

No. 18-1086

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

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LUCKY BRAND DUNGAREES, ET AL.,

*Petitioners,*

v.

MARCEL FASHION GROUP, INC.,

*Respondent.*

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

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**BRIEF FOR RESPONDENT**

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## INTRODUCTION

Lucky asserts (Br. 1) that there are just “two components” to res judicata: claim preclusion and issue preclusion. Because defense preclusion does not match the requirements of either of those components, Lucky contends, it must be rejected. But that assumes away the dispute. It is also incorrect.<sup>1</sup>

Courts and respected treatises uniformly recognize that “the doctrine of res judicata applies to defenses which were not raised, but which could properly have been considered and determined in the prior action, so that if the defendant neglects to set up the defense, the defendant is precluded as to its existence by the judgment rendered in the action.” 46 *Am. Jur. 2d Judgments* § 481 (*Am. Jur.*) (collecting cases). Accord, e.g., 18 *Federal Practice & Procedure Jurisdiction* § 4414 (3d ed. 2019 update) (FP&P). These authorities thus often refer to res judicata as “claim or defense preclusion.” *Richmond v. Wawaloam Reservation, Inc.*, 850 A.2d 924, 932 (R.I. 2004). See also 18 FP&P § 4414 (referring to “claim preclusion and defense preclusion” as distinct from “issue preclusion”).

This Court held that res judicata bars unlitigated defenses more than 150 years ago in *City of Beloit v. Morgan*, 74 U.S. 619 (1868). There, it explained that “[a] party can no more split up defences than indivisible demands, and present them by piecemeal in successive suits growing out of the same transaction.” *Id.* at 623. The Court confirmed a few years later, in *Cromwell v. County of Sac*, 94 U.S. 351 (1877), that

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<sup>1</sup> We use the phrase “res judicata” as a catchall for all preclusion doctrines. See *Taylor v. Sturgell*, 553 U.S. 880, 892 (2008). When referring separately to the constituent elements of res judicata, we refer to claim preclusion, defense preclusion, and issue preclusion. Also, we refer to all of the petitioners collectively as “Lucky.”

when it comes to “defences [that] were not presented in [a prior] action,” a “subsequent allegation of their existence” will not be heard in a successive case concerning the same subject matter, because “[t]he judgment is as conclusive, so far as future proceedings at law are concerned, as though the defences never existed.” *Id.* at 352-353.

Lucky’s response is to say that defense preclusion does not apply when the claims in the second suit are different from the claims in the first suit. *E.g.*, Petr. Br. 25-26. Central to Lucky’s argument is the premise that the claims here *are* different, because Marcel is seeking damages for sales of goods that occurred post-judgment. That being so, according to Lucky, the only form of preclusion that might apply is issue preclusion, which bars relitigation only of those issues that were actually litigated and necessarily decided.

The premise of Lucky’s argument is wrong. In fact, the causes of action in this suit and the 2005 suit are the same—as Lucky itself repeatedly has admitted.

The question whether the causes of action in successive suits are the “same” for *res judicata* purposes turns on whether they concern a “common nucleus of operative fact” (*Currier v. Virginia*, 138 S. Ct. 2144, 2154 (2018) (plurality))—that is, whether they concern the same “transaction, or series of connected transactions.” *Restatement (Second) of Judgments* § 24(1) (1982) (*Restatement*).

What factual grouping constitutes a “transaction,” and what groupings constitute a “series,” are determined pragmatically, based on whether they concern the same facts and evidence and seek redress for the same basic wrong. *Restatement* § 24(2). The question, more simply put, is whether “the ‘gist’ of the two actions is the same,” so that “a different judgment in the second

action would impair or destroy rights or interests established by the judgment entered in the first action.” 18 FP&P § 4407. If they do, the causes of action are the “same,” and preclusion rules apply.

That is the case here. Marcel alleges that Lucky and its affiliates “have continued to willfully infringe upon [Marcel’s] GET LUCKY mark by using the LUCKY BRAND marks in the identical manner and form, and in connection with the identical goods for which they were found liable” in the 2005 action. JA60, 62 (capitalization altered). It is common sense that a defendant’s continuing course of wrongful conduct, comprising a series of sales of identical merchandise, constitutes a single cause of action in the *res-judicata* sense. The first case involved the same basic factual allegations, and it asked the court to redress the same legal wrong as the present action. If the claims here had accrued *before* the judgment in the 2005 action, no doubt they would be claim-precluded; they do not lose their character as arising from the same series of connected transactions (the same nucleus of operative fact) merely because they accrued post-judgment.

