

No. 18-1086

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In the  
**Supreme Court of the United States**

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LUCKY BRAND DUNGAREES, INC., LUCKY BRAND  
DUNGAREES STORES, INC., LEONARD GREEN &  
PARTNERS, L.P., LUCKY BRAND DUNGAREES, LLC,  
LUCKY BRAND DUNGAREES STORES, LLC, KATE  
SPADE & CO.,

*Petitioners,*

v.

MARCEL FASHION GROUP,

*Respondent.*

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**On Petition for Writ of Certiorari to the  
United States Court of Appeals  
for the Second Circuit**

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**REPLY BRIEF FOR PETITIONERS**

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## REPLY BRIEF

Marcel cannot deny the circuit split. Indeed, Marcel does not deny that, unlike the decision below (“*Marcel II*”), other circuits’ decisions allowed defendants to raise defenses that were available, but not resolved, in prior litigation between the parties. Instead, Marcel attempts to distinguish those cases on the facts, rather than on the legal principles they espouse. According to Marcel, the claims here are “the same” as the claims in the prior suit between Marcel and Lucky (“the 2005 Action”), and that somehow distinguishes the other circuits’ decisions. Marcel is wrong on both points. As the Second Circuit held in *Marcel I*, the claims here stem from acts that occurred “subsequent” to the 2005 Action. App.46; see Pet.7. And it is black-letter law that a claim is not the “same” for preclusion purposes if it is “predicated on events that postdate” the earlier case. *Whole Woman’s Health v. Hellerstedt*, 136 S. Ct. 2292, 2305 (2016); see Pet.15-16. Indeed, the only reason *Marcel’s claims* here are not claim precluded is that they are *not* the same as the claims in the 2005 Action. The sole substantive distinction Marcel offers to try to dispel the circuit split here is thus no distinction at all.

Marcel makes the same maneuver in trying to reconcile the decision below with this Court’s precedents. But Marcel’s imaginative retelling cannot change the facts of this case or what the Second Circuit actually held. Nor can it conceal the fundamental conflict between the decision below and 150 years of Supreme Court precedent. Finally, Marcel’s nothing-to-see-here approach fails to resolve the conflict with the Federal Rules of Civil Procedure

or the pro-forum-shopping incentives the decision below creates. The Court should grant the petition.

### **I. Marcel Cannot Deny The Circuit Split.**

1. In trying to deny the division with the Federal Circuit, Marcel ends up highlighting it. According to Marcel, *Aspex Eyewear, Inc. v. Marchon Eyewear, Inc.*, 672 F.3d 1335 (Fed. Cir. 2012), addressed only “the well-established principle that claim preclusion will not bar a second suit for damages for conduct occurring after the first judgment.” BIO.23. In reality, *Aspex* also held that where, as here, claim preclusion does not bar a second suit (because, *e.g.*, the second suit is based on later-occurring conduct, *see* Pet.7), issue preclusion applies “only as to ‘matters which were actually litigated and determined in the first proceeding.’” *Aspex*, 672 F.3d at 1343-44 (quoting *Commissioner v. Sunnen*, 333 U.S. 591, 597-98 (1948)); *see* Pet.12. That is the opposite of what the Second Circuit held here in *Marcel II*. *See* Pet.9-10.

Marcel’s efforts (at 21-22) to reconcile *Nasalok Coating Corp. v. Nylok Corp.*, 522 F.3d 1320 (Fed. Cir. 2008), fare no better. *Nasalok* did *not* hold that a never-before-resolved *issue* was precluded in a second suit between the parties, but that a *plaintiff* is precluded from litigating *claims* in a second suit that constitute “a collateral attack on the first judgment.” *Id.* at 1324. (Nasalok was defendant in the first case but petitioner in the second, which it brought to cancel the validity of the trademark that formed the basis of Nylok’s successful infringement claims in the first case. *Id.* at 1322.) Here, by contrast, allowing Lucky (the defendant) to raise a *defense* that was never previously resolved would in no way “negate relief

secured by [Marcel] in the [2005] infringement proceeding.” *Id.* at 1329. Nor could it, since, as *Marcel I* held, the infringement claims on which Marcel prevailed in the 2005 Action predate the claims here. *See App.45-52.*

Marcel’s efforts to explain away *Ecolab, Inc. v. Paraclipse, Inc.*, 285 F.3d 1362 (Fed. Cir. 2002), fare worse. As Marcel notes, the second suit in *Ecolab* “was ‘a new infringement suit involving a new product.’” BIO.22 (quoting 285 F.3d at 1377). Marcel says (at 23) that makes *Ecolab* “markedly different” from this case; in reality, the two cases are practically identical. In *Ecolab*, the second infringement suit alleged that a product brought to market after the first case infringed the same patent in the same way that the product in the first case did. 285 F.3d at 1376-77. Likewise here, Marcel alleges that acts that postdate the 2005 Action infringe the same trademark in the same way that the acts at issue in the first case did. Yet, in *Ecolab*, the Federal Circuit held that the defendant was *not* precluded from asserting invalidity as a defense in the second suit because it was not resolved in the first suit, even though it could have been, *id.*, whereas here, the Second Circuit held exactly the opposite, Pet.9-14.

