision “construed” the License in a manner that rendered it as a matter of law “invalid,” which was contrary to the well-settled principle that contracts should be construed in a manner that renders them lawful. “[I]t is a general rule of contract interpretation that terms of a contract should not be interpreted so as to render them ineffective or superfluous.” *Lockheed Martin IR*

*Imaging Systems v. West*, 108 F.3d 319, 322 (Fed. Cir. 1997); *See also: Restatement(Second) of Contracts § 203(a)* (“an interpretation which gives a reasonable, lawful, and effective meaning to all the terms is preferred to an interpretation which leaves a part unreasonable, unlawful, or of no effect”); *Abraham v. Rockwell Intern. Corp.*, 326 F.3d 1242, 1254 (Fed. Cir. 2003).

The Panel’s decision also misstates the law of trademark licensing by holding that in the middle of the twentieth century a “trend” developed approving trademark licensing so long as the licensor controlled the quality of the licensee’s products. Slip Op. page 11.

A “trend” did not develop in the middle of the last century. Instead, in 1946 the Lanham Act became statutory law and expressly permits the use of the same trademark by “related” companies. 15 U.S.C. § 1105 (“When a registered mark ... is used ... by related companies, such use shall inure to the benefit of the registrant ....”).

A “related company” is defined in the Lanham Act as “any person who legitimately controls or is controlled by the registrant ... in respect to the nature and quality of the goods or services in connection with which the mark is used.” *Id.*

The Lanham Act’s requirement that the licensee be “controlled by the registrant ... in respect to the nature and quality of [licensed] goods” is to guarantee to consumers that the quality of licensed goods meets their expectations arising from the appearance on the goods of the licensed mark.

Since the statutory definition of a trademark as an indicator of source upon which Authentic relies became statutory law as part of the same Congressional Act that permitted trademark licensing so long as the registrant controls the use of its mark, the Panel’s criticism of Authentic’s argument as “an outdated model of trademark licensing law to push an unduly narrow interpretation of what it means for a licensee’s use of a trademark to be ‘for trademark purposes’” is unfounded. Slip Op., page 11. Authentic relies on the express, current language of the Lanham Act, which codified prior Supreme Court precedent in *United Drug Co.*

The Lanham Act has not been materially amended. A trademark is today defined as an indicator of source (15 U.S.C. § 1127) and the Lanham Act today provides that an interest in a mark cannot be transferred without also transferring “the goodwill of the business in which the mark is used, or that part of the

goodwill of the business connected with the use of and symbolized by the mark.” (15 U.S.C. § 1060).

Accordingly, by failing to permit Authentic to use the licensed trademarks “for trademark purposes,” meaning precisely the purposes stated in 15 U.S.C. § 1127, the Army breached the trademark license because the contract language expressly licensed “trademarks” and not “any word, name symbol, or device” to be used only for “aesthetic” purposes.

Authentic obviously had no need to pay the Army for a license to sell goods under its own name as the Panel’s Decision incorrectly holds it was obliged to do notwithstanding its rights under the trademark license.

The Army’s monopoly in the use of the words, names, symbols, and devices it has registered as trademarks (and the concomitant right to license them for a fee) exists only so long as they serve to indicate the source of the goods on which they appear and are not “aesthetic only.” *Wal-Mart Stores, Inc. v. Samara Brothers*, 529 U.S. 205, 215 (2000);

*Inwood Laboratories, Inc. v. Ives*, 456 U.S. 844, 851, n. 11 (1982); *Vuitton et Fils S.A. v. J. Young Enters., Inc.*, 644 F.2d 769, 774 (9th Cir. 1981) and *Christian Louboutin S.A. v. Yves Saint Laurent Am. Holdings, Inc.*, 696 F.3d 206, 222 (2d Cir. 2012).

Having chosen to license its trademarks in exchange for substantial consideration, the Army was therefore contractually obligated to permit their use as such.