Lucky has conceded this point. Earlier in this case, it asserted (correctly) that “Marcel based the 2011 Action principally upon the common nucleus of operative facts shared with the 2005 Action” because it “claims \* \* \* nothing more than additional instances of what was previously asserted.” 1st Lucky C.A. Br. 35 (quotation marks omitted).<sup>2</sup> Before the district court, it likewise insisted that the complaint here “is not based on any new facts or different conduct” from the 2005

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<sup>2</sup> The prior proceedings in this case include two appeals to the Second Circuit. We cite to Lucky’s brief from the first appeal as “1st Lucky C.A. Br.” and to the appendix from the first appeal as “1st C.A. App.” and from the second appeal as “2d C.A. App.”

action. 1st C.A. App. 177. “Marcel simply complains that Lucky Brand’s prior conduct has continued.” *Id.* at 179-180. Lucky’s earlier characterization of the present lawsuit is correct.

But, Lucky insists, if the causes of action in the 2005 lawsuit and the present lawsuit are the “same,” then claim preclusion must also apply—meaning that Marcel is barred from pressing its case at all (contrary to the Second Circuit’s holding in the first appeal).

That, too, is wrong. Although the causes of action in the 2005 suit and this suit are the same for res judicata purposes, Marcel may seek relief for continuing sales in this successive lawsuit for one basic reason: In the earlier case, Marcel lacked the opportunity to litigate Lucky’s liability for post-judgment conduct—that is, it lacked an opportunity to obtain damages for sales that had not yet occurred. 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.” *Lawlor v. Nat’l Screen Serv. Corp.*, 349 U.S. 322, 328 (1955). There is therefore nothing inconsistent about allowing Marcel’s claims and barring Lucky’s defense: Lucky’s defense could have been raised in the 2005 lawsuit, whereas Marcel’s present request for damages could not have been.

With that clarification in hand, it should not be surprising that the Second Circuit, in applying defense preclusion here, has not “invented” a new form of res judicata from “whole cloth.” Petr. Br. 15-16. In fact, courts and treatises universally recognize that a final judgment from a first lawsuit bars a losing defendant from raising a defense in a second lawsuit that was available in the first suit, where the parties and causes of action are the same.

Such circumstances are most likely to arise when the defendant is held liable in the first suit not for a single wrongful act but for a course of ongoing conduct comprising a series of identical or similar wrongful acts. In some cases, successive lawsuits may be necessary if the defendant continues with its conduct even after losing in the first lawsuit. Permitting the defendant to raise a new defense in a second suit—one that it omitted from the first suit and that would have defeated liability if it had been raised there—would allow the defendant to impair the rights established in the first suit. That would undermine the stability of the first judgment and perversely encourage the defendant to continue with its wrongful conduct after losing in the first case, secure in the knowledge that it can relitigate its liability going forward.

Applying defense preclusion in these circumstances thus responds to the same concerns that justify the preclusion of claims: It protects the finality of judgments, encourages reliance on judicial decisions, discourages repetitive lawsuits, and preserves judicial resources. And defense preclusion will virtually always be fair in these circumstances, for if there is a single principle that lies at the center of all modern systems of civil justice, it is this one: “[A] losing litigant deserves no rematch after a defeat fairly suffered.” *Astoria Federal Savings & Loan Association v. Solimino*, 501 U.S. 104, 107 (1991).

The Second Circuit thus correctly held that Lucky’s release defense is barred by *res judicata*. Lucky had its day in court, and it lost. It is not entitled to a rematch simply because it has continued infringing Marcel’s trademark in the identical manner for which it was held liable in the prior suit.

## STATEMENT

### A. The 2001 lawsuit and settlement

Marcel Fashion Group is a successful apparel manufacturer and wholesaler based in Miami, Florida. It has held the federally registered trademark GET LUCKY for uses relating to clothing since 1986. Pet. App. 40. Lucky is a global fashion brand that markets competing apparel products. *Ibid.* Lucky's business was founded in 1990, four years after Marcel registered the GET LUCKY mark.

The long-standing dispute underlying this appeal began with Lucky's admitted infringement of Marcel's GET LUCKY mark in the 1990s and 2000s, when it "ran advertisements \* \* \* that used the phrase 'Get Lucky' in connection with its products." Petr. Br. 6.

Marcel sued Lucky in 2001. Pet. App. 41. Lucky admitted in its answer that it "ha[s] used and will continue to use the designation 'GET LUCKY.'" Answer ¶ 32, *Marcel Fashion Group, Inc. v. Lucky Brand Dungarees, Inc.*, No. 01-cv-7495 (S.D. Fla. Nov. 16, 2001) (Dkt. 5).

The parties settled the 2001 litigation. JA187-201. Lucky paid Marcel \$650,000 and promised to stop using the "get lucky" slogan on its products and in its advertising. JA191, 194.

