

No. 18-1086

In the
Supreme Court of the United States

LUCKY BRANDS 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, INC.,

Respondent.

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

BRIEF FOR PETITIONERS

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QUESTION PRESENTED

In serial litigation between two parties, time-tested principles of claim preclusion and issue preclusion govern when parties may—and may not—litigate issues that were, or could have been, litigated in a prior case. This Court has held that, in a subsequent case between the same parties involving different claims from those litigated in the earlier case, the defendant is free to raise defenses that were not litigated in the earlier case, even though they could have been. The Federal Circuit, Eleventh Circuit, and Ninth Circuit have all held the same in recent years. Their reasoning is straightforward: Claim preclusion does not bar such defenses, because the claims in the second case arise from different transactions and occurrences from the first case, and issue preclusion does not bar them either, because they were never actually litigated. The Second Circuit, however, has now held the opposite. Under the Second Circuit’s “defense preclusion” rule, defendants are barred from raising such defenses even if the plaintiff’s claims are distinct from those asserted in the prior case and the defenses were never actually litigated.

The question presented is:

Whether, when a plaintiff asserts new claims, federal preclusion principles can bar a defendant from raising defenses that were not actually litigated and resolved in any prior case between the parties.

PARTIES TO THE PROCEEDING

Petitioners, and defendants below, are Lucky Brand Dungarees, Inc., Lucky Brand Dungarees Stores, Inc., Leonard Green & Partners, L.P., Lucky Brand Dungarees, LLC, Lucky Brand Dungarees Stores, LLC, and Kate Spade & Co.

Respondent, and plaintiff below, is Marcel Fashion Group, Inc.

CORPORATE DISCLOSURE STATEMENT

Petitioners Lucky Brand Dungarees, Inc., Lucky Brand Dungarees Stores, Inc., Leonard Green & Partners, L.P., Lucky Brand Dungarees, LLC, Lucky Brand Dungarees Stores, LLC, and Kate Spade & Co. hereby state:

1. Lucky Brand Dungarees, LLC, converted from a corporation to a Delaware LLC and concurrently changed its name from Lucky Brand Dungarees, Inc. Lucky Brand Dungarees, LLC, is a wholly owned subsidiary of LBD Intermediate Holdings, LLC, which is a wholly owned subsidiary of Lucky Brand Dungarees Parent Holdings, LLC, which is majority owned by Clover Holdings II LLC, which is wholly owned by investment funds managed by Leonard Green & Partners, L.P. No publicly held corporation owns 10% or more of its stock.

2. LGP Management, Inc., is the general partner of Leonard Green & Partners, L.P. LGP Management, Inc., has no parent corporation. No publicly held corporation owns 10% or more of Leonard Green & Partners, L.P.

3. Lucky Brand Dungarees Stores, LLC, converted from a corporation to a Delaware LLC and concurrently changes its name from Lucky Brand Dungarees Stores, Inc. Lucky Brand Dungarees Stores, LLC, is a wholly owned subsidiary of Lucky Brand Dungarees, LLC. No publicly held corporation owns 10% or more of its stock.

4. Kate Spade & Company, a Delaware corporation, was converted on November 3, 2017, and became Kate Spade & Company LLC. Kate Spade & Company LLC is a limited liability corporation and a

wholly-owned subsidiary of Tapestry, Inc. Tapestry, Inc. is a publicly held corporation and has no parent corporation. Per Schedule 13 G/A filed on February 11, 2019, as of January 31, 2019, the following owned greater than 10% of Tapestry, Inc. stock: T Rowe Price Associates, Inc.

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INTRODUCTION

The Second Circuit's decision in this case is contrary to more than a century of this Court's precedent, the case law of every other circuit to address this issue, and fundamental principles of preclusion. Perversely, the Second Circuit's novel "defense preclusion" rule would force defendants to litigate every defense, no matter how peripheral, all the way to judgment in every case, lest a defense later be deemed "precluded" in a case where it could actually make a difference. This Court should reverse the Second Circuit's outlier judgment and restore uniformity to this important area of federal law.

Res judicata contains two distinct components: claim preclusion and issue preclusion. *Taylor v. Sturgell*, 553 U.S. 880, 892 (2008). Claim preclusion "forecloses 'successive litigation of the very same claim.'" *Id.* (quoting *New Hampshire v. Maine*, 532 U.S. 742, 748 (2001)). Issue preclusion applies "in the context of a *different* claim" barring "successive litigation of an issue of fact or law actually litigated and resolved in a valid court determination essential to the prior judgment." *Id.* (emphasis added) (quoting *New Hampshire*, 532 U.S. at 748-49).

The two components of res judicata combine in a straightforward way where, as here, the same parties find themselves in a subsequent lawsuit dealing with claims that arise from facts that happened after the earlier litigation between them. Because a claim "predicated on events that postdate the" prior case(s) between parties is by definition not "the very same" as any claims in any prior case, claim preclusion does not apply in the later lawsuit. *Whole Woman's Health v.*

Hellerstedt, 136 S. Ct. 2292, 2305 (2016); see *Clark v. Young & Co.*, 5 U.S. (1 Cranch) 181, 181 (1803) (Where a lawsuit is “upon distinct and different causes of action” from those at issue in a prior lawsuit “against the [same] defendant,” “the first cannot be pleaded in bar of the second.”). And because issue preclusion only forecloses relitigation of issues that were “resolved” in and “essential to” the judgment in the prior case, *New Hampshire*, 532 U.S. at 748-49, issue preclusion does not apply to defenses that were not conclusively adjudicated in the prior litigation. As a result, in a case like this one involving claims based on alleged acts that all postdate the prior litigation between the parties, the defendant is free to raise defenses that were not conclusively resolved in the parties’ prior litigation.

These principles are well settled. This Court held in 1877 that, in “a subsequent action between the same parties upon a different [claim]” from the one that was resolved in the first action, defendants are “only” precluded from raising “matter[s]” that were “actually at issue and determined in the original action.” *Davis v. Brown*, 94 U.S. 423, 428-29 (1877); see also *Cromwell v. County of Sac*, 94 U.S. 351, 353 (1877) (“[W]here the second action between the same parties is upon a different claim or demand, the judgment in the prior action operates as an estoppel only as to those matters in issue or points controverted, upon the determination of which the finding or verdict was rendered.”). Since then, this Court has reaffirmed that holding in countless cases. See, e.g., *Sea-Land Servs., Inc. v. Gaudet*, 414 U.S. 573, 593 (1974); *United States v. Int’l Bldg. Co.*, 345 U.S. 502, 505 (1953); *Comm’r v. Sunnen*, 333 U.S. 591,

598 (1948); *Mercoid Corp. v. Mid-Continent Inv. Co.*, 320 U.S. 661, 671 (1944); *Tait v. W. Md. Ry. Co.*, 289 U.S. 620, 623 (1933); *Balt. S.S. Co. v. Phillips*, 274 U.S. 316, 319 (1927); *United States v. Moser*, 266 U.S. 236, 241 (1924); *Myers v. Int'l Tr. Co.*, 263 U.S. 64, 71 (1923); *Postal Tel. Cable Co. v. City of Newport*, 247 U.S. 464, 474 (1918); *Troxell v. Del., Lackawanna & W. R.R. Co.*, 227 U.S. 434, 440 (1913); *Virginia-Carolina Chem. Co. v. Kirven*, 215 U.S. 252, 257 (1909); *S. Pac. R.R. Co. v. United States*, 168 U.S. 1, 50 (1897); *Keokuk & W. R.R. Co. v. Missouri*, 152 U.S. 301, 315 (1894); *Nesbit v. Indep. Dist. of Riverside*, 144 U.S. 610, 618 (1892). And this Court has never once backed away from that settled law.

That unbroken string of precedent—and the bedrock preclusion principles from which that precedent derives—should have supplied the rule of decision below. Instead, the Second Circuit invented an entirely new variant of preclusion that is inconsistent with principles of both claim preclusion and issue preclusion and is irreconcilable with this Court's case law. Adding injury to insult, the Second Circuit did so in a context (trademark law) where the novel doctrine it created is particularly inappropriate, given that the likelihood of confusion between two marks is uniquely susceptible to shifting outcomes over time as facts on the ground change. Indeed, precisely because the scope of trademark rights and the strength of defenses to trademark-infringement claims wax and wane over time, defendants in trademark disputes often have good reasons to raise a defense in one dispute but not in another brought earlier or later.

Such is the situation here. The Second Circuit created its new preclusion rule in the context of a third successive trademark suit between Lucky and Marcel.¹ The first suit between the parties, filed in 2001, resulted in a May 2003 settlement agreement (the “Settlement Agreement”). Pet.App.32-33. The second suit began in 2005, and ended in 2010 with judgment in favor of Marcel. Pet.App.42-43. The third (and current) suit began in 2011, when Marcel sued Lucky for trademark infringement yet again.