The Panel's holding to the contrary is flatly at odds with well-settled trademark law that governed the principal object of the contract between Authentic and the Army, namely the licensing of the Army's trademarks. While the Army's breach of its contract with Authentic may well have put the continuing validity of its marks at risk, that fact does not impair Authentic's right to recover damages for breach of contract.

Simply put, a trademark license cannot be construed in a manner that categorically prevents the licensee from using the licensed mark to identify the licensor as the source of the licensed goods as contemplated by the Lanham Act because

such a construction renders the license “invalid.”

### **Conclusion**

By reason of the foregoing, Authentic respectfully submits that the Panel Decision should be reconsidered by the *en banc* Court.

Upon such reconsideration, Authentic respectfully submits that the Court should (a) reject the new rule of law announced by the Panel that grants a trademark owner the right to transfer an interest in its trademark solely for aesthetic purposes and (b) reaffirm prior precedent forbidding transferring of an interest in a trademark without simultaneously transferring the good will as a source identifier associated with the mark.

Dated: March 27, 2021

/s/ J. Joseph Bainton  
J. Joseph Bainton  
*Principal Attorney for Plaintiff-Appellant*  
73 Cross Highway to Devon  
P.O. Box 7071  
Amagansett, NY 10090  
Telephone: (917) 612-8544  
Email: [bainton@baintonlegal.com](mailto:bainton@baintonlegal.com)



# **ADDENDUM**

# United States Court of Appeals for the Federal Circuit

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**AUTHENTIC APPAREL GROUP, LLC, RON  
REUBEN,**  
*Plaintiffs-Appellants*

v.

**UNITED STATES,**  
*Defendant-Appellee*

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2020-1412

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Appeal from the United States Court of Federal Claims  
in No. 1:15-cv-00016-MCW, Senior Judge Mary Ellen Cos-  
ter Williams.

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Decided: March 4, 2021

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J. JOSEPH BAINTON, Amagansett, NY, argued for plain-  
tiffs-appellants.

BORISLAV KUSHNIR, Commercial Litigation Branch,  
Civil Division, United States Department of Justice, Wash-  
ington, DC, argued for defendant-appellee. Also repre-  
sented by JEFFREY B. CLARK, ROBERT EDWARD KIRSCHMAN,  
JR., DOUGLAS K. MICKLE; JAMES MACKEY IVES, Military  
Personnel Branch, United States Department of the Army,  
Fort Belvoir, VA.

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Before LOURIE, DYK, and STOLL, *Circuit Judges*.

LOURIE, *Circuit Judge*.

Authentic Apparel Group, LLC (“Authentic”) and Ron Reuben (“Reuben”) (collectively, “Appellants”) appeal from the decision of the United States Court of Federal Claims (“the Claims Court”) granting summary judgment in favor of the government. *Authentic Apparel Grp., LLC v. United States*, 146 Fed. Cl. 147 (2019) (“*Summary Judgment Decision*”). Appellants also appeal from the Claims Court’s decision dismissing Reuben as a co-plaintiff in the litigation. *Authentic Apparel Grp., LLC v. United States*, 123 Fed. Cl. 92 (2015) (“*Dismissal Decision*”). For the reasons stated below, we affirm.

#### BACKGROUND

In August 2010, the Department of the Army (“Army”) granted Authentic a nonexclusive license to manufacture and sell clothing bearing the Army’s trademarks in exchange for royalties. The license agreement required the Army’s advance written approval of any products and marketing materials bearing the Army’s trademarks. The license agreement stated:

Prior to any sale or distribution, [Authentic], at its expense, shall submit to [the Army] all items including, but not limited to, products, packaging, labeling, point of sale materials, trade show displays, sales materials and advertising (subject to Section 14.3) bearing the PROPERTY and/or CREATIONS . . . for [the Army]’s advance written approval, in [the Army]’s ***sole and absolute discretion***, at all stages listed below.

J.A. 224 § 5.1 (emphasis added).<sup>1</sup> The license agreement also included exculpatory clauses that exempted the Army from liability for exercising its discretion to deny approval of Authentic's products and marketing materials:

[Authentic] shall not have any rights against [the Army] for damages or other remedies by reason of [the Army]'s failure or refusal to grant any approval referred to in this Section 5.