### B. Lucky's continued infringement of Marcel's mark, and the 2005 suit

Despite the settlement agreement, Lucky continued to use the phrase "get lucky" in both its clothing designs and advertising. See *Lucky Brand Dungarees, Inc. v. Ally Apparel Resources, LLC*, 2009 WL 72982, at \*1-\*2 (S.D.N.Y. 2009) (*Sanctions Opinion*). Meanwhile, Marcel's licensee, Ally Apparel, marketed a "Get Lucky" line of jeans and sportswear. Pet. App. 41.

1. Lucky sued Marcel and Ally in 2005, alleging trademark infringement and unfair competition. Pet. App. 41. Marcel counterclaimed, alleging that Lucky had continued its use of the GET LUCKY mark, breaching the settlement agreement and creating consumer confusion. See 2d C.A. App. 98-141.

Lucky moved to dismiss Marcel's counterclaims. 2d C.A. App. 208-230. Lucky argued in the main that the counterclaims were barred by res judicata because they could have been raised in the 2001 lawsuit. *Id.* at 221-225. It also argued briefly that the release from the 2001 settlement absolved it of liability for infringement (*id.* at 225-227) and that the counterclaims were barred by laches (*id.* at 227-229).

The district court denied the motion. 2d C.A. App. 255-258. As to Lucky's res judicata argument, the court denied dismissal without prejudice because it could "not say at this stage that all of the relevant aspects of the disputed counterclaims \* \* \* could have been raised prior to the 2003 dismissal and settlement of the [2001] litigation." *Id.* at 257. The court also rejected Lucky's laches argument (*id.* at 258), but it did not expressly address the release argument.

Lucky again asserted the release defense in its answer to Marcel's counterclaims. 2d C.A. App. 271. After that, "Lucky Brand never again asserted a release defense in the 2005 Action." Pet. App. 5.

2. The case proceeded to discovery. Lucky denied in its discovery responses that it was continuing to use the slogan "get lucky" on its products or in its advertising. *Sanctions Opinion*, 2009 WL 72982, at \*1. But Marcel later learned that those "representations were false." *Id.* at \*2. In fact, "[a]t the time of [Lucky's discovery responses], [Lucky was] marketing men's t-shirts with a GET LUCKY NOW chest logo to department



stores.” *Ibid.* Lucky ultimately “concede[d] that [its] sale of these shirts violated the 2003 settlement agreement.” *Id.* at \*9. Two among more than a dozen admitted infringing designs included:



*Lucky Brand Dungarees, Inc. v. Ally Apparel Resources, LLC*, No. 1:05-cv-6757 (S.D.N.Y. March 13, 2009) (Dkt. 175-5, at 2).



*Ibid.* (Dkt. 175-2, at 2).

The magistrate judge determined that Lucky’s “false” discovery responses and continued infringement of Marcel’s trademark were part of a “pattern of prolonged inaction and misdirection” reflecting, “at a minimum, gross negligence” and more likely “willfulness.” *Sanctions Opinion*, 2009 WL 72982, at \*9.

As a sanction for Lucky’s willful litigation misconduct, the magistrate judge imposed the harshest penalty possible: It entered “a judicial finding without trial” that Lucky “violated the 2003 settlement agreement” and “infringed [Marcel’s] trademark rights” with respect to Lucky’s imitation of the GET LUCKY mark on its products and in its advertising. *Sanctions Opinion*, 2009 WL 72982, at \*9-10.

The court thereafter entered a partial summary judgment for Marcel on Counterclaims I through VI, insofar as those counterclaims related to Lucky's direct imitation of the GET LUCKY mark. See Order on Defendant's Counterclaims, *Lucky Brand Dungarees, Inc. v. Ally Apparel Resources, LLC*, (Dkt. 171) (S.D.N.Y. Feb. 13, 2009). Accord JA203. The court also entered a permanent injunction against Lucky, "forbidding [it] from ever 'using in commerce any reproduction, counterfeit, copy or any colorable imitation of Marcel Fashion's GET LUCKY trademark on or in connection with men's and women's apparel, fragrances, and accessories.'" JA203-204 (quoting order).

3. The district court held a six-day jury trial in April of 2010 to resolve the remaining claims and counterclaims.

Marcel's principal theory of liability for its counterclaims was reverse confusion. "Reverse confusion" occurs when a larger competitor with a junior trademark right "saturates the market with a trademark similar or identical to that of a smaller senior user" so that consumers come to believe that the smaller user is "knocking off" the larger competitor, when in fact it is the other way around. Trial Tr. 903, *Lucky Brand Dungarees, Inc. v. Ally Apparel Resources, LLC*, No. 1:05-cv-6757 (S.D.N.Y. May 7, 2010) (Dkt. 241).