In the current case—which has now gone up to the Second Circuit twice—Marcel alleges that after the 2005 case ended, Lucky used its own marks in ways that infringed Marcel’s trademark rights. In the first appeal in this case, the Second Circuit held that Marcel’s lawsuit could proceed because all of the alleged acts underlying Marcel’s claims postdate the final judgment in the 2005 litigation, and case law dating back to the Marshall Court holds that claim preclusion does not apply to such new claims. But in the second appeal—which Marcel took after Lucky successfully asserted as a defense on remand the fact that Marcel’s claims in the current case fall within, and are thus barred by, the settlement agreement that resolved the parties’ 2001 lawsuit—an entirely different panel of the Second Circuit turned a blind eye to precedent. Rather than follow this Court’s settled law, the new Second Circuit panel held that Lucky was “defense precluded” from raising the

¹ “Lucky” refers collectively to petitioners Lucky Brand Dungarees, Inc., Lucky Brand Dungarees Stores, Inc., Leonard Green & Partners, L.P., Lucky Brand Dungarees, LLC, Lucky Brand Dungarees Stores, LLC, and Kate Spade & Co.

settlement-agreement defense merely because Lucky *could have* litigated that defense to judgment in the parties' prior suit, but did not.

The decision below is an extreme outlier, contrary to time-tested principles of preclusion, irreconcilable with nearly 150 years of this Court's case law, and inconsistent with the law of every other circuit to address this issue. It is also out of step with the very policy interests that supposedly justify it. Under the Second Circuit's novel rule, defendants will not just have to *raise* all defenses—no matter how peripheral or secondary in a particular case—but *litigate them to final judgment*. Otherwise, they risk forever losing those defenses in future litigation. That will clog already busy courts by discouraging parties from streamlining their cases and encouraging (if not mandating) scorched-earth litigation to the end. Counsel for defendants will be reluctant to advise dropping defenses, lest their clients be “precluded” in some future case and then accuse them of malpractice.

It is difficult to imagine a *less* efficient regime. That is particularly true in the context of trademark disputes, where the strength of claims and defenses often changes significantly over time. Making matters worse, the novel use-it-or-lose-it rule applied below undermines the policy encouraging private settlements, as the facts of this case make painfully clear. Had the Second Circuit followed traditional preclusion principles, the parties' settlement agreement would have barred Marcel's claims, thus ending the case. Instead, Lucky has been forced to spend years needlessly litigating. This Court should reverse.

OPINIONS BELOW

The Second Circuit's opinion is reported at 898 F.3d 232 and reproduced at Pet.App.1-22. The district court's order granting petitioners' motion to dismiss, which the Second Circuit vacated, is available at 2016 WL 7413510 and reproduced at Pet.App.25-38. The Second Circuit's earlier opinion in this case is reported at 779 F.3d 102 and reproduced at Pet.App.39-57. The district court's earlier order granting petitioners' motion for summary judgment, which a different panel of the Second Circuit vacated, is available at 2012 WL 4450992 and reproduced at Pet.App.58-74.

JURISDICTION

The Second Circuit issued its opinion on August 2, 2018, and denied rehearing on September 19, 2018. This Court has jurisdiction under 28 U.S.C. § 1254(1).

STATEMENT OF THE CASE

A. The 2001 Action and the May 2003 Settlement Agreement

Lucky sells jeans and other casual apparel at Lucky Brand stores nationwide. As part of its business, Lucky owns the federally registered trademark LUCKY BRAND, along with "other marks that include the word 'Lucky.'" However, Lucky does not own the trademark GET LUCKY, as Marcel "received a federal trademark registration ... for 'Get Lucky'" in 1986. Pet.App.40.

After Lucky ran advertisements in the late 1990s and early 2000s that used the phrase "Get Lucky" in connection with its products, Marcel sued Lucky in 2001 for trademark infringement and unfair

competition in connection with Marcel's GET LUCKY trademark (the "2001 Action").²

In May 2003, the parties agreed to end the 2001 Action by entering into the Settlement Agreement. Lucky agreed to "desist henceforth from use of 'Get Lucky' as a trademark" and to pay Marcel \$650,000. In exchange, Marcel agreed not only to dismiss its claims in the 2001 Action, but also to release any claims it had or might have arising out of or relating to Lucky's right to "use, license and/or register" the trademark LUCKY BRAND *or any other marks* that it "owned, registered, and/or used" at the time. Pet.App.34. In particular, the Settlement Agreement provided that:

Marcel hereby forever and fully remises, releases, ... and discharges [Lucky] from any and all actions, causes of action ... claims, demands or other liability or relief of any nature whatsoever, whether known or unknown, foreseen or unforeseen, ... that Marcel ever had, now has or hereafter can, shall or may have, by reason of or arising out of any matter, cause or event occurring on or prior to the date hereof, including but not limited to ... any and all claims arising out of or in any way relating to [Lucky's] rights to use, license and/or register the trademark LUCKY BRAND and/or any other trademarks, trade names, brands, advertising slogans or tag lines owned,

² Marcel's registration of GET LUCKY was "twice cancelled," but the court ruled that it "appears to have been in force in the relevant periods of this litigation." Pet.App.40 n.1.

registered and/or used by [Lucky] in the United States and/or in any foreign country as of the date of this Agreement.

JA191-92; *see also* JA188-89 (further “releas[ing] [Lucky] of any and all actual or potential claims that Marcel has or might have against [Lucky], including but not limited to ... claims related to or arising out of the use of the words ‘get lucky’ and ‘lucky’ by [Lucky]”).

B. The 2005 Action and the Resulting Final Order and Judgment

Barely a year after the parties signed the Settlement Agreement, two companies “launched a ‘Get Lucky’ line of jeanswear and sportswear” under a license from Marcel. Pet.App.41. As Lucky saw it, the new Marcel-approved product line “slavishly copied almost every design and style component of genuine LUCKY BRAND jeanswear and sportswear,” including “tak[ing] Lucky Brand’s exact logos, designs and design concepts.” Br. for Defs.-Appellees 10, *Marcel Fashions Grp. v. Lucky Brand Dungarees, Inc.*, No. 17-361 (2d Cir. July 10, 2017) (alteration in original) (quoting Demand for Jury Trial ¶ 51, *Lucky Brand Dungarees, Inc. v. Ally Apparel Resources LLC*, No. 05 CV 6757 (S.D.N.Y. July 27, 2005)). Lucky responded by suing the licensees, Marcel, and Marcel’s president (collectively, “Marcel”) in 2005 in the Southern District of New York (the “2005 Action”), claiming that Marcel “had engaged in unfair business practices” and that the new “Get Lucky” line “infringed on [Lucky’s] trademarks.” Pet.App.41.

Marcel counterclaimed in the 2005 Action, alleging that Lucky had engaged in conduct that

infringed not only Marcel's GET LUCKY mark, but also various other marks Marcel owned. JA78, 114. Lucky initially moved to dismiss Marcel's counterclaims based on the Settlement Agreement's release of "any and all claims arising out of or in any way relating to [Lucky's] rights to use, license and/or register the trademark LUCKY BRAND and/or any other trademarks, trade names, brands, advertising slogans or tag lines owned, registered and/or used by [Lucky] ... as of the date of this Agreement," *i.e.*, May 2003. *See* JA192. On the face of Marcel's counterclaims, however, it appeared that some of Lucky's allegedly-infringing marks were not registered until *after* the Settlement Agreement. The district court accordingly denied Lucky's motion without prejudice, as it could not say "that all of [Marcel's allegations]" concerned marks covered by the Settlement Agreement. Pet.App.28. Lucky did not renew its release defense in the 2005 Action, "and the case proceeded to a jury trial." Pet.App.29.

At trial, the jury found that Lucky had infringed Marcel's GET LUCKY mark,³ and the district court ordered Lucky to pay \$300,000 in damages for infringement and breach of contract. Pet.App.42, 63. Marcel then sought to enjoin Lucky *not only* "from further use of GET LUCKY," *but also* from further use of "the LUCKY BRAND trademarks and any other

³ "As the Second Circuit noted, the jury's verdict 'did not necessarily mean' that each of the LUCKY BRAND Marks infringed Marcel's GET LUCKY mark." Pet.App.35. It is thus far from clear whether the finding of trademark infringement in the verdict was based on Lucky's use of GET LUCKY, other LUCKY-formative marks, or some combination of marks. *See* Pet.App.30-31.

trademarks using the word ‘Lucky.’” Pet.App.43. Lucky objected to that request, which went far beyond any reasonable interpretation of the jury’s findings (which centered on GET LUCKY), and Marcel ultimately dropped it. Pet.App.43. The 2005 Action thus resulted in a jointly-negotiated and jointly-submitted Final Order and Judgment, entered on June 1, 2010, under which Lucky was permanently enjoined *solely* from using the GET LUCKY mark (the “Final Judgment”). Pet.App.29; *see* Pet.App.71 (the injunction “does not apply to any marks beyond GET LUCKY”). That Final Judgment does not address, let alone reach a final conclusion on, the question of whether the Settlement Agreement barred some or all of Marcel’s counterclaims in the 2005 Action.

C. The Current Action, Part One

1. In 2011, Marcel sued Lucky for trademark infringement again in the Southern District of Florida (the “Current Action”), seeking a new injunction prohibiting Lucky from “using the LUCKY BRAND marks,” which Marcel claimed Lucky had “continued to use” after the Final Judgment. Pet.App.65 (quoting JA100-01). The Current Action was ultimately transferred to the Southern District of New York, where the 2005 Action had been litigated. JA135-36.⁴

After the Current Action was transferred, Lucky moved for summary judgment on the ground that the Final Judgment barred Marcel’s new claims. The

⁴ In opposing transfer, “Marcel admitted that [the Final Judgment from the 2005 Action] ‘does not contain specific injunctive language’ prohibiting Lucky from “using its LUCKY BRAND marks [or] any [other] mark including the word Lucky.” Pet.App.70 (quoting JA101-02).

district court agreed and granted summary judgment to Lucky on all counts. Pet.App.67. It also denied Marcel's motion to amend its complaint, ruling that the Final Judgment "do[es] not prohibit use of the other Lucky Brand marks or the word Lucky." Pet.App.45 (quoting Pet.App.73-74).