J.A. 225 § 5.1.8.

[Authentic] shall not have any rights against [the Army] for damages or any other remedy by reason of [the Army]'s failure or refusal to grant approval of any advertising.

J.A. 239 § 14.3.

Between 2011 and 2014, Authentic submitted nearly 500 requests for approval to the Army through The Beanstalk Group LLC ("Beanstalk"), a company that the Army has engaged to manage its trademark licenses. The Army disapproved only 41 of those submissions. During that time, Beanstalk sent several formal notices of material breach to Authentic for what it stated were failures to timely submit royalty reports and pay royalties. Authentic eventually paid its outstanding royalties through 2013, but on November 24, 2014, Authentic's counsel informed Beanstalk that Authentic had no intention of paying outstanding royalties for 2014, and instead intended to sue the government for damages.

On January 6, 2015, Authentic and Reuben filed a complaint in the Claims Court against the United States for

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<sup>1</sup> The license agreement provides definitions for the terms "PROPERTY" and "CREATION," but for our purposes it is sufficient to assume that those terms refer to the Army's trademarks.

breach of contract. The primary allegations of breach were based on what Appellants stated as the Army's denial of the right to exploit the goodwill associated with the Army's trademarks, refusal to permit Authentic to advertise its contribution to certain Army recreation programs, delay of approval for a financing agreement for a footwear line, and denial of approval for advertising featuring the actor Dwayne "The Rock" Johnson. On August 26, 2015, the Claims Court dismissed Reuben as a plaintiff from the case for lack of standing. *Dismissal Decision*, 123 Fed. Cl. at 96–97. Authentic subsequently amended its complaint to include an allegation that the Army breached the implied duty of good faith and fair dealing by not approving the sale of certain garments.

On November 27, 2019, the Claims Court granted the government's motions for summary judgment and denied Authentic's cross motions. The Claims Court determined that, in view of the express exculpatory clauses in the license agreement, Authentic could not recover damages from the government based on the Army's exercise of its discretion regarding the approval or disapproval of products and marketing materials. *See Summary Judgment Decision*, 146 Fed. Cl. at 156–57. The Claims Court then proceeded to separately examine and reject each allegation in Authentic's amended complaint, finding that the Army's conduct was in line with its obligations under the license agreement and was not unreasonable. *Id.* at 157–77. The Claims Court entered judgment in favor of the government. Authentic appealed, and we have jurisdiction under 28 U.S.C. § 1295(a)(3).

## DISCUSSION

### I

We first address Appellants' challenge to the dismissal of Reuben for lack of standing. The Claims Court's subject matter jurisdiction is a question of law. *Bosco v. United States*, 931 F.2d 879, 882 (Fed. Cir. 1991) (citing *Phillips v.*

*GSA*, 924 F.2d 1577, 1579–80 (Fed. Cir. 1991)). We therefore review de novo the Claims Court’s determination regarding standing. *Id.* (citing *Chevron U.S.A., Inc. v. United States*, 923 F.2d 830, 833 (Fed. Cir. 1991)). But “[w]e review any factual findings, including those underlying the standing analysis . . . , for clear error.” *Starr Int’l Co. v. United States*, 856 F.3d 953, 963 (Fed. Cir. 2017) (citing *Norman v. United States*, 429 F.3d 1081, 1087 (Fed. Cir. 2005)).