Marcel's reverse-confusion theory depended, in part, on Lucky's continued imitation of the GET LUCKY mark. Although "every use of 'Get Lucky' [was] already covered by the liability determination that [the court had] already made" (Trial Tr. 666 (statement of the court)), Marcel argued that consumers' confusion arising from Lucky's marks was exacerbated by Lucky's "continuous use of 'Get Lucky' in conjunction with 'Lucky.'" Trial Tr. 667 (statement of counsel). Although Marcel was "not seeking any additional damages as a

result of” Lucky’s direct imitation of the GET LUCKY trademark, in other words, Marcel’s position was that “the constant mixing of [Lucky’s] trademarks and [Marcel’s] trademark [had] enhance[d] the confusion with respect to their use of ‘Lucky.’” *Ibid.* It therefore requested a jury instruction on reverse confusion that covered Lucky’s “use of ‘Lucky’ and ‘Get Lucky’ because it’s together.” Trial Tr. 666 (emphasis added).

The judge agreed and instructed the jury accordingly. As to Marcel’s claim that Lucky had directly imitated the GET LUCKY trademark, the judge instructed the jury that it was to determine “what damages, if any, [Marcel is] entitled as a result of [the court’s] finding” of liability. Trial Tr. 912.

The judge further instructed the jury “to determine whether [Marcel] sustained [its] burden of proving all of the disputed elements of [its] other claims.” Trial Tr. 912. Principal among those other claims was Marcel’s allegation that Lucky, “in using the ‘Get Lucky,’ ‘Lucky Brands’ and other marks including the word ‘Lucky’ after May 2003, [Lucky] created a likelihood of the second kind of confusion, which is called ‘reverse confusion.’” Trial Tr. 893.

4. The jury returned a verdict for Marcel. 1st C.A. App. 347-357. For the confusion-based counterclaims, it found that Lucky had “infringed Marcel Fashion’s ‘Get Lucky’ mark by using ‘Get Lucky,’ the ‘Lucky Brand’ marks and any other marks including the word ‘Lucky’ after May 2003.” *Id.* at 355.

The jury awarded a total of \$300,000 in damages. JA208 (¶ 8). For Lucky’s “unauthorized use of the ‘Get Lucky’ mark,” as established by the sanctions order, the jury awarded \$150,000 in damages. JA207 (¶ 6); see also 1st C.A. App. 356. For the confusion-based

infringements, the jury likewise awarded \$150,000. JA207-208 (¶ 7); see also 1st C.A. App. 357.<sup>3</sup>

The parties negotiated and jointly submitted a stipulated judgment (Petr. Br. 10), which the district court adopted and entered on June 1, 2010. JA202-208. The judgment provided that “the GET LUCKY trademark is valid and enforceable” against Lucky, “Marcel Fashion did not abandon the mark,” and Marcel’s mark has “priority over [Lucky’s] trademarks,” entitling Marcel to damages. JA206. Consistent with the verdict, the judgment declared further that Lucky had “infringed Marcel Fashion’s GET LUCKY trademark \* \* \* by using GET LUCKY, the LUCKY BRAND trademarks, and any other trademarks including the word ‘Lucky’ after May 2003.” JA207 (¶ 5). See also Pet. App. 6 (describing the judgment as a judicially sanctioned “declaration” of Marcel’s rights).

**C. Lucky’s identical post-judgment infringement, and the present suit**

1. Lucky’s infringing conduct continued unimpeded by the district court’s entry of judgment for Marcel in the 2005 litigation.

Marcel accordingly filed the present lawsuit in 2011, alleging that Lucky had “continued to willfully

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<sup>3</sup> Lucky is wrong (Petr. Br. 9 n.3) that the verdict for Marcel might have been based only on “Lucky’s use of GET LUCKY” rather than on its use of “other LUCKY-formative marks.” The judge instructed the jury that Lucky’s use of GET LUCKY violated Marcel’s mark as a matter of law and that, as to such conduct, it was to determine only damages. Trial Tr. 893, 911-912. The jury found Lucky separately liable on Marcel’s other claims, and it assessed separate damages for those distinct violations. JA207-208 (¶ 7). The distinctions that the judge and jury drew between the two categories of liability would be inexplicable if the other claims could have been based on the use of GET LUCKY alone.

\* \* \* infringe Plaintiff's GET LUCKY mark by using the Lucky Brand marks in the identical manner and form and on the same goods for which [it was] found liable for infringement" in the 2005 lawsuit. JA44 (¶ 15). According to the complaint, Lucky had "continued its uninterrupted and willful use of the Lucky Brand marks and any other trademarks including the word 'Lucky'" (JA45 (¶ 20)) in precisely the same manner as the jury had found Lucky liable in the 2005 litigation. Marcel alleged that Lucky had "defied [its] obligation" established by the judgment in the 2005 action "to cease any further use of an infringing trademark, and continue[s] to this day to infringe [Marcel]'s GET LUCKY trademark." JA46 (¶ 27).