2. Marcel sings the same off-key tune about the Eleventh Circuit’s decision in *McKinnon v. Blue Cross & Blue Shield of Alabama*, 935 F.2d 1187 (11th Cir. 1991). Marcel asserts that *McKinnon* is “wholly inapposite” because it “involved different parties with different claims and very different circumstances.” BIO.25. While the parties and claims certainly were different, the legal circumstances were the same.

In the first *McKinnon* case, Belinda McKinnon's father sued Blue Cross, "for fraud and bad faith refusal to pay claims." BIO.24; *see* 935 F.2d at 1189-90. Belinda's father died while that suit was pending, and she "stepped in" as plaintiff ("as executor of her father's estate"). BIO.24; *see* 935 F.2d at 1190. At that point, Blue Cross could have argued as a defense that Belinda was not a "participant or beneficiary" under ERISA (and thus not a proper privy), but it chose not to. *McKinnon*, 935 F.2d at 1192-93. Belinda later filed a second suit against Blue Cross, against which Blue Cross defended by arguing that Belinda was not a "participant or beneficiary." *Id.* at 1190. Although Blue Cross failed to litigate that defense in the first suit, the Eleventh Circuit held that Blue Cross was not precluded from raising it in the second suit, because: (1) the second suit was not "based upon the same factual predicate" as the first case (*i.e.*, it involved different claims); and (2) the defense was not actually resolved in the first case. *Id.* at 1192. Both of those are equally true here, yet the Second Circuit reached the opposite conclusion. Pet.14-15.

3. Marcel's discussion of the Ninth Circuit's decision in *Orff v. United States*, 358 F.3d 1137 (9th Cir. 2004), is even less helpful to its cause. As Marcel notes, in *Orff* the government "waived" a "sovereign immunity defense ... in the first action" between the parties. BIO.26; *see* 358 F.3d at 1150. Yet the Ninth Circuit held that the government was free to raise sovereign immunity as a defense in the second suit, because: (1) the second suit "did not arise from the same 'nucleus of facts'" as the first, which meant that *claim preclusion* did not apply, and (2) the precise "grounds upon which" the government argued

sovereign immunity in the second suit were not resolved in the first, BIO.26, which meant that *issue preclusion* did not apply. *Orff*, 358 F.3d at 1144; *see* Pet.16. Again, that is exactly the opposite of what the court held here.

The decision below thus squarely conflicts with Federal, Eleventh, and Ninth Circuit cases.

## **II. Marcel Cannot Reconcile The Decision Below With This Court's Precedents Or With The Federal Rules of Civil Procedure.**

1. Marcel argues (at 17-18) that the Second Circuit's decisions in this litigation "are [c]onsistent with" *Lawlor v. National Screen Service Corp.*, 349 U.S. 322 (1955). *Lawlor* held that a prior judgment "cannot be given the effect of extinguishing claims which did not even then exist and which could not possibly have been sued upon in the previous case." *Id.* at 328. That is consistent with *Marcel I*—which means, notwithstanding Marcel's assertions to the contrary, the claims here are *not* "the same" as the 2005 Action. *Contra* BIO.16. After all, *Marcel I* held, and *Marcel II* agreed, that Marcel's claims in the present litigation are not precluded by the 2005 Action precisely because they arise from acts that postdate that earlier suit, and thus *are not the same*. App.45-52; *see* Pet.7.

Marcel's argument (at 18-21) that the judgment below is consistent with *Parklane Hosiery Co. v. Shore*, 439 U.S. 322 (1979), is similarly unhelpful to Marcel. *Parklane* "approv[ed] the 'offensive' use of collateral estoppel" (*i.e.*, issue preclusion) "by a non-party to a prior lawsuit." *United States v. Mendoza*, 464 U.S. 154, 158-59 (1984) (discussing *Parklane*). Specifically,

*Parklane* upheld the application of issue preclusion with respect to issues of fact that were actually litigated and resolved against the defendants in SEC proceedings in a subsequent case brought by nonparties to those proceedings. 439 U.S. at 331-33. Whatever the merits of nonmutual collateral estoppel, *see generally Mendoza*, 464 U.S. at 157-60, the conclusion that “there is no unfairness” in precluding relitigation of issues that *were actually litigated to conclusion* against a defendant in a prior case has no bearing here. After all, the question here is whether the Second Circuit was correct to apply “preclusion” to bar litigation of issues that were *never* resolved in any prior case. Pet.i, 1-2, 16-22.