Standing to sue the United States on a contract claim is limited to those in privity of contract with the government. *See P. Gas & Elec. Co. v. United States*, 838 F.3d 1341, 1350 (Fed. Cir. 2016) (“*PG&E*”). In rare situations, a third party can have standing to sue the United States upon a showing that he or she is an intended third-party beneficiary of a contract with the government. *See Flexfab, L.L.C. v. United States*, 424 F.3d 1254, 1263 (Fed. Cir. 2005). However, even with regard to contracts between private parties, third-party beneficiary status is considered an “exceptional privilege” that is “an exception to the general principle, which proceeds on the legal and natural presumption that a contract is only intended for the benefit of those who made it.” *German All. Ins. Co. v. Home Water Supply Co.*, 226 U.S. 220, 230 (1912). Thus, it is well settled that “the requirements to demonstrate third-party beneficiary status are ‘stringent.’” *PG&E*, 838 F.3d at 1361 (quoting *Anderson v. United States*, 344 F.3d 1343, 1352 (2003)). “In order to prove third party beneficiary status, a party must demonstrate that the contract not only reflects the express or implied intention to benefit the party, but that it reflects an intention to benefit the party directly.” *Glass v. United States*, 258 F.3d 1349, 1354 (Fed. Cir. 2001). “[A]t a minimum there must be a particular, identifiable benefit that was clearly intended to flow to the third party.” *PG&E*, 838 F.3d at 1361.

Here, it is undisputed that Reuben was not in privity of contract with the government because he was not a party

to the license agreement. Thus, the only question is whether Reuben has established that the license agreement contained a particular benefit that was clearly intended to flow directly to him. We conclude that Reuben has not made such a showing.

Importantly, the license agreement at issue in this case does not mention Reuben's name (with the exception of the signature block on the amendments), and certainly does not clearly identify Reuben as an intended beneficiary. Moreover, the license agreement indicates in plain language that "all rights and duties herein are personal to [Authentic]," *i.e.*, not to anyone else. *See* J.A. 234 § 12.1. Reuben, as Authentic's chairman, undoubtedly stood to benefit indirectly from the license agreement. In that regard, however, he is hardly different from any other company owner who indirectly benefits from the business transactions of his or her company. Under the law, such indirect benefit is not sufficient to establish third-party beneficiary status for purposes of standing. *See Castle v. United States*, 301 F.3d 1328, 1338 (Fed. Cir. 2002) ("[I]n order to make a shareholder a third[-]party beneficiary, the contract must express the intent of the promissor to benefit the shareholder personally, *independently of his or her status as a shareholder.*" (quoting *Glass*, 258 F.3d at 1354)); *see also S. Cal. Fed. Sav. & Loan Ass'n v. United States*, 422 F.3d 1319, 1331 (Fed. Cir. 2005) ("[A] corporation is generally considered to be a separate legal entity from its shareholder[.]").

In attempting to support his claim to third-party beneficiary status, Reuben asks us to rewind the clock to 2007, three years before the 2010 license agreement between Authentic and the Army. In 2007, Reuben was the chairman of a different company called All American Apparel, Inc. ("All American") when that company entered into a different license agreement for use of the Army's trademarks. Reuben alleges that the Army breached that 2007 license agreement, that the Army's alleged breach caused All

American to go bankrupt, and that the Army later decided to give Authentic—a different company—a more favorable royalty rate in the 2010 license to benefit Reuben “as compensation for the damages caused by the Army’s breach of the [2007 license with All American].” Appellants’ Br. 58.

Distilled to its essence, Reuben’s claim to third-party beneficiary status rests entirely on his affiliation with two different companies that entered into two different license agreements with the Army. Reuben attempts to bridge the divide between those companies by implying that Authentic is in some way a successor to All American. For example, Reuben characterizes the two licenses—which, again, the Army made with two separate companies—as the “First License” and the “Second License.” *See, e.g.*, Appellants’ Br. 2–3. Similarly, Reuben emphasizes the fact that Authentic’s license in 2010 had a lower royalty rate than All American’s license in 2007, and refers to the lower rate as a “reduction.” *See id.* at 15. But even accepting every one of Reuben’s allegations as true, he has at most demonstrated that his personal circumstances may have contributed to the Army’s reasons for agreeing to certain terms in the 2010 license agreement with Authentic. There is no escaping the reality, however, that it was not Reuben himself who received the direct benefit of paying a lower royalty rate. The direct benefit from the favorable contract terms flowed to Authentic, not to Reuben personally.