2. In an opinion by Judge Leval and joined by Judges Calabresi and Lynch, the Second Circuit vacated and remanded in relevant part. Pet.App.39-57 (*Marcel I*).⁵

Central to *Marcel I*'s holding was the conclusion that Marcel's counterclaims in the 2005 Action were "for earlier infringements" than Marcel's claims in the Current Action. Pet.App.52 (emphasis added). As the court explained, Marcel's counterclaims in the 2005 Action were for "infringements that occurred 'after May 2003' but prior to" the Current Action, which means that they *could not have been* raised in the 2005 Action. Pet.App.49 (Marcel's claims in the Current Action arise out of conduct "*that had not yet occurred*" when the 2005 Action ended (emphasis added)). That meant that Marcel's claims in the Current Action are *new* claims, which in turn means that the Final

⁵ In the district court, "Marcel had moved to hold [Lucky] in contempt for violating the injunction issued in the 2005 Action by continuing to use the 'Lucky Brand' marks." Pet.App.45. "The district court denied Marcel's motion on the ground that the injunction enjoined [Lucky] 'from using only reproductions, counterfeits and imitations of the GET LUCKY mark, and d[id] not prohibit use of the other Lucky Brand marks or the word Lucky.'" Pet.App.45 (alteration in original) (quoting Pet.App.73-74). The Second Circuit found "no error, much less abuse of discretion, in the district court's denial of the contempt motion." Pet.App.54.

Judgment that resolved the 2005 Action “did not bar [Marcel] from instituting a second suit seeking relief for alleged further infringements that occurred *subsequent to* [that] earlier judgment.” Pet.App.40 (emphasis added). *Marcel I* accordingly vacated the district court’s decision. Pet.App.52.

D. The Current Action, Part Two

1. After entry of the mandate, Marcel moved for leave to amend its complaint. Pet.App.31. The district court granted that motion and “directed [Marcel] to specifically identify the marks it accuses of infringement in its Amended Complaint.” JA137. As Lucky pointed out, however, Marcel’s initial attempt to amend its complaint gave little insight into what exactly its claims in the Current Action were about. JA137. Marcel then filed a second amended complaint, which clarified that Lucky had “registered” each of the marks Marcel now claims it used in ways that infringed Marcel’s trademark rights “prior to the 2003 Settlement Agreement” (or were combinations “of the pre-2003 marks”). Pet.App.32.

In light of that clarification, Lucky moved to dismiss, as it now was clear that all of the marks at issue in the Current Action were “registered and/or used by [Lucky] ... as of the date of th[e Settlement] Agreement,” and thus covered by the Settlement Agreement’s release. JA142.

Marcel could not meaningfully dispute that its claims fell within the Settlement Agreement’s plain language. Marcel instead argued that “the *res judicata* or collateral estoppel effect of [the Final Judgment]” in the 2005 Action precluded Lucky from relying on the Settlement Agreement in the Current

Action, merely because the same defense *could have been* resolved in the 2005 Action with respect to *different* claims. Pet.App.33.

The district court disagreed with Marcel. “Issue preclusion does not apply, because the applicability of the Settlement Agreement’s release provision was not actually litigated and resolved in the 2005 Action.” Pet.App.35. “Claim preclusion does not apply” either, because Lucky “is not asserting a claim against Marcel” and Marcel’s claims in the Current Action are different from its claims in the 2005 Action. Pet.App.30, 35. The fact that Lucky did not raise the settlement defense at trial in the 2005 Action thus “does not vitiate [the defense] here.” Pet.App.36. The district court accordingly granted Lucky’s motion to dismiss. Pet.App.37-38.

2. An all-new Second Circuit panel, comprised of Judges Walker, Winter, and Pooler, heard Marcel’s second appeal and vacated and remanded. Pet.App.1-22 (“*Marcel II*”).

The *Marcel II* panel began its opinion by noting that, as *Marcel I* held, the claims at issue in the Current Action “could not possibly have been sued upon” in the 2005 Action, because they stem from “alleged infringements that occurred *subsequent to* the [Final Judgment] in the 2005 Action.” Pet.App.7 (emphasis added) (quoting Pet.App.48). The *Marcel II* panel further noted that there is “no credible issue preclusion argument,” because the issue of “[w]hether the Release [in the Settlement Agreement] bars Marcel’s claims as to post-settlement agreement infringement was in no way ‘actually litigated and determined’ in the 2005 Action.” Pet.App.9 n.3

(quoting *B & B Hardware, Inc. v. Hargis Indus., Inc.*, 135 S. Ct. 1293, 1303 (2015)). Despite those two facts—which together proved, under this Court’s longstanding precedent, that neither claim preclusion nor issue preclusion applied—*Marcel II* nonetheless held that Lucky was “precluded” from raising its winning defense at all.

According to the *Marcel II* panel, the Second Circuit had long “assumed that claim preclusion may bar a litigation defense,” but had “not had a case in which [the court] found a defense to be so precluded.” Pet.App.10. The *Marcel II* panel recognized that “a leading treatise,” namely Wright & Miller, instructs exactly the opposite—*i.e.*, that the defendant in a second case involving new claims is free to “raise defenses ... that were not raised in the first [case], even though they were equally available and relevant in both actions.” Pet.App.11-12 n.4 (quoting 18 Wright & Miller et al., *Fed. Prac. & Proc. Juris.* § 4406 (3d ed. 2018) (“Wright & Miller”)). But the *Marcel II* panel dismissed that instruction as merely “a ‘general rule,’” which it felt free to disregard based in part on a separate passage in Wright & Miller ostensibly suggesting “that perhaps the ‘best rule’ would at times allow for the preclusion of defenses that could have been previously asserted.” Pet.App.12 n.4 (quoting Wright & Miller § 4414). *Marcel II* thus held as follows:

In sum, we conclude that defense preclusion bars a party from raising a defense where:
(i) a previous action involved an adjudication on the merits; (ii) the previous action involved the same parties or those in privity with

them; (iii) the defense was either asserted *or could have been asserted*, in the prior action; and (iv) the district court, in its discretion, concludes that preclusion of the defense is appropriate because efficiency concerns outweigh any unfairness to the party whose defense would be precluded.

Pet.App.19 (emphasis added).

After creating this brand-new test out of whole cloth, the *Marcel II* panel went on to hold that “it would have been an abuse of discretion” for the district court *not* to conclude that defense preclusion was appropriate here, because Lucky could have argued in the 2005 Action that the settlement barred the claims there at issue, but “decided to forego the [settlement] defense at summary judgment.” Pet.App.20-21. The *Marcel II* panel did not explain how its holding could be reconciled with *Marcel I*, which held that the claims in the Current Action were not the same as (and thus were not claim precluded by) the claims in the 2005 Action. Nor did it address any of this Court’s decisions that reject its unprecedented approach, which Lucky discussed at length in its brief and raised at argument.

SUMMARY OF ARGUMENT

The decision below turns bedrock principles of res judicata on their heads. Claim preclusion bars “successive litigation of the very same claim” by the very same parties, *New Hampshire*, 532 U.S. at 748, but “does not bar claims that are predicated on events that postdate the filing of the initial complaint.” *Whole Woman’s Health*, 136 S. Ct. at 2305 (quoting *Morgan v. Covington*, 648 F.3d 172, 178 (3d Cir. 2011)). Claim preclusion thus has no application here,

as *Marcel I* held and *Marcel II* recognized that all of the facts giving rise to the claims now at issue arose *after* the parties' prior litigation ended. Issue preclusion, which only bars relitigation of issues that were "actually litigated and resolved" in a prior case, *Taylor*, 553 U.S. at 892, likewise has no application here, as even the *Marcel II* panel recognized that Lucky's release defense "was in no way 'actually litigated and determined'" in the 2005 Action. Pet.App.9 n.3.

Yet rather than follow those settled principles to their logical conclusion and affirm the district court's dismissal on the basis of Lucky's winning defense, the Second Circuit invented a new "defense preclusion" rule in *Marcel II* that is inconsistent with claim preclusion and issue preclusion alike, to strip Lucky of its winning defense. Under that novel rule, defendants may be barred from litigating defenses that have never been adjudicated (and are thus not issue precluded) even in the context of claims that have never been litigated (and are thus not claim precluded). That result is contrary to basic principles of res judicata.

It also is contrary to longstanding precedent. For nearly 150 years, this Court has held that "where the second action between the same parties is upon a different claim or demand [from the first], the judgment in the prior action operates as an estoppel only as to those matters in issue or points controverted, upon the determination of which the finding or verdict was rendered." *Cromwell*, 94 U.S. at 353. In other words, this Court has held that where claim preclusion does not apply, the only preclusion

available is issue preclusion. Because even *Marcel II* recognized that issue preclusion is inapplicable here, the decision below cannot be sustained.

The Second Circuit's novel rule is irreconcilable with the Federal Rules of Civil Procedure as well. Rule 13 erects a clear distinction between compulsory counterclaims, which must be asserted at the first opportunity, and permissive counterclaims, which are not subject to that strict use-it-or-lose-it rule. Yet, under the Second Circuit's novel "defense preclusion" rule, *every* defense must be raised *and litigated to judgment*, lest they later be deemed barred.