The Second Circuit answered that question in the affirmative in *Marcel II*, reasoning that allowing Lucky to raise a defense it could have litigated to judgment in a prior case, but chose not to, would mean “tolerat[ing]” “inefficiencies.” BIO.20 (quoting App.15); *see* BIO.19. Although efficiency concerns might justify application of issue preclusion in some nonmutual settings *where the issue was actually resolved in a prior case*, it is another thing entirely to preclude litigation of issues never previously decided. The same “inefficiencies” the Second Circuit cited are present every time a defendant could have litigated an issue in an earlier proceeding, but chose not to. And yet it has been the law of the land for nearly 150 years that a “defendant is free” in such cases “to raise defenses that were equally available *but omitted* from the first action.” 18 Charles Alan Wright & Arthur R. Miller, *Federal Practice & Procedure* § 4414 (3d ed. 2019) (emphasis added); *see* Pet.18-19 (citing cases).

2. Marcel, however, attempts to reject that fundamental premise. See BIO.26-29. All that is required to dispel Marcel's revisionist history is to read this Court's opinions. In 1876, this Court held that in "a subsequent action between the same parties upon a different [claim]," issue preclusion applies "only upon [a] matter actually at issue *and determined* in the original action." *Davis v. Brown*, 94 U.S. (4 Otto) 423, 428-29 (1876) (emphasis added). The decision below reached exactly the opposite conclusion. Pet.19.

Marcel asserts that "*Davis* was different" because the second suit between the parties there "arose out of different documents" than the first case. BIO.27. To be sure, this case "is based on the *same* brand" and the same trademark as the 2005 Action. BIO.28. But that is of no moment. The acts of alleged infringement that form the basis of the claims here postdate the 2005 Action, and thus *are not the same* as the claims litigated in that prior case. See *supra*. As this Court recently re-confirmed yet again, claims "predicated on events that postdate the filing of" a prior case are not the "same" as any prior claims for purposes of preclusion. *Hellerstedt*, 136 S. Ct. at 2305. Marcel's sole distinction between the decision below and *Davis* is thus no distinction at all.

Marcel next argues that *Cromwell v. County of Sac*, 94 U.S. (4 Otto) 351 (1876), held that issue preclusion attaches to "defenses that were raised *or could have been raised* by the defendant" in a prior suit between the parties. BIO.27 (emphasis added). That is simply not so. *Cromwell* held in no uncertain terms that issue preclusion applies only to issues that were

“*actually litigated and determined* in the original action, *not what might have been* thus litigated and determined.” 94 U.S. at 353 (emphasis added); see Pet.22. If any argument is “untrustworthy,” BIO.27, it is one that denies that a case says what it says.<sup>1</sup>

Finally, Marcel dismisses “[t]he remainder of” this Court’s cases that have rejected the Second Circuit’s position as either “hav[ing] no relevance” or involving “vastly different” claims. BIO.28-29. To state that argument is to refute it. The fact that prior precedents did not involve trademarks (and thus were “different”) does not change the fact that the decision below flies in the face of 150 years of this Court’s precedent. To state the obvious, the law of preclusion does not apply differently in trademark cases than in securities cases, patent cases, or any other type of case. Nor does Marcel’s insistence that this Court’s precedents are irrelevant make it so.

3. Marcel points out that the Second Circuit did not “rely on the distinction between permissible or compulsory counterclaims.” BIO.30. But the fact that the Second Circuit ignored the Federal Rules of Civil Procedure does not make its decision any less

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<sup>1</sup> Unfortunately, this is not an isolated occurrence. Marcel claims that *Commissioner v. Sunnen* held only that issue preclusion was “inapplicable because [of a] change in the law ... between the first and second case.” BIO.29. In reality, *Sunnen* provided a full-throated restatement of *Davis* and *Cromwell*. Pet.17-18 (quoting 333 U.S. at 598). Moreover, the passage Marcel block-quotes (at 27-28) addresses claim preclusion simpliciter, but Lucky was *the defendant* in the 2005 Action as to Marcel’s infringement counterclaim, Pet.5, which is why not even the Second Circuit found claim preclusion relevant to the release defense.

inconsistent with them. Compulsory counterclaims cannot be raised at a later time if “not brought” at the first opportunity, but permissive counterclaims are not similarly “barred.” *Baker v. Gold Seal Liquors, Inc.*, 417 U.S. 467, 469 n.1 (1974); *see* Pet.22-23. And here, Lucky’s release defense was not a compulsory counterclaim under Rule 13, Pet.23; indeed, Marcel does not attempt to argue otherwise. Yet the Second Circuit effectively treated it as a compulsory counterclaim, deeming it precluded because Lucky did not litigate it to judgment in the 2005 Action.