In concluding his argument in this court, Reuben’s counsel posed a rhetorical question: “If the 40% [royalty rate] reduction wasn’t to help [Reuben], who was it there to help?” Oral Arg. at 13:40–13:43, [http://oralarguments.cafc.uscourts.gov/default.aspx?fl=20-1412\\_01062021.mp3](http://oralarguments.cafc.uscourts.gov/default.aspx?fl=20-1412_01062021.mp3). That rhetorical question is easily answered by stating the obvious: the royalty rate in the 2010 license agreement between Authentic and the Army was intended to benefit the parties that entered into that license agreement—*i.e.*, Authentic and the Army. The Claims Court therefore correctly held that Reuben did not have third-party



beneficiary status under the 2010 license agreement, and the court properly dismissed Reuben for lack of standing.

## II

We turn to Authentic's challenge to the Claims Court's grant of summary judgment. "We review 'the summary judgment of the Court of Federal Claims, as well as its interpretation and application of the governing law, de novo.'" *Hartman v. United States*, 694 F.3d 96, 101 (Fed. Cir. 2012) (quoting *Gump v. United States*, 86 F.3d 1126, 1127 (Fed. Cir. 1996)). Summary judgment is appropriate when there is no genuine issue of material fact and the moving party is entitled to judgment as a matter of law. R. Ct. Fed. Cl. 56(a).

### A

We begin with the language of the contract itself. "Contract interpretation is a question of law generally amenable to summary judgment." *Premier Office Complex of Parma, LLC v. United States*, 916 F.3d 1006, 1011 (Fed. Cir. 2019) (quoting *Varilease Tech. Grp., Inc. v. United States*, 289 F.3d 795, 798 (Fed. Cir. 2002)). In this case, the express language of the license agreement is dispositive.

The license agreement stated in no uncertain terms that the Army had "sole and absolute discretion" regarding approval of Authentic's proposed products and marketing materials. J.A. 224 § 5.1. In addition to that provision, the license agreement also included exculpatory clauses expressly stating that Authentic would have no right to bring a cause of action against the Army based on the Army's exercise of that discretion. J.A. 225 § 5.1.8; J.A. 239 § 14.3. The Claims Court relied on a Supreme Court decision upholding the validity and enforceability of such an exculpatory clause with respect to the government's liability for delay damages. *See Wood v. United States*, 258 U.S. 120 (1922); *see also Wells Bros. Co. v. United States*, 254 U.S. 83 (1920). The Supreme Court has made clear that courts

should enforce “a plain and unrestricted covenant on the part of the contractor, comprehensive as words can make it, that it will not make any claim against the government.” *Wells Bros.*, 254 U.S. at 87.

At bottom, Authentic agreed to give the Army broad approval discretion, and, similar to the parties in *Wells Bros.* and *Wood*, Authentic agreed to bear the risk that the Army would exercise that discretion to Authentic’s detriment, at least so long as the government did not act arbitrarily or in bad faith, a matter which we discuss below. Authentic’s allegation that the detriment has indeed come to pass is simply not a reason to uproot the parties’ bargain.

## B

Authentic’s primary argument for allowing its lawsuit to proceed despite the exculpatory clauses is based on general principles of trademark licensing law. Authentic argues that even if the Army has broad approval discretion under the license agreement, that discretion cannot be so broad as to allow the Army to refuse to permit the use of its trademarks “for trademark purposes.” *See* Appellants’ Br. 43–48. Authentic contends that the Army’s interpretation of the breadth of its discretion, as adopted by the Claims Court, allowed the Army to restrict Authentic’s use of the marks to solely “decorative” purposes, which Authentic suggests are not “trademark purposes.” *See id.* In so doing, Authentic argues, the Army separated the trademarks from their associated goodwill, and thus unlawfully turned the license agreement into a license “in gross,” *see id.*, which it asserts invalidates the trademarks.

We first note, in addressing this argument, that we are dealing with contract interpretation in this appeal, not evaluating the validity of trademarks. Whether the Army’s licensing practices impair the validity of its trademarks is its own business, not a matter for Authentic to complain about, and certainly does not nullify express clauses in the parties’ licensing agreement.