The inevitable consequence of the Second Circuit's new rule will be to exacerbate the very "inefficiencies" that it supposedly weeds out. If it stands, lawyers will have no choice but to counsel their clients to litigate every issue no matter how peripheral to the case at hand, lest the issue later be deemed "precluded" in a case where it might make a material difference. Incentivizing over-litigation (on pain of potential malpractice liability) hardly promotes efficiency. Finally, even if this Court were inclined to jettison nearly 150 years of precedent in favor of the Second Circuit's novel approach, this would be the very last context in which to do so. Trademark rights are distinct from other property rights in that they regularly wax and wane over time. Because the likelihood of confusion between marks depends on extrinsic facts that are constantly changing, a defense to trademark infringement might be much stronger (or weaker) today than it was a decade ago. As such, if ever there were a context where parties should not be faulted for having decided against litigating every

defense to judgment, it is this one. In all events, the Second Circuit's unprecedented approach is wrong not just for trademark cases, but at every turn.

ARGUMENT

I. The Decision Below Is Contrary To Nearly 150 Years Of This Court's Precedent.

In *Davis v. Brown*, 94 U.S. 423 (1877), this Court conclusively answered the question presented in this case. To reverse the decision below, this Court need go no further than reaffirming *Davis*.

Davis was the second suit between the same sets of parties. In the first suit, the plaintiff sued "second indorsers" of two promissory notes. *Id.* at 427-28. In the second suit, the plaintiff sued the same "indorsers," but brought claims stemming from ten different promissory notes. *Id.* at 424. The indorser-defendants argued in the second suit that they could not be held liable for their "indorsements" because of an agreement with the bank that they claimed shielded them from liability. *Id.* In other words, they raised the agreement as a defense to liability. The plaintiff argued that *res judicata* barred the defendants from asserting their agreement with the bank, because they could have raised that defense in the first case, but did not. *Id.* at 428-29.

This Court rejected the *Davis* plaintiff's position. First, the Court explained that "[w]hen a judgment is offered in evidence in a subsequent action between the same parties upon a different demand,"⁶ the judgment

⁶ In this context, the term "demand" is synonymous with the terms "claim" or "cause of action." Wright & Miller § 4406 ("Three

in first case “operates as an estoppel only upon [a] matter *actually at issue and determined in the original action.*” *Id.* (emphases added). Because the agreement defense had not been resolved in the first case, the indorser-defendants remained free to raise it in the second case, *even though they could have done so in the first case too*, because the *claims* in the second case were different from those in the first. *Id.* Second, the Court rejected the argument that the defendants should be precluded from raising the defense because its “validity and efficacy” *could have been* “litigated and determined” in the prior case between the parties, but was not. *Id.* at 428. As the Court explained, that argument was “clearly untenable” because it “confounded the operation of a judgment upon the demand involved in the action, in which the judgment was rendered, with its operation as an estoppel in another action between the parties upon a different demand.” *Id.* at 428-29. In modern parlance, *Davis* rejected the plaintiff’s position because it conflated claim preclusion and issue preclusion—just as the Second Circuit did here in *Marcel II*.

This Court has since reaffirmed that straightforward rule more than a dozen times. *See, e.g., Nesbit v. Indep. Dist. of Riverside*, 144 U.S. 610, 618 (1892) (“[W]hen [a] second suit” between two parties “is upon a different cause of action” than the first suit between the parties, “the judgment in the former action operates as an estoppel only as to the point or question actually litigated and determined, and not as to other matters which might have been

different labels are used to describe the precluded area: ‘claim,’ ‘demand,’ and ‘cause of action.’”).

litigated and determined.”); *S. Pac. R.R. Co. v. United States*, 168 U.S. 1, 50 (1897) (“[I]f the second action is upon a different claim or demand, the judgment in the prior action operates as an estoppel only as to those matters in issue or points controverted upon the determination of which the finding or verdict was rendered, the inquiry in such case being ‘as to the point or question actually litigated and determined in the original action, not what might have been litigated and determined’”); *Virginia-Carolina Chem. Co. v. Kirven*, 215 U.S. 252, 257 (1909) (“If the second action is upon a different claim or demand, the bar of the judgment is limited to that which was actually litigated and determined.”); *Troxell v. Del., Lackawanna, & W. R.R. Co.*, 227 U.S. 434, 440 (1913) (“[W]here the second suit is upon a different claim or demand, the prior judgment operates as an estoppel only as to matters in issue or points controverted and actually determined in the original suit.”); *United States v. Moser*, 266 U.S. 236, 241 (1924) (“[I]n a subsequent action between the same parties ... upon a different claim or demand,” res judicata applies only to “point[s] or question[s] ... litigated and determined in the original action.”); *Balt. S.S. Co. v. Phillips*, 274 U.S. 316, 319 (1927) (“[I]f the second case be upon a different cause of action, the prior judgment or decree operates as an estoppel only as to matters actually in issue or points controverted, upon the determination of which the judgment or decree was rendered.”); *Tait v. W. Md. Ry. Co.*, 289 U.S. 620, 623 (1933) (“The scope of the estoppel of a judgment depends upon whether the question arises in a subsequent action between the same parties upon the same claim or demand or upon a different claim or demand. In the former case a

judgment upon the merits is an absolute bar to the subsequent action. In the latter the inquiry is whether the point or question to be determined in the later action is the same as that litigated and determined in the original action.”); *Mercoïd Corp. v. Mid-Continent Inv. Co.*, 320 U.S. 661, 671 (1944) (“[W]here the second cause of action between the parties is upon a different claim the prior judgment is *res judicata* not as to issues which might have been tendered but ‘only as to those matters in issue or points controverted, upon the determination of which the finding or verdict was rendered.”); *Comm’r v. Sunnen*, 333 U.S. 591, 598 (1948) (“Since the cause of action involved in the second proceeding is not swallowed by the judgment in the prior suit, the parties are free to litigate points which were not at issue in the first proceeding, even though such points might have been tendered and decided at that time.”).

Equally importantly, this Court has never once cast doubt on the vitality of the rule applied in *Davis*. Nor has any other circuit. *See* Pet.11-16. Indeed, with the singular exception of the decision below, every circuit court case (published or unpublished) to address this issue has agreed with *Davis* and its progeny. *See, e.g., Aspex Eyewear, Inc. v. Marchon Eyewear, Inc.*, 672 F.3d 1335, 1343-44 (Fed. Cir. 2012); *Nasalok Coating Corp. v. Nylok Corp.*, 522 F.3d 1320, 1326-27 (Fed. Cir. 2008); *Valley View Angus Ranch, Inc. v. Duke Energy Field Servs., Inc.*, 497 F.3d 1096, 1106 (10th Cir. 2007); *Orff v. United States*, 358 F.3d 1137, 1142-44 (9th Cir. 2004); *Ecolab, Inc. v. Paracclipse, Inc.*, 285 F.3d 1362, 1376-77 (Fed. Cir. 2002); *Hallco Mfg. Co. v. Foster*, 256 F.3d 1290, 1297-98 (Fed. Cir. 2001); *Foster v. Hallco Mfg. Co.*, 947 F.2d

469, 478-83 (Fed. Cir. 1991); *McKinnon v. Blue Cross & Blue Shield of Ala.*, 935 F.2d 1187, 1192 (11th Cir. 1991). The reason for that uniformity is simple: The rule applied in *Davis* and reaffirmed many times over is a direct application of the basic rules of claim preclusion and issue preclusion, and clearly correct.

Davis and its progeny doom the decision below. The Second Circuit recognized in *Marcel II* that the question of whether the Settlement Agreement released claims that postdated May 2003 was *not* resolved in the 2005 Action, which renders issue preclusion inapplicable. *See* Pet.App.9 n.3. Claim preclusion also is off the table, as *Marcel I* held and *Marcel II* admitted that the claims in the Current Action postdate, and thus are not the same as, the claims in the 2005 Action. *See* Pet.App.7, 48. As such, the decision below cannot be squared with this Court's case law on how to apply preclusion principles in the context of a defense to *different claims* than those previously litigated.

II. The Decision Below Is Inconsistent With Time-Tested Principles Of Res Judicata.

There is a reason this Court's decisions uniformly hold that, in a case involving *new claims*, a defendant is free to raise defenses that were not previously adjudicated in prior litigation between the parties: Any other conclusion would contravene fundamental principles of res judicata as old as the Republic itself.

A. Claim Preclusion and Issue Preclusion Define the Universe of Res Judicata.

"The preclusive effect of a judgment is defined by claim preclusion and issue preclusion, which are collectively referred to as 'res judicata.'" *Taylor*, 553

U.S. at 892. What the Second Circuit dubbed “defense preclusion,” *see* Pet.App.14-21, does not exist.

1. Claim Preclusion

Claim preclusion “refers to the effect of a prior judgment in foreclosing successive litigation of the very same claim.” *New Hampshire*, 532 U.S. at 748. “Under the[] rules of claim preclusion, the effect of a judgment extends to the litigation of all issues relevant to the same claim between the same parties, whether or not raised at trial.” *Kaspar Wire Works, Inc. v. Leco Eng’g & Mach., Inc.*, 575 F.2d 530, 535 (5th Cir. 1978). In short, claim preclusion “puts an end to the cause of action.” *Sunnen*, 333 U.S. at 597.