On these facts, Marcel asserted the same causes of action as before. See JA48-50. Marcel added a request for injunctive relief because "[t]his matter has already been determined by the Southern District of New York," and damages had previously proven inadequate to dissuade Lucky from continuing to engage in its wrongful, infringing conduct. JA47-48.

**2.** Lucky moved for summary judgment, arguing that Marcel's claims were barred by claim preclusion. It began by observing that the complaint "is not based on any new facts or different conduct" from the 2005 action. 1st C.A. App. 177. In Lucky's own words, the present lawsuit is predicated on mere "additional instances of the same conduct" found to infringe Marcel's trademark in the 2005 suit. *Id.* at 179. Accord *id.* at 180 ("Marcel simply complains that Lucky Brand's prior conduct has continued.").

Put another way, Lucky's position was that Marcel should have known that Lucky would continue to infringe in an identical manner following the 2005 judgment; thus, Marcel's failure to obtain an injunction forbidding that *specific* unlawful behavior in the

prior lawsuit barred Marcel from bringing a new lawsuit challenging the same subsequent conduct. 1st C.A. App. 177-182.

**3.** The district court granted the motion. See Pet. App. 58-74.

Recognizing that this Court's precedents foreclose Lucky's argument, the Second Circuit reversed. See Pet. App. 39-57 (citing *Lawlor*). "Winning a judgment based on the defendant's violation of the plaintiff's rights," the Second Circuit explained, "does not deprive the plaintiff of the right to sue the same defendant again for the defendant's further subsequent similar violations." Pet. App. 46. "[I]t would be anomalous and unacceptable if the earlier judgment against the defendant—determining that it violated plaintiff's trademark rights \* \* \*—would in effect immunize the defendant against all suits concerning [subsequent] infringements of the same trademark, leaving the defendant free, by virtue of having once been found liable for infringement, to infringe thereafter in perpetuity." Pet. App. 48 (quotation marks omitted and alterations incorporated).

**4.** On remand, Marcel filed a second amended complaint (JA52-75), which is the operative pleading here and in all material respects the same as the original complaint. It alleges that Lucky has "continued to infringe on [Marcel's] GET LUCKY mark in the identical manner that resulted in [the jury's] declaratory judgment" that Lucky had infringed Marcel's mark in the 2005 action. JA54 (¶ 4) (capitalization altered).

Lucky retained new counsel and—for the first time in about a decade—asserted that Marcel's previously adjudicated confusion claims were released by the 2003 settlement. JA141-168. Lucky's position was, in other

words, that the settlement agreement's release covered claims based on Lucky's own breach of the settlement agreement. Marcel opposed the motion, arguing that Lucky was barred by *res judicata* from raising the release as a defense because it could have, but did not, raise the defense in the 2005 litigation, which concerned the same subject matter. JA169-186.

5. The district court granted Lucky's motion. Pet. App. 25-38. As for Marcel's preclusion argument, the district court "gave the argument short shrift, \* \* \* dismiss[ing] Marcel's argument" because "Marcel seeks to preclude a defense, and not a 'claim.'" Pet. App. 10 (quoting Pet. App. 35).

6. The Second Circuit unanimously reversed. Pet. App. 1-22. It held that "res judicata precludes Lucky Brand from raising its release defense in this action." Pet. App. 2 (*italics omitted*).

The court explained that preclusion rules are designed to promote judicial efficiency and repose, and "the principles animating the claim preclusion doctrine [do not] disappear when that which is sought to be precluded is a defense." Pet. App. 14. "Rather, \* \* \* the efficiency concerns [are] as equally pressing when the matter subject to preclusion is a defense rather than a claim." *Ibid.* The court went on:

*First*, defense preclusion incentivizes defendants to litigate all their relevant defenses in an initial action, thereby promoting judicial efficiency at least to the same extent as does precluding claims. *Second*, absent defense preclusion, plaintiffs might be hesitant to rely on judicial victories for fear that a hidden defense will later emerge to alter their judicially established rights. *Third*, and relatedly, defense preclusion prevents wasteful follow-on

actions that would not have been filed had the defense been asserted (and maintained) at the first opportunity.

*Ibid.* This case proves the point: “seven-plus years of litigation, involving 179 district court docket entries and two appeals to [the Second Circuit] \* \* \* would have been avoided \* \* \* had Lucky Brand successfully litigated and not cast aside its release defense in the 2005 Action.” Pet. App. 15.