But grappling with Authentic's argument, we are not persuaded that the Army's conduct was at odds with principles of trademark law. Authentic's argument appears to rest on a premise that trademark licenses carry with them special considerations that make them inherently distinguishable from other types of contracts, such as the construction contracts at issue in *Wells Bros.* and *Wood*. See, e.g., Appellants' Reply Br. 9 (attempting to distinguish *Wells Bros.* and *Wood* on the basis that the contracts in those cases "had as their 'object' the construction of something"). But we see no indication that the Supreme Court's reasoning in *Wells Bros.* and *Wood* depended on the underlying subject matter of the contracts at issue, nor do we discern any reason why it would have. Rather, the Court relied on the principle that contract terms "cannot be treated as meaningless and futile and read out of the contract." *Wells Bros.*, 254 U.S. at 87. Contracting parties, including parties who contract with the government, are generally held to the terms for which they bargained. See *id.* That principle is equally applicable in this case.

Even assuming, however, that there are special considerations for trademark licenses, those considerations as they have been argued by Authentic do not persuade us that the exculpatory clauses are not controlling in this case. Authentic's argument is based on rights that Authentic did not have, namely, an alleged "right to identify [the Army] as the source/sponsor of the licensed goods." See Appellants' Br. 45. Under the law, because Authentic was itself the source of the licensed goods, Authentic could not have had the right to mislead consumers to believe that the Army was the "source." See, e.g., *Visa, U.S.A., Inc. v. Birmingham Tr. Nat'l Bank*, 696 F.2d 1371, 1375 (Fed. Cir. 1982) ("A key objective of the law of trademarks is protection of the consumer against being misled or confused as to the source of the goods or services he acquires."). And, under the express terms of the license agreement, Authentic agreed that it could not represent to the public that its

products were made by the Army, or “supported, endorsed or sponsored” by the Army. J.A. 218 § 2.4; *see also id.* (requiring Authentic to produce all goods under its own name).

Authentic presents the term “for trademark purposes” as if it is a term of art in the field of trademark licensing law with a well-established meaning.<sup>2</sup> But, although Authentic cites the statutory definition of the term “trademark” in the Lanham Act, *see* 15 U.S.C. § 1127, Authentic cites no legal authority that purports to define—or even use—the term “for trademark purposes” in the context of a trademark licensing dispute. More problematically, Authentic relies on an outdated model of trademark licensing law to push an unduly narrow interpretation of what it means for a licensee’s use of a trademark to be “for trademark purposes.”

At one time it was accepted law that “a trademark’s sole purpose was to identify for consumers the product’s physical source or origin.” *See K Mart Corp. v. Cartier, Inc.*, 486 U.S. 281, 313 (1988) (Brennan, J., concurring-in-part) (citing *Macmahan Pharmacal Co. v. Denver Chem. Mfg. Co.*, 113 F. 468, 475 (8th Cir. 1901)). “Under this early “source theory” of protection, trademark licensing was viewed as philosophically impossible . . . .” *Id.* (quoting 1 J. McCarthy, *Trademarks and Unfair Competition* 826 (2d ed. 1984)). However, in the middle of the twentieth century, “a trend develop[ed] approving of trademark licensing—so long as the licensor controlled the quality of the licensee’s products—on the theory that a trademark might also serve the function of identifying product quality for consumers.” *Id.* at 314 (citing 1 McCarthy, *Trademarks and Unfair Competition*, at 827–29); *see also* 3 McCarthy on *Trademarks and Unfair Competition* § 18.40 (5th ed.

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<sup>2</sup> The term “for trademark purposes” appears more than 20 times in Authentic’s opening brief.

2020) (“The quality theory permits a trademark owner to license the mark and allow licensees to buy supplies from anyone, provided the licensor maintains quality control over products reaching consumers under the mark.”).