It is fundamental, however, that claim preclusion applies only as far as the claim that was actually resolved in the prior case. *See, e.g., Clark*, 5 U.S. at 193 (Marshall, C.J.) (“a verdict in a prior suit may be given in evidence as a bar to another suit [only] for the same cause of action”). And “whether two suits involve the same claim or cause of action depends on factual overlap.” *United States v. Tohono O’Odham Nation*, 563 U.S. 307, 316 (2011). Thus, claim preclusion “bar[s] ‘claims arising from the same transaction,’” but does not bar claims arising from distinct, albeit related, transactions. *Id.* (quoting *Kremer v. Chem. Constr. Corp.*, 456 U.S. 461, 482 n.22 (1982)).

2. Issue Preclusion

Unlike claim preclusion, issue preclusion “refers to the effect of a prior judgment in foreclosing successive litigation of an issue of fact or law actually litigated and resolved in a valid court determination essential to the prior judgment, *whether or not the*

issue arises on the same or a different claim.” New Hampshire, 532 U.S. at 748-49 (emphasis added).

The requirements for issue preclusion are well settled. First, the suit must involve “the same issue” as a prior suit. *B & B Hardware*, 135 S. Ct. at 1298-99; see *Smith v. Bayer Corp.*, 564 U.S. 299, 308-12 (2011). Second, the parties must have “actually litigated” the issue to conclusion in the prior suit. *Bobby v. Bies*, 556 U.S. 825, 834 (2009) (quoting Restatement (Second) of Judgments § 27 (1980)). Third, the merits of the issue must have been conclusively “determined” in the prior litigation “by a valid and final judgment.” *Arizona v. California*, 530 U.S. 392, 414 (2000). Fourth, the determination of that issue must have been “essential to th[e] judgment” in the prior case. *Cooper v. Fed. Reserve Bank of Richmond*, 467 U.S. 867, 874 (1984). And finally, issue preclusion does not apply if “any thing is left to conjecture as to what was ... decided.” *Russell v. Place*, 94 U.S. 606, 610 (1876).

B. The Second Circuit’s Novel “Defense Preclusion” Rule Is Antithetical to Both Claim Preclusion and Issue Preclusion.

1. The Second Circuit’s rule is inconsistent with claim preclusion.

The Second Circuit in *Marcel II* “view[ed] ... the preclusion of litigation defenses,” which it dubbed “defense preclusion,” “as consistent with claim preclusion.” Pet.App.2 n.1; see also Pet.App.8-9 (“the doctrine of claim preclusion (*or, more precisely, defense preclusion*) may be applied in contexts such as this to bar the litigation of a party’s defense” (emphasis added)). That is wrong on a number of counts.

As an initial matter, Marcel's claims in the Current Action *are not the same* as its claims in either of the parties' prior lawsuits. Pet.App.45-49; *see* Pet.App.7. That means claim preclusion simply has no application here. After all, it has been the law of the land for at least 200 years that claim preclusion does *not* apply where a second case involves a different claim from the claims at issue in the first case. *See, e.g., Whole Woman's Health*, 136 S. Ct. at 2305-07 ("Petitioners' postenforcement as-applied challenge is not 'the very same claim' as their preenforcement facial challenge," so "the doctrine of claim preclusion consequently does not bar [the] new challenge"); *Clark*, 5 U.S. at 181 (where a suit is "upon distinct and different causes of action" from the claims at issue in a prior suit, "the first cannot be pleaded in bar of the second"); Br. for the United States 26, *United States v. Int'l Bldg. Co.*, No. 508 (U.S. Mar. 23, 1952), 1953 WL 78396 (describing as "fundamental" the rule that claim preclusion does not apply "to matters arising in a [second] suit upon a different cause of action" (quoting *Cromwell*, 94 U.S. at 353)); 88 A.L.R. 574 cmt. n. (1934) ("[A] judgment can never operate as a bar of a different cause of action.").

To be sure, "claim preclusion ... operates 'not only as to every matter which was offered and received to sustain or defeat the claim or demand, but as to any other admissible matter which might have been offered for that purpose.'" *North v. Walsh*, 881 F.2d 1088, 1093 (D.C. Cir. 1989) (R.B. Ginsburg, J.) (quoting *Cromwell*, 94 U.S. at 352)). But, again, that ordinary incident of claim preclusion applies *only where claim preclusion* applies. And, again, claim preclusion is off the table here given *Marcel P's* holding

(and *Marcel II*'s recognition) that the claims in the Current Action are *different from* the claims in the 2005 Action because the alleged acts giving rise to them occurred after the 2005 Action ended. *See Davis*, 94 U.S. at 428-29; *see also Whole Woman's Health*, 136 S. Ct. at 2305 (claim preclusion does not apply to claims “predicated on events that postdate” the parties’ prior case); *Asetek Danmark A/S v. CMI USA Inc.*, 852 F.3d 1352, 1365 (Fed. Cir. 2017) (“[T]he difference in timing means that the two situations do not involve the same ‘claim’ for claim-preclusion purposes, even if all the conduct is alleged to be unlawful for the same reason.”); *Retractable Techs., Inc. v. Becton Dickinson & Co.*, 842 F.3d 883, 898-99 (5th Cir. 2016) (judgment on product disparagement claim did not preclude action for false advertising based on continuation of same advertising claims); *Brain Life, LLC v. Elekta Inc.*, 746 F.3d 1045, 1053-54 (Fed. Cir. 2014) (claim preclusion does not extend to “acts of alleged infringement occurring after entry of the final judgment” in the prior case).

Marcel II disagreed with that conclusion, insisting that a “leading treatise” (namely, Wright & Miller) suggests that “the ‘best rule’ would ... allow for the preclusion of defenses that could have been previously asserted.” Pet.App.11 n.4 (quoting Wright & Miller § 4414). But Wright & Miller could not be clearer about what the law is and has been since at least the 1870s. Indeed, the very section *Marcel II* cited states unequivocally that “the rule that [applies] in successive actions growing out of different transactions” is “simple”: “*the defendant is free to raise defenses that were equally available but omitted from the first action.*” § 4414 (emphasis added). Every

other section of the treatise that mentions this issue likewise expounds the same “simple,” time-tested rule. *See, e.g.*, § 4406 (“If the second lawsuit involves a new claim or cause of action, the parties may raise assertions or defenses that were omitted from the first lawsuit even though they were equally relevant to the first cause of action.”); § 4407 (“To the extent that a different claim or cause of action is involved [in a second action between the parties], the parties are free to advance new matters without regard to the role that the new matters might have played had they been advanced in the first action.”).

Wright & Miller does muse, in the final paragraph of the section *Marcel II* quoted (after setting out what the law *actually is*), that “[p]erhaps the best rule would be that no defenses are precluded by default of the first action, but that a defendant who wishes to litigate the first action must give notice of any currently available defenses that he wishes to hold free for another day.” § 4414. But Wright & Miller never once suggests that courts should jettison 150 years of precedent. That should come as no surprise, as adopting the above-quoted proposal wholesale would fundamentally reshape the rules of *res judicata*. After all, if “no defenses are precluded by default of the first action” *in any case*, then affirmative claim preclusion would all but cease to exist. That likely explains why the furthest Wright & Miller ever goes is to suggest that its radical proposal *might* make sense, if at all, *only* in “settings such as installment payments of rent, serial obligations to pay interest and principal, or the like, [where] a plaintiff may necessarily acquire multiple claims out of a single transaction.” *Id.* But, again, this is not such a case—

as *Marcel I* held and *Marcel II* acknowledged, the claims at issue in the Current Action all arise out of *different transactions* than did the claims in the parties' prior litigation.

Nor is it accurate to say, as Marcel likely will, that other treatises or cases apply the concept of “defense preclusion” as the *Marcel II* panel did here. Cases and secondary sources do recognize that “a defense that could have been interposed [in a first lawsuit] cannot later be used [in a second lawsuit] *to attack the judgment of the first action.*” *Nasalok*, 522 F.3d at 1328 (emphasis added) (citing Restatement (Second) of Judgments § 18(2) (1982)); *see also, e.g.*, 18 James Wm. Moore et al., *Moore’s Federal Practice* § 131.02(2) (3d ed. 1999) (“A collateral attack on a judgment or order will fail if the party making the attack could have raised the issue in the other action.”). But, again, that is just the ordinary application of claim preclusion to prevent a collateral attack on a previously decided *claim*—and no one is doing that here. To the contrary, Lucky merely seeks to assert a defense *to new claims*. As such, unlike in the collateral-attack context, a decision for Lucky in this case that the release defense bars Marcel’s *current claims* would in no way alter the relief Marcel obtained on its *prior claims* in the Final Judgment that resolved the 2005 Action. That indisputable fact exposes the Second Circuit’s novel rule for what it is: an unprincipled departure from the time-tested limitations on *res judicata*.