The court of appeals acknowledged, however, that “certain applications of defense preclusion could be unfair to defendants.” Pet. App. 16-17. Drawing on this Court’s decision in *Parklane Hosiery Co. v. Shore*, 439 U.S. 322 (1979), which permitted offensive use of issue preclusion, the court observed that “it would be unfair to preclude a defense that the defendant had little to no incentive to raise in the earlier action,” or where the defendant chooses for “tactical” reasons “to attempt to end the suit against [it] with as little cost as possible.” Pet. App. 17-18. But “there will hardly ever be unfairness in applying defense preclusion to bar a defendant from invoking defenses that could have been asserted in a previous action in a subsequent action to enforce a judgment previously entered against it.” Pet. App. 18 (citing 18 FP&P § 4414).

Distilling these considerations, the Second Circuit held that defense preclusion bars a party from raising a defense in a subsequent suit where: (i) a previous action ended in a judgment on the merits; (ii) the parties are the same; (iii) the defense was either asserted or could have been asserted in the prior action; and (iv) the court, in its discretion, concludes that defense preclusion is appropriate in light of the relative balance of efficiency and fairness concerns. Pet. App. 19.



The court cautioned that “it will be the infrequent case that a defense will be precluded by the rule we describe.” Pet. App. 22. But in this case, “the above stated factors are easily met.” Pet. App. 20. Indeed, the Second Circuit held that “it would have been an abuse of discretion for the district [court] to have concluded anything other than that” defense preclusion applies here. *Ibid.* Most importantly, the court could discern “no conceivable justification for Lucky Brand, a sophisticated party engaged in litigation pertaining to its ability to use some of its core trademarks, not to have fully litigated the release defense in the 2005 Action.” *Ibid.* It is hard to see the unfairness of defense preclusion “where not even a theoretical explanation for the omission of the defense in the earlier action is apparent.” *Ibid.*

Given this action’s posture as “effectively [seeking] to enforce the judgment entered in the 2005 action,” these factors required preclusion of Lucky’s previously abandoned release defense. Pet. App. 21-22.

#### SUMMARY OF ARGUMENT

**I.A.** Res judicata reflects the universal principle that a losing litigant deserves no rematch after a defeat fairly suffered. It serves the public policy that there be an end of litigation, those who have contested a dispute be bound by the result of the contest, and matters that were or could have been resolved in the suit be considered forever settled as between the parties. A contrary view would undermine the finality of judgments and drain party and judicial resources by inviting successive lawsuits.

**B.** It follows from these principles that a defendant who loses in one lawsuit may not raise in a subsequent lawsuit involving the same cause of action a defense that was available in the first lawsuit.

Defense preclusion requires that, as between the two suits, the parties and causes of action be the same. It also requires that the first suit result in a final judgment. In addition, courts have discretion to deny defense preclusion when fairness requires.

Defense preclusion takes two forms:

*First*, defense preclusion bars a former defendant from converting a neglected defense into a claim in a subsequent suit. For example, a defendant who is found liable for infringing a trademark in one lawsuit cannot file a subsequent lawsuit seeking a declaration that its designs (the same ones at issue in the former action) do not, in fact, infringe the former plaintiff's trademark.

*Second*, defense preclusion bars a defendant from achieving the same practical result by continuing with identical infringing conduct post-judgment, inducing the plaintiff to file a second lawsuit, and defeating liability by raising a defense that was available in the prior suit but not actually litigated there.

In both cases—whether the omitted defense is raised offensively in a declaratory judgment action or defensively in a successive lawsuit filed by the plaintiff—the defendant is barred from litigating a previously neglected defense if success on the defense would impair the rights established by the former judgment.

**II.** The Second Circuit correctly applied defense preclusion in this case.

**A.** To begin with, this case and the 2005 lawsuit concern the same series of connected transactions or, in other words, the same nucleus of operative facts. The two suits therefore involve the same cause of action for preclusion purposes. Lucky conceded this point repeatedly in the proceedings below.

Now before this Court, Lucky disagrees; it insists that because Marcel's damages in this suit arise from sales taking place after the judgment in the first suit, the claims are necessarily different. That is wrong. If the underlying sales here had occurred before the judgment in the first action, claims based upon them surely would be barred by claim preclusion. A series of connected transactions do not cease to arise from a common nucleus of operative fact—they do not cease to form a single cause of action for preclusion purposes—simply because some precede and others follow the conclusion of a first lawsuit.

Nor is there anything inconsistent about holding that Marcel's claims are *not* claim-precluded but that Lucky's defense *is* defense-precluded. A plaintiff cannot seek damages on the basis of events that have yet to occur. Thus, Marcel could not have raised its claims here in the previous lawsuit. Not so of Lucky's defense, which was fully available to it in the 2005 action. That is what distinguishes the two.