Under current prevailing law, the Army was required to maintain quality control over the products associated with its trademarks. Authentic has not alleged, or come forth with evidence, that such quality control measures were lacking in this case. Authentic concedes that the approval provisions in the license agreement allowed the Army to fulfill its duty to ensure quality control and thus avoid a “naked license” of the trademarks. *See* Appellants’ Br. 44–45. And, as Authentic’s entire complaint is based on allegations that the Army was overly strict in the approval process, it cannot be disputed that the Army fulfilled that duty. Thus, there was no problem of naked licensing in this case. *See Dawn Donut Co. v. Hart’s Food Stores, Inc.*, 267 F.2d 358, 367 (2d Cir. 1959) (explaining “naked licensing” as “the grant of licenses without the retention of control” (citing *E.I. DuPont de Nemours & Co. v. Celanese Corp. of Am.*, 167 F.2d 484, 489 (C.C.P.A. 1948))).

In view of the clear shift in the law toward allowing trademark licenses, we do not agree with Authentic that a “decorative” use of a trademark is necessarily divorced from the goodwill associated with the trademark such that it cannot be considered a licensed use “for trademark purposes.” We recognize, of course, that a purely decorative design may not qualify for trademark protection in the first place. *See, e.g.*, Trademark Manual of Examining Procedure § 1202.03 (Oct. 2018) (“Subject matter that is merely a decorative feature does not identify and distinguish the applicant’s goods and, thus, does not function as a trademark . . . . This matter should be refused registration because it is merely ornamentation and, therefore, does not function as a trademark, as required by §§1, 2, and 45 of the Trademark Act, 15 U.S.C. §§1051, 1052, and 1127.”). But, again, this appeal does not involve a challenge to the

validity of the Army's trademarks, but rather a question of what limitations the Army may place on the use by a licensee of trademarks that the Army already owns.

Throughout its briefing, Authentic repeatedly implies that the only way it could have capitalized on the goodwill associated with the Army's marks would have been by giving consumers the impression that they were getting property from the Army. See, e.g., Appellants' Br. 47; Appellants' Reply Br. 16. But "[a] trademark need not be the name of the manufacturer of the goods and the public need not know the name of the owner of the mark." *In re Polar Music Int'l AB*, 714 F.2d 1567, 1571 (Fed. Cir. 1983) (citing *Coco-Cola Co. v. Koke Co. of Am.*, 254 U.S. 143, 146 (1920)); see also *Fin. Matters, Inc. v. Pepsico, Inc.*, 806 F. Supp. 480, 481 n.2 (S.D.N.Y. 1992) ("It is well-established that the public need not know the name of the trademark owner for the[re] to be goodwill in a mark, nor does the name of the owner have to appear on the product itself."). It has become accepted law that "[a] use of a trademark properly may display only the licensed mark and the name of the licensee." See *Gen. Motors Corp. v. Gibson Chemical & Oil Corp.*, 786 F.2d 105, 110 (2d Cir. 1986) (citing 1 McCarthy, Trademarks and Unfair Competition, at 832); see also 3 McCarthy on Trademarks and Unfair Competition § 18.45.

Authentic acknowledges that the Army's marks are "famous." See Appellants' Br. 46. And it is not disputed that the Army approved the majority of Authentic's product proposals, including uses of the phrase "U.S. Army" as well as the Army logo. Even if the approved uses could be characterized as "decorative," which is not entirely clear, Authentic fails to explain why that should categorically remove them from the class of uses that the Army should be allowed to license. On the contrary, the Army's approvals seem to have been in the spirit of the law and the license agreement because they allowed Authentic to benefit from the goodwill associated with the Army's marks while still

requiring that Authentic sell its own products under its own name. To the extent Authentic asserts that there was a lack of consumer interest in the products that the Army approved, *see, e.g.*, Oral Arg. at 10:25–10:30 (attempting to distinguish between “merchandizing” versus “garment design”), that was a business problem for Authentic, not a legal problem that the Army was required to resolve.

For the foregoing reasons, Authentic has not persuaded us that the Army’s exercise of its broad approval discretion under the license agreement is inconsistent with principles of trademark law. We therefore see no justification to disregard the exculpatory clauses in the license agreement.