Nor is the Current Action a lawsuit to enforce the Final Judgment that resolved the 2005 Action. According to the panel in *Marcel II*, “Marcel styled its

complaint as one that effectively sought to enforce the judgment entered in the 2005 Action.” Pet.App.21. But how Marcel described its complaint is not what matters. What matters is whether the Current Action actually seeks to obtain relief to which Marcel is entitled pursuant to the Final Judgment, or whether the Current Action seeks to obtain *additional relief* that could *not* have been awarded in the 2005 Action. And on that score, the facts—not to mention the law of the case—could not be clearer: As *Marcel I* held and *Marcel II* acknowledged, Marcel’s claims in the Current Action “could not possibly have been sued upon in the previous case” (*i.e.*, the 2005 Action), because they arise from “alleged infringements that occurred subsequent to the judgment in the 2005 Action.” Pet.App.7 (quoting Pet.App.48).⁷

That the Current Action is *not* a judgment-enforcement action is particularly evident when one contrasts the facts here with the facts of cases that *are*. For instance, in *Golden v. Commissioner*, 548 F.3d 487 (6th Cir. 2008) (cited at Wright & Miller § 4414 n.39), the second suit was a “levy action” brought by the IRS “to collect on [income-tax] deficiencies” that were finally adjudicated in the IRS’s favor in an earlier tax

⁷ Consistent with *Marcel II*’s incorrect characterization of the Current Action as a lawsuit brought merely to enforce the Final Judgment that resolved the 2005 Action, the most recent update of Wright & Miller cites the decision below in a footnote as a case involving “direct enforcement of a judgment.” See Wright & Miller § 4414 & n.39 (Aug. 2019 Update). But, as noted *supra*, that is simply incorrect—as the *Marcel II* panel itself recognized, Marcel’s claims in the Current Action arise out of facts that postdate the claims in the 2005 Action. See Pet.App.7 (citing Pet.App.48).

court proceeding. *Id.* at 489. All the second suit sought, in other words, was to collect on what the first proceeding held the taxpayers owed the IRS. The first action merely “stipulated” the taxpayers’ “deficiencies”; it did not order any relief, which is why the IRS brought the levy action. *Id.* But that is not at all like this case. Again, critical to the holding in *Marcel I* was the fact that “Marcel could not lawfully have been awarded” in the 2005 Action the “damages” that it seeks in the Current Action. Pet.App.49. In other words, the Final Judgment that resolved the 2005 Action did not entitle *and could not have entitled* Marcel to the relief it now seeks.

Nor is this case at all like *Marine Midland Bank v. Slyman*, 995 F.2d 362 (2d Cir. 1993) (cited at Wright & Miller § 4414 n.39). The first suit in that case resulted in summary judgment “entered against the Slymans’ wholly owned corporation” and “in favor of Marine,” as the court held that the Slymans’ corporation was \$124,818.66 in arrears. *Id.* at 363-64. Despite that judgment, which was entered in state court, the corporation did not pay. Marine then brought a second suit in federal court against the Slymans themselves, demanding payment of the amount the first suit held the corporation owed, “plus interest, attorney’s fees, and costs.” *Id.* at 364. The second suit, in other words, was the quintessential judgment-enforcement action, brought to collect from privies to an earlier judgment money to which a first court held the plaintiff was entitled. The Current Action here is entirely different. Unlike in Marine’s second suit (or any other judgment-enforcement action), Marcel seeks *no relief* in the Current Action that it could have obtained in the 2005 Action, as

Marcel I made clear. See Pet.App.49-50. To the contrary, in the Current Action Marcel seeks “damages for subsequent infringements.” Pet.App.50.

In sum, in light of the holding of *Marcel I* that the claims at issue here are for *new acts* of alleged infringement that seek *new relief* that Marcel *could not have obtained in the 2005 Action*, not only is this case *not* a judgment-enforcement action, but there is simply no way to reconcile the holding of *Marcel II* with basic, time-tested principles of claim preclusion.

2. The Second Circuit’s rule is inconsistent with the principles and protections of issue preclusion.

In addition to being antithetical to claim preclusion, *Marcel II*’s novel holding also distorts issue preclusion, which dictates that “the judgment in the prior action operates as an estoppel only as to those matters in issue or points controverted, upon the determination of which the finding or verdict was rendered.” *Cromwell*, 94 U.S. at 353. When tested “by its substance—its essential and practical operation—rather than its form or local characterization,” *Air-Way Elec. Appliance Corp. v. Day*, 266 U.S. 71, 82 (1924), it becomes clear that what *Marcel II* dubbed “defense preclusion” is actually best understood as *issue preclusion*—minus its essential and constitutionally-rooted protections.

This Court has repeatedly explained that issue preclusion only “bars relitigation of an issue of fact or law raised and necessarily resolved by a prior judgment.” *Bravo-Fernandez v. United States*, 137 S. Ct. 352, 358 (2016); *accord, e.g., Regions Hosp. v. Shalala*, 522 U.S. 448, 463-64 (1998); *Partmar Corp.*

v. Paramount Pictures Theatres Corp., 347 U.S. 89, 91 (1954); *Sunnen*, 333 U.S. at 598; *Balt. S.S. Co.*, 274 U.S. at 319; *Troxell*, 227 U.S. at 440. That fundamental limitation renders issue preclusion a nonstarter here. After all, *even the Marcel II panel* recognized that “[w]hether the Release bars Marcel’s claims as to post-settlement agreement infringement was in no way ‘actually litigated and determined’ ... in the 2005 Action.” Pet.App.9 n.3 (citation omitted); *see also* Pet.App.20 (recognizing that Lucky did not “fully litigate[] the release defense in the 2005 Action”); BIO.2 (admitting that Lucky “never pursued” the release defense in the 2005 Action).

Marcel II nonetheless held that an issue never before adjudicated could be precluded in the context of a claim never before litigated—or, in other words, that Lucky’s release defense was *issue precluded* even though it was never decided in any prior litigation. That result is fundamentally inconsistent with time-tested principles of issue preclusion. As this Court has held time and again, issue preclusion applies *only* to issues that have been conclusively “determined” in prior litigation “by a valid and final judgment.” *Arizona*, 530 U.S. at 395; *see, e.g., S. Pac. R.R. Co.*, 168 U.S. at 47-49 (no issue preclusion where court did not render any final determination on issue).

Nor can it be argued that the issue-preclusion requirements that *Marcel II* bypassed are somehow peripheral, such that they may be cast aside whenever a court deems it efficient. “[P]reclusion doctrine is premised on ‘an underlying confidence that the result achieved in the initial litigation was substantially correct.’” *Bravo-Fernandez*, 137 S. Ct at 358 (quoting

Standefer v. United States, 447 U.S. 10, 23 n.18 (1980)); see Restatement (Second) of Judgments § 29 cmt. f. The actual-litigation and actual-decision requirements are critical to that confidence, as they ensure both adversarial presentation of issues by the parties and reasoned decisionmaking by the court. *Wickham Contracting Co. v. Bd. of Educ. of City of N.Y.*, 715 F.2d 21, 28 (2d Cir. 1983).

More fundamentally, the actual-litigation and actual-decision requirements are of constitutional import. See *Fayerweather v. Ritch*, 195 U.S. 276, 307-09 (1904). The basic guarantee of due process in this context is that defendants will not be deprived of their property without a meaningful opportunity to contest all elements of liability and raise all affirmative defenses. *Philip Morris USA v. Williams*, 549 U.S. 346, 353 (2007); see *Honda Motor Co. v. Oberg*, 512 U.S. 415, 430 (1994) (due process protects against “arbitrary and inaccurate adjudication”). Issue preclusion’s actual-litigation and actual-decision requirements are critical safeguards of that guarantee. That is why there is no due process problem to precluding an issue where a plaintiff can show that the issue was “actually litigated and resolved” against the defendant through “a valid court determination essential to [a] prior judgment.” *Taylor*, 553 U.S. at 892. In that case, the court can be certain that the defendant had a full and fair opportunity to prevail on these issues—and unambiguously lost. But precisely because these requirements help protect against arbitrary and/or inaccurate deprivations of property, they may not be cast aside merely because a court believes it would be “efficient” to do so.

Nor can there be any question that the issue-preclusion principles *Marcel II* bypassed below are well established. As noted, *see supra* pp.18-22, this Court has applied the actual-litigation and actual-decision requirements in an unbroken string of cases dating back to the 1870s. That alone dooms the Second Circuit's novel rule. *See Oberg*, 512 U.S. at 430 (due process protects against the "abrogation of a well-established common-law protection"). In sum, there is simply no way to reconcile the decision below with basic principles of *res judicata*.

III. The Decision Below Is Inconsistent With The Federal Rules Of Civil Procedure.

In addition to flouting nearly 150 years of settled precedent and fundamental principles of preclusion, the decision below is inconsistent with the Federal Rules of Civil Procedure. Under the Second Circuit's novel "defense preclusion" rule, *all defenses* are given the preclusive effect of compulsory counterclaims, even when they are not counterclaims at all.

1. The Federal Rules have long distinguished between claims, defenses, and counterclaims. First, a "claim" is a legal entitlement to relief that a plaintiff "states" in its initial "pleading." Fed. R. Civ. P. 8(a). Second, a defense is a fact or argument that a defendant asserts "[i]n responding to a pleading," Fed. R. Civ. P. 8(b)-(c), and that if true will "diminish or defeat the recovery sought by the [plaintiff]," Fed. R. Civ. P. 13(c). Third, a "counterclaim" is a legal entitlement to relief asserted by a defendant. *See Home Depot U.S.A., Inc. v. Jackson*, 139 S. Ct. 1743, 1749 (2019) (citing Fed. R. Civ. P. 12(a)(1)(A)-(B)).