**B.** Defense preclusion is flexible and discretionary, and its application in this case was manifestly fair. Lucky is a sophisticated litigant that had capable counsel in the 2005 action, and it knew well enough to raise the release defense in its motion to dismiss. Its reasons for later abandoning the defense are its own. It is not unfair to hold it to the consequences of that decision in a subsequent suit concerning the same subject matter.

Nor are Lucky's more general objections persuasive. The Second Circuit expressly acknowledged that defense preclusion should not be applied to work an injustice. If the defendant had compelling practical reasons not to raise a defense in a prior proceeding, defense preclusion may be inappropriate. But there will rarely be anything unfair about applying defense

preclusion to bar a defendant from invoking defenses that could have been asserted in a previous action in a subsequent action to enforce the legal rights established by the judgment previously entered.

**III.** Lucky's remaining objections to defense preclusion are meritless.

**A.** For two reasons, Lucky is mistaken that this Court foreclosed defense preclusion more than 140 years ago in *Davis v. Brown*, 94 U.S. 423 (1877). First, *Davis* stands for the proposition that a lawsuit on one negotiable instrument involves a different cause of action from a suit on a different negotiable instrument. That says nothing about the question presented here, which is whether defense preclusion applies when the defendant is engaged in continuing conduct that leads to identical but post-judgment violations of the same legal right established in a prior suit.

Second, *res judicata* is an ever-evolving common-law doctrine. It is well understood that the meaning of "cause of action" for *res judicata* purposes is broader today than earlier in American history. In addition, *res judicata* precedents from the mid-nineteenth century send mixed messages. But modern doctrine, informed by the purposes of *res judicata* and prevailing contemporary practice, is clear: The court of appeals properly applied defense preclusion here.

**B.** Defense preclusion is also fully consistent with Federal Civil Rule 13(a) and due process.

The compulsory counterclaim rule is merely a procedural implementation of one element of *res judicata*. It does not, by operation of the *expressio unius* principle, rule out a court's application of the other elements of *res judicata*. Courts have therefore routinely supplemented Rule 13(a) with additional

defense-preclusion rules when the policies underlying res judicata require.

There also is no daylight between the circumstances in which defenses are compulsory under defense preclusion and counterclaims are compulsory under Rule 13(a). The question is not whether a theory for defeating liability is better labeled a counterclaim or a defense, or compulsory or permissive. The question is only whether allowing the defendant to litigate the theory—however characterized—in a subsequent suit, after having neglected it in a prior suit, would imply error in the outcome of the prior suit. If the answer is yes, then the defense is barred. Lucky's contrary arguments elevate form over substance.

Nor does due process stand in the way of defense preclusion. Due process guarantees a full and fair opportunity to litigate. Defense preclusion applies only on the condition that the prior suit provided the defendant with such an opportunity in the prior suit. It is no answer to say that precluding relitigation of omitted defenses may lead to inaccurate adjudications. Even an erroneous judgment is entitled to res judicata effect. There is, in any event, no such concern in this case because the district court's holding that Marcel released Lucky's liability is wrong.

#### **ARGUMENT**

#### **I. A DEFENDANT WHO LOSES IN ONE LAWSUIT MAY NOT RAISE IN A SUBSEQUENT LAWSUIT INVOLVING THE SAME CAUSE OF ACTION A DEFENSE THAT WAS AVAILABLE IN THE FIRST LAWSUIT**

According to the doctrine of res judicata, a final judgment on the merits concludes all matters bearing on the controversy between the parties, including not only those matters raised to sustain or defeat liability,

but also all other matters that could have been but were not raised for either such purpose. In this way, *res judicata* reflects the expectation that litigants afforded an opportunity to present their “entire” cases “shall in fact do so.” *Restatement* § 24 (commentary).

From these accepted principles, it follows that a defendant who suffers a defeat in one proceeding will ordinarily be barred from raising in a later proceeding any defense to the same cause of action that was available to it in the earlier proceeding. To hold otherwise would permit losing defendants to raise defenses in subsequent suits that challenge the validity of the rights established in the prior suit. Application of this rule will be “infrequent” (Pet. App. 22) and ordinarily will require that the defendant be engaged in a course of ongoing conduct comprising a series of identical or connected acts that the defendant has continued even after losing in the first lawsuit.

Stated in more doctrinal terms, the preclusion of a defense requires (1) an identity of the parties, (2) an identity of the cause of action, and (3) a final judgment. Because it may be raised offensively, it follows further that courts have the discretion to deny defense preclusion when fairness requires.

The Second Circuit correctly described and applied that framework in this case. Marcel sued Lucky in 2005, alleging that particular marks that Lucky was using on its merchandise and in its advertising were confusingly similar to Marcel’s own GET LUCKY mark. A jury agreed. The parties jointly stipulated to a final judgment declaring that Marcel’s GET LUCKY trademark is enforceable against Lucky, that Lucky had infringed the mark “by using GET LUCKY, the LUCKY BRAND trademarks, and any other trademarks including the word ‘Lucky’ after May 2003,” and that Marcel therefore was entitled to damages. JA207-208.