### C

In addition to its trademark arguments, Authentic also attempts to distinguish *Wells Bros.* and *Wood* on the basis that the exculpatory clauses in those cases merely assigned risk that the parties had previously contemplated and did not apply to all of the government’s obligations. *See* Appellants’ Reply Br. 9, 11. But here too, the exculpatory clauses in the license agreement pertain to behavior that the parties contemplated and addressed in the license agreement, namely, the Army’s discretion to disapprove Authentic’s products and marketing materials. *See* J.A. 225 § 5.1.8; J.A. 239 § 14.3.

We recognize that the potential for abuse may have existed in this case because the license agreement required Authentic to pay minimum royalties but it did not expressly require the Army to approve any of Authentic’s proposed products. *See* Oral Arg. at 3:34–3:49 (Authentic’s contention that it was “not reasonable for the Army to have insisted that [Authentic] pay guaranteed minim[um] royalties while refusing to approve any merchantable products from which to generate revenues from which to pay those [royalties]”). And we are skeptical of the government’s position that the Army could have been in compliance with its contractual obligations even if it had issued arbitrary

rejections and acted in bad faith. *See id.* at 15:21–17:50. But none of those hypothetical factual scenarios played out in this case. The Army approved more than 90% of Authentic’s proposals. And, as the Claims Court found that Authentic’s evidence could not even support allegations that the Army acted unreasonably, *see Summary Judgment Decision*, 146 Fed. Cl. at 152, we certainly do not see a genuine dispute of material fact about whether the Army acted arbitrarily or in bad faith such that its conduct might fall outside of the exculpatory clauses. To be sure, the government indeed does have an obligation of good faith and fair dealing in its contracting, *see Dobyms v. United States*, 915 F.3d 733, 739 (Fed. Cir. 2019) (“Every contract, including one with the federal government, imposes upon each party an implied duty of good faith and fair dealing in its performance and enforcement.” (citing *Metcalf Constr. Co. v. United States*, 742 F.3d 984, 990 (Fed. Cir. 2014))), but Authentic has not identified evidence that could establish that the government violated its obligation here.

For the foregoing reasons, Authentic’s arguments do not persuade us that there is a legal or factual reason to deviate from a plain reading of the exculpatory clauses in the license agreement. We therefore hold that the Claims Court correctly granted summary judgment in favor of the government.

#### CONCLUSION

We have considered Authentic’s remaining arguments but we find them unpersuasive. Accordingly, the decisions of the Claims Court are affirmed.

**AFFIRMED**



## CERTIFICATE OF SERVICE

I hereby certify that on March 27, 2021, I electronically filed the foregoing Petition of Plaintiff-Appellant Authentic Apparel Group, LLC for Rehearing En Banc Pursuant to Fed. R. App. P. 35(b) with the Clerk of Court using the CM/ECF System, which will send notice of such filing to all registered users. I also caused a true and correct copy of the foregoing to be electronically served on Defendant-Appellee's counsel of record as follows:

steven.kushnir@usdoj.gov.

Dated: March 27, 2021

*/s/ J. Joseph Bainton* \_\_\_\_\_  
J. Joseph Bainton  
*Principal Attorney for Plaintiff-Appellant*  
73 Cross Highway to Devon  
P.O. Box 7071  
Amagansett, NY 10090  
Telephone: (917) 612-8544  
Email: bainton@baintonlegal.com

## **CERTIFICATE OF COMPLIANCE**

This brief complies with the type-volume limitation of Fed. Cir. R. 32(a). The brief contains 2889 words, excluding parts of the brief exempted by Fed. R. App. P. 32(f) and Fed. Cir. R. 32(b). The word count includes the words automatically counted by Microsoft Word. This brief also complies with the typeface requirements of Fed. R. App. P. 32(a)(5) and the type style requirements of Fed. R. App. P. 32(a)(6). The brief has been prepared in a proportionally spaced typeface using Microsoft Word in 14-point font of Times New Roman.

Dated: March 27, 2021

*/s/ J. Joseph Bainton* \_\_\_\_\_  
J. Joseph Bainton  
*Principal Attorney for Plaintiff-Appellant*