### **III. Marcel’s Vehicle Objections Are Illusory.**

Marcel goes to lengths to argue that the question presented is not actually presented, but its efforts only serve to confirm the need for this Court’s intervention.

1. Marcel asserts that Lucky “waived the[] defense” that Marcel previously released infringement claims postdating May 2003 “by stipulating to the jointly drafted 2010 Final Order and Judgment.” BIO.15; *see also* BIO.31-32 (“the Release Defense was Raised then Waived”). But Marcel cites no support for the proposition that preclusion attaches whenever a party “stipulat[es] to” an adverse judgment in a case in which the issue could have been resolved, *but was not*. That is because no cases support that proposition.

“The fundamental rationale of issue preclusion dictates the clearly settled requirement that it be limited to matters that have been actually decided.” Wright & Miller § 4420. Marcel does not argue that the validity of Lucky’s release defense was *actually decided* in the 2005 Action. Nor could it. As the court of appeals explained below (and as Marcel admits), Lucky did not “fully litigate[] the release defense in

the 2005 Action.” App.20; *see* BIO.2 (admitting that Lucky “never pursued” the release defense in the 2005 Action). Moreover, while a “stipulation ... may be binding in later stages of a continuing proceeding,” issue preclusion “does not attach unless it is clearly shown that the parties intended that the issue be foreclosed in other litigation.” Wright & Miller § 4443. And Marcel does not (and cannot) claim that Lucky *intended* to forfeit the release defense.<sup>2</sup> In all events, the dispositive question is whether the issue was “raised *and necessarily resolved* by a prior judgment,” *Bravo-Fernandez v. United States*, 137 S. Ct. 352, 358 (2016) (emphasis added), and even Marcel admits that the defense was not resolved in the 2005 Action.

2. Marcel’s judicial estoppel argument misstates the record. At summary judgment, Lucky successfully argued that the parties’ prior settlement did not bar infringement claims *against Marcel* “based on events occurring after the spring of 2004.” Order, *Lucky Brand Dungarees, Inc. v. Ally Apparel Res. LLC*, No. 1:05-cv-06757 (S.D.N.Y. Nov. 16, 2007), Dkt. 148. Lucky never argued that the release allowed *Marcel* to sue for acts that postdated the agreement.

3. Nor does “[t]he plain language of the 2003 Release” defeat a release defense, BIO.35, which is why Lucky never adopted the position Marcel ascribes. As the district court explained, Marcel does *not* allege here “that Lucky Brand is using the GET LUCKY mark, but rather that Lucky Brand’s

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<sup>2</sup> Marcel chides Lucky for failing “even [to] mention” that it declined to pursue the release issue in the 2005 Action, BIO.15, but the petition clearly explained *why* Lucky did so, *see* Pet.25-26.

continued use of the Lucky Brand Marks infringes rights established by the Final Order and Judgment.” App.31. And as the Second Circuit confirmed, Marcel released “any and all claims arising out of or in any way relating to Lucky Brand’s rights to use, license and/or register the trademark LUCKY BRAND [marks] owned, registered and/or used by Lucky Brand ... as of the date of th[e] Agreement.” App.4 (ellipsis in original). While the universe of *marks* the release covered was limited to those owned “as of the date of th[e] Agreement,” the universe of *claims* Marcel released was not similarly time-limited.

In all events, whether Lucky or Marcel is correct about the scope of the release has no bearing on the certworthiness of this case. The Second Circuit’s sole holding below was that Lucky “is barred from asserting the Release as a defense” because it could have litigated that issue to judgment in the prior suit between the parties, but chose not to. App.22. And because preclusion is antecedent to the merits of the release issue, absent reversal, Lucky will have no opportunity to make its case about the scope of the release. The issue on which the Second Circuit departed from three other circuits’ decisions and nearly 150 years of this Court’s precedents is thus squarely presented.

**CONCLUSION**

For the foregoing reasons, the Court should grant the petition.

Respectfully submitted,

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