Counterclaims are a mix of both claims and defenses. Counterclaims are similar to claims in that they “may request relief that exceeds in amount or differs in kind from the relief sought by the opposing party.” Fed. R. Civ. P. 13(c). Moreover, whereas “[a] defense cannot possibly be adjudicated separately from the plaintiff’s claim to which it applies[,] a counterclaim can be” because it is an affirmative entitlement to relief. *Reiter v. Cooper*, 507 U.S. 258, 265 (1993). That said, counterclaims are similar to defenses in that they are raised in response to a plaintiff’s pleading and in that they cannot be used to support arising under jurisdiction. *Holmes Grp., Inc. v. Vornado Air Circulation Sys., Inc.*, 535 U.S. 826, 831 (2002); see 28 U.S.C. § 1446(c)(2).

The Federal Rules have also long distinguished between *compulsory* counterclaims and *permissive* counterclaims. Compulsory counterclaims are defined as those that “arise[] out of the transaction or occurrence that is the subject matter of the [plaintiff’s] claim.” Fed. R. Civ. P. 13(a)(1). If a compulsory counterclaim “is not brought” at the first opportunity, the defendant will be “barred” from raising it in any later proceeding, whether in an affirmative pleading or in a responsive pleading. *Baker v. Gold Seal Liquors, Inc.*, 417 U.S. 467, 469 n.1 (1974). By contrast, permissive counterclaims—*i.e.*, those “that [are] not compulsory,” Fed. R. Civ. P. 13(b)—may be raised in later proceedings even if they were omitted in previous proceedings, unless claim preclusion otherwise bars them. See *Baker*, 417 U.S. at 469 n.1.

2. The decision below collapses the Federal Rules’ clear and long-settled distinctions among claims,

defenses, and counterclaims. Under the Second Circuit’s novel “defense preclusion” rule, *all defenses*—even those that do no more than diminish or defeat a plaintiff’s claim—are given the preclusive equivalent of compulsory counterclaims: Just like compulsory counterclaims will be barred under Rule 13 if not brought at the first opportunity in response to claims that arise out of the same transaction or occurrence, every defense will be barred under “defense preclusion” if not raised (and litigated to judgment) in response to the first claim to which it might apply.

That result is contrary to the plain text of the Federal Rules, which make clear *not only* that allegations that actually constitute a defense may be treated as such even though erroneously denominated as a counterclaim, Fed. R. Civ. P. 8(c), *but also* that counterclaims that do not arise out of the same transaction or occurrence as the plaintiff’s claim are not “compulsory,” *compare* Fed. R. Civ. P. 13(a), *with* Fed. R. Civ. P. 13(b). Under the Federal Rules, in other words, where neither claim preclusion nor issue preclusion applies, *only compulsory counterclaims*, not defenses or permissive counterclaims, are barred if not brought at the first opportunity.

And there can be no question here that Lucky’s release defense was *not* a compulsory counterclaim. As an initial matter, Lucky’s release defense was not a counterclaim at all. The defense could not afford Lucky any affirmative relief within the meaning of Rule 8. It is applicable only *in defending against* a claim for trademark infringement that falls within the ambit of the Settlement Agreement.

Nor could Lucky's release defense be construed as a *compulsory* counterclaim under Rule 13(a). The defense does not arise from the same transactional facts as did the claims in the 2005 Action or the Current Action, but rather from the Settlement Agreement that resolved the 2001 Action. And because a defense premised on an agreement obviously could not have grown out of transactions that arose after the agreement was signed, Lucky's release defense did not "arise[] out of the transaction or occurrence that [formed] the subject matter of [Marcel's] claim[s]" in the 2005 Action (or the Current Action). Fed. R. Civ. P. 13(a)(1). As such, asserting it in the 2005 Action (or the Current Action) would have at most been analogous to a *permissive* counterclaim—and failure to litigate permissive counterclaims has no preclusive effect. *See, e.g., Valley View Angus Ranch, Inc. v. Duke Energy Field Servs., Inc.*, 497 F.3d 1096, 1102-03 (10th Cir. 2007); *D-1 Enters., Inc. v. Commercial State Bank*, 864 F.2d 36, 39-40 (5th Cir. 1989).

Moreover, it would be passing strange to say a defense is foreclosed when, if simply recast as counterclaim, it would not have been. After all, Rule 8 clearly allows courts to reframe defenses and counterclaims when improperly denoted, and Rule 13 does not purport to foreclose *any* defenses at all. In any event, as discussed above, because Marcel's current claims are based on acts of alleged infringement that all postdate the parties' prior litigation, they are *not the same as* the claims litigated in any prior case. *See supra* p.25. And the fact that the release defense could have applied to both the 2005 Action and the Current Action further confirms

that the release defense could not have constituted a *compulsory* counterclaim that had to be brought in the 2005 Action or never at all.

3. Finally, although Rule 13 is not itself an application of *res judicata*, the distinction Rule 13 draws between compulsory and permissive counterclaims is consistent with basic principles of preclusion. As explained, *see supra* pp.25-26, the effect of claim preclusion is absolute where it applies; a prior judgment “is not only conclusive as to what was actually determined respecting such demand, but as to every matter which might have been brought forward and determined respecting it.” *Werlein v. City of New Orleans*, 177 U.S. 390, 397 (1900) (quoting *Davis*, 94 U.S. at 428). But, also as explained, *see supra* p.23, claim preclusion is limited to the scope of the “transaction” or occurrence underlying the claim resolved in the prior case. *Tohono*, 563 U.S. at 316. It thus has no application unless a later suit between two parties involves “*the very same claim*” that was adjudicated to judgment in a prior suit. *Taylor*, 553 U.S. at 892 (emphasis added).

The compulsory counterclaim rule follows the same pattern. Just like the definition of a “claim” for purposes of preclusion, *see Whole Woman’s Health*, 136 S. Ct. at 2305, a compulsory counterclaim is defined by the “transaction” underlying the claim itself. *See* Fed. R. Civ. P. 13(a)(1)(A). So just as defenses will be precluded whether or not they were raised in the initial litigation if they are later asserted to collaterally challenge *the same claim* that was previously adjudicated in favor of the plaintiff, *see supra* pp.25-26, compulsory counterclaims—which

stem from the same transaction as the claim—must be raised at the first opportunity or are forever barred. And just as defenses *to new claims* are *not* precluded even if they were relevant to the claim in the first action, *see supra* p.25, permissive counterclaims—which do not stem from the same transaction as the claim—need not be raised at the first opportunity.

Properly understood, then, Rule 13 is of a piece with the ordinary and time-tested principles of preclusion discussed above. If a plaintiff prevails on its claim, it matters not whether the defendant had a winning defense that it simply failed to raise; claim preclusion bars all such attacks on the judgment once it is entered, whether in the same litigation or in a subsequent suit. Rule 13 simply reinforces that principle by forcing defendants to raise all “counterclaims” that arise out of the transaction underlying the plaintiff’s claim. In short, Rule 13 buttresses, but does not expand, the ordinary effect of claim preclusion. Indeed, “the Restatement (Second) of Judgments now identifies the compulsory counterclaim as marking the scope of ‘defense preclusion.’” Rochelle Cooper Dreyfuss & Linda J. Silberman, *Interjurisdictional Implications of the Entire Controversy Doctrine*, 28 Rutgers L.J. 123, 160 (1996).⁸

⁸ See also Howard M. Erichson, *Interjurisdictional Preclusion*, 96 Mich. L. Rev. 945, 977 n.161 (1998) (“The claim-preclusive effect of the compulsory counterclaim rule can be understood as common law ‘defense preclusion’ that incorporates the requirement of the compulsory counterclaim rule.” (citing Restatement (Second) of Judgments § 22(2) (1982))).

That is all the more obvious in light of this Court's decision in *Mercoïd Corp. v. Mid-Continent Investment Co.*, 320 U.S. 661 (1944). In the first *Mercoïd* case, the plaintiff's patent was held to be valid; in the second *Mercoïd* case, the defendant raised a patent-misuse counterclaim that could have been litigated by privies in the first case, but was not. *Id.* at 662-64. The plaintiff argued that the defendant was precluded from raising that defense in the second case because its privies failed to raise it in the first case, but this Court disagreed. *Id.* at 670-71. The counterclaim was not compulsory, so claim preclusion did not apply against the plaintiff. *Id.* at 671. And because misuse was not finally adjudicated in the first case, the defendant was not precluded from raising the issue in the second case against the plaintiff's new claims. *Id.*⁹

That is exactly the opposite of what *Marcel II* held below. *See* Pet.23-24. To be sure, the *Marcel II* panel did not "rely on," or even mention, "the distinction between permissible or compulsory counterclaims" in its decision. BIO.30. But the fact that the Second Circuit ignored the Federal Rules does not make its decision any less inconsistent with them.

IV. The Decision Below Would Result In Unnecessary And Inefficient Over-Litigation Of Defenses.

The court below seemed to believe that efficiency, which drove its decision, was the *ne plus ultra* of res

⁹ The Court ultimately remanded for resolution of whether "the second cause of action between the parties is [actually] upon a different claim [as] the prior judgment." *Mercoïd*, 320 U.S. at 670-71. If the second case did not involve different claims from the first, then the *plaintiff* would be claim precluded. *Id.* at 670.

judicata. That is wrong, for all the reasons explained above. But even if the *Marcel II* panel were right on that score, its novel “defense preclusion” rule does not come close to promoting efficient litigation. Although the Federal Rules impose no compulsory joinder of defenses, that is the effect of the Second Circuit’s new rule. In practice, de facto compulsory joinder of defenses will force counsel for defendants to raise *and litigate to judgment* every possible defense, lest their client be deemed “precluded” from raising the defense in a later case involving different claims (and lest counsel find herself sued for malpractice). It is hard to imagine a more inefficient outcome.

Indeed, litigating every defense to judgment is the exact opposite of what courts expect of and urge from litigants. As lawyers and frequent litigants know all too well, courts routinely extol the virtues of parties streamlining their cases and picking the most pertinent claims and defenses for trial. To that end, courts frequently grant motions to dismiss a subset of claims without prejudice pursuant to Rule 15. And it is no answer to say that, if a party decides to drop a defense, that necessarily signals that the defense was weak; even strong defenses may only apply to a subset of asserted claims. In a world of limited resources, such defenses are candidates for the cutting room floor. But in the brave new world of defense preclusion the decision below would usher in, no defendants should willingly trim their case (and no defendant’s counsel should advise it) for fear of that decision coming back to haunt them in a future case involving entirely different claims where they may wish to assert a defense anew.

That result would be untenable regardless of the context. Even if two cases involve the same parties and similar issues, the stakes in the two cases will almost inevitably be different. *See Cromwell*, 94 U.S. at 356. The amounts in controversy, the strength of the plaintiff's claims, the parties' financial positions, the availability of other defenses, and myriad other factors all may have changed from the first case to the second. As such, a defense that was dispositive in one case might be peripheral in another, even if the two cases are otherwise similar. This Court's case law reflects the reality that defendants will have different incentives to raise different defenses in response to different claims, and allows defendants to raise defenses to new claims even if those defenses could have been litigated in prior cases, but were not. *See, e.g., id.* (recognizing that defendants often have good reasons not to raise every defense, "such as the smallness of the amount or the value of the property in controversy, the difficulty of obtaining the necessary evidence, the expense of the litigation, and his own situation at the time"). The Second Circuit's contrary "defense preclusion" rule does not.

That is particularly problematic given that this is a trademark case. "The principle underlying trademark protection is that distinctive marks—words, names, symbols, and the like—can help distinguish a particular artisan's goods from those of others." *B & B Hardware*, 135 S. Ct. at 1299. Common sense and lived experience, however, have shown that what distinguishes two things today might not distinguish them tomorrow. Trademark law contains a number of doctrines to deal with and reflect that reality. A descriptive term might "acquire[]

distinctiveness” (and thus trademark protection) “by gaining secondary meaning over time in the marketplace.” *Times Mirror Magazines, Inc. v. Las Vegas Sports News, L.L.C.*, 212 F.3d 157, 165 (3d Cir. 2000). By contrast, a mark that was once protectable “may become generic over time through common usage.” *BellSouth Corp. v. DataNational Corp.*, 60 F.3d 1565, 1570 (Fed. Cir. 1995). A mark may even become “incontestable” (*i.e.*, unable to be challenged for mere descriptiveness or lack of secondary meaning) after five years of continuous use if the owner of a registered trademark can show that certain statutory requirements have been met. 15 U.S.C. § 1065.

The likelihood of confusion between two marks also inherently may change over time. In the Second Circuit, courts evaluate the likelihood of confusion using eight factors: (1) strength of the plaintiff’s mark, (2) similarity of the marks, (3) proximity of the products, (4) likelihood the plaintiff will bridge the gap between the two products, (5) actual confusion, (6) the defendant’s good or bad faith, (7) quality of the products, (8) sophistication of consumers. *Polaroid Corp. v. Polarad Elecs. Corp.*, 287 F.2d 492, 495 (2d Cir. 1961) (Friendly, J.). In looking at the factors, one can easily see how time and intervening events could impact the analysis.¹⁰

¹⁰ *Polaroid* was very influential. Other circuits have adopted substantially similar tests. See 4 J. Thomas McCarthy, *McCarthy on Trademarks and Unfair Competition* § 24:30 (5th ed. 2018) (“The Various Circuit Multi-Factor Tests are Not Fundamentally Different”); see also *id.* §§ 24:31-43 (cataloguing factors used by each circuit).

The strength of a mark in identifying the source of a product (factor one) may wax and wane, as a brand that was widely known fifty years ago may have far less consumer recognition today, or vice versa. The similarity of marks (factor two) may change over time as well, especially because the analysis focuses not just on the words themselves, but on marketplace conditions and the “context” in which the marks are found, which might change as parties adopt new logos, typefaces, or other branding. *See Star Indus., Inc. v. Bacardi & Co.*, 412 F.3d 373, 386 (2d Cir. 2005); *see also J.T. Colby & Co. v. Apple Inc.*, 2013 WL 1903883, at *16 (S.D.N.Y. May 8, 2013), *aff’d*, 586 F. App’x 8 (2d Cir. 2014). Proximity of the products (factor three) also can shift as parties open new product lines. And new instances of actual confusion (factor five) may occur in response to changes in branding or the products offered, just as the quality of products (factor seven) and sophistication of consumers (factor eight) can ebb and flow.

All of those developments can affect the strength of a trademark-infringement claim or the strength of a defense thereto. As such, a defense that might be peripheral in an earlier case could become crucial a decade down the line, even if many of the brands at issue are the same. Those developments can also change the valence of particular issues in dispute, such that an issue in a present case that might appear superficially similar to an issue litigated in a prior case could in fact be entirely different. It should come as no surprise, then, that courts confronting preclusion arguments in trademark cases typically pay close attention to the facts on the ground at the time of both suits and the substance of the issues

presented. *See, e.g., Jim Beam Brands Co. v. Beamish & Crawford Ltd.*, 937 F.2d 729, 734 (2d Cir. 1991); *Tex. Pig Stands, Inc. v. Hard Rock Cafe Int'l, Inc.*, 951 F.2d 684, 691 (5th Cir. 1992); *B & B Hardware, Inc. v. Hargis Indus., Inc.*, 569 F.3d 383, 388-90 (8th Cir. 2009).

The facts of this case illustrate the point. The district court denied Lucky's motion to dismiss in the 2005 Action on the specific ground that it was unclear whether the Settlement Agreement actually resolved all of Marcel's claims (because some of them involved marks registered after May 2003). Pet.App.28. In light of that clear law of the case, it was more than reasonable for Lucky to choose not to expend resources on (and burden the court with) a defense that might not resolve every claim. That is particularly true given that the focus of the case was the GET LUCKY mark, which is not encompassed in the Settlement Agreement's release. Moreover, Lucky no longer uses the phrase "Get Lucky" alongside its other "Lucky" marks *at all*, which materially changes the context in which the marks are found, and thus the strength of any infringement claim premised on its usage.

The *Marcel II* panel nonetheless found "no conceivable justification" why Lucky did not "fully litigate[] the release defense in the 2005 Action." Pet.App.20. Indeed, it refused even to remand the case to allow the district court to decide whether Lucky's decision not to pursue the release decision at trial was reasonable. That is a remarkable conclusion, and it is one that reveals just how far afield the Second Circuit's new approach is from the traditional concerns that underlie preclusion law.

Marcel II's new “defense preclusion” rule is also fundamentally unfair more generally. Although it paid lip service to considerations of fairness, *see* Pet.App.17, the *Marcel II* panel held that it would have been abuse of discretion to conclude that the “efficiency” of preclusion did not outweigh the unfairness of barring Lucky from raising a defense never previously resolved, Pet.App.19. That conclusion is remarkable. The same “inefficiencies” the court cited are present every time a defendant could have litigated an issue to judgment in an earlier proceeding, but chose not to. And yet it has been the law of the land for nearly 150 years that “where the second action between the same parties is upon a different claim” from the first case, the defendant is only precluded in the second case from raising defenses that were conclusively “determin[ed]” in the first case. *Cromwell*, 94 U.S. at 353; *accord, e.g., Davis*, 94 U.S. at 428-29 (In “a subsequent action between the same parties upon a different [claim],” the defendant is “only” precluded from raising “matter[s]” that were “actually at issue and determined in the original action.”).

The rules of claim preclusion “reflect[] the expectation that parties who are given the capacity to present their ‘entire controversies’ shall in fact do so.” Restatement (Second) of Judgments § 24 cmt. a. Like other procedural rules, this aspect of claim preclusion channels the parties’ rights to assert claims and defenses based on the default expectation that a controversy will be adjudicated only once. *See Montana v. United States*, 440 U.S. 147, 153 (1979) (doctrine conserves judicial resources). But it has no application where, as here, the first proceeding

involved a different claim. When a *different claim* is at issue, it is fundamentally unfair to strip defendants of the constitutional protection provided by the “actually decided” rule in this context. Yet that is precisely what the Second Circuit’s novel “defense preclusion” rule accomplishes.

Indeed, one need look no further than the consequences of the rule in this very case to confirm that conclusion. Had the panel in *Marcel II* simply followed traditional preclusion principles, the Settlement Agreement would have barred Marcel’s claims, as the district court held, thus ending the Current Action. Yet because Lucky did not litigate the Settlement Agreement as a defense in the 2005 Action, a case involving different claims and different stakes, Lucky has now lost that defense forever under the Second Circuit’s rule. That is not just the height of inefficiency; it fundamentally deprives Lucky of the benefit of the bargain it struck, and undercuts the strong policy interest that all courts have in promoting settlement. In sum, no precedent or principle supports the Second Circuit’s novel rule, and no policy interest commends it.

CONCLUSION

For the foregoing reasons, the Court should reverse.

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