Marcel alleges in this subsequent suit that Lucky nevertheless went on selling the same products bearing the identical designs that were at issue in the 2005 lawsuit. To allow Lucky to raise a new defense in this subsequent suit—one that was available to it in the 2005 suit but that it deliberately abandoned—would perversely reward Lucky for ignoring the declaration of rights in the final judgment from the first suit. It thus would encourage wasteful repeat lawsuits and upset the reliance interests of the parties. The Second Circuit was right to hold that Lucky’s defense is precluded and that Lucky may not rehash its prior loss.

**A. Res judicata promotes repose and the finality of judgments, discourages repetitive litigation, and preserves judicial resources**

“[T]he doctrine of res judicata provides that when a final judgment has been entered on the merits of a case, ‘it is [final] as to the claim or demand in controversy, concluding parties and those in privity with them, 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.’” *Nevada v. United States*, 463 U.S. 110, 129-130 (1983) (quoting *Cromwell v. County of Sac*, 94 U.S. 351, 352 (1876)). In other words, when the parties have obtained a final judicial resolution of a dispute between them, they may not “open the same subject of litigation in respect of a matter which might have been brought forward as a part of the subject in contest, but which was not brought forward” as a result of “negligence, inadvertence, or even accident.” *City of Beloit v. Morgan*, 74 U.S. 619, 622-623 (1868).

“Such repose is justified on the sound and obvious principle \* \* \* that a losing litigant deserves no

rematch after a defeat fairly suffered.” *Astoria*, 501 U.S. at 107. Res judicata thus reflects the “[p]ublic policy \* \* \* that there be an end of litigation; that those who have contested an issue shall be bound by the result of the contest; and that matters once tried shall be considered forever settled as between the parties.” *Baldwin v. Iowa State Traveling Men’s Association*, 283 U.S. 522, 525 (1931). Otherwise, litigation would never end. Dissatisfied plaintiffs would continually discover new grounds for liability, and losing defendants would continually find new grounds for protection from liability, protracting litigation endlessly. “The indulgence of [such a] view would result in \* \* \* uncertainty and confusion” and “undermin[e] the conclusive character of judgments.” *Federated Department Stores, Inc. v. Moitie*, 452 U.S. 394, 398 (1981) (quoting *Reed v. Allen*, 286 U.S. 191, 201 (1932)). It also would “impose unjustifiably upon those who have already shouldered their burdens, and drain the resources of an adjudicatory system with disputes resisting resolution.” *Astoria*, 501 U.S. at 107-108 (citing *Parklane Hosiery*, 439 U.S. at 326).

In these ways, res judicata achieves several practical objectives essential to the just and efficient operation of all modern judicial systems: It “protect[s] against the expense and vexation attending multiple lawsuits, conserve[s] judicial resources, and foster[s] reliance on judicial action by minimizing the possibility of inconsistent verdicts.” *B&B Hardware, Inc. v. Hargis Industries, Inc.*, 135 S. Ct. 1293, 1302-1303 (2015) (quoting *Montana v. United States*, 440 U.S. 147, 153-154 (1979)). And “[b]y refusing to relieve parties against the consequences of their own neglect it seeks to make them vigilant and careful” in the litigation of controversies. *Covington & Cincinnati Bridge Co. v. Sargent*, 27 Ohio St. 233, 238 (1875). Without it,



“there would be no end to an action, and there would be an end to all vigilance and care in its preparation and trial.” *Ibid.*

**B. Res judicata precludes not only claims, but also defenses**

It follows from these accepted precepts that res judicata bars the relitigation of not only claims, but also defenses. As the Second Circuit noted, “the principles animating” res judicata do not “disappear when that which is sought to be precluded is a defense” rather than a claim. Pet. App. 14. On the contrary, “efficiency concerns [are] as equally pressing when the matter subject to preclusion is a defense.” *Ibid.* Accord, e.g., 18 FP&P § 4414 (“Defense preclusion analysis would respond to exactly the same concerns as claim preclusion.”).

There is nothing “novel” (Petr. Br. 1, 3, 5, 16, 17, 24, 28, 31, 34, 36, 41, 47) about that conclusion. Leading legal authorities have long recognized that “the doctrine of res judicata applies to defenses which were not raised, but which could properly have been considered and determined in the prior action, so that if the defendant neglects to set up the defense, the defendant is precluded as to its existence by the judgment rendered in the action.” 46 *Am. Jur.* § 481 (collecting cases). Thus, res judicata may bar the relitigation of “defenses which could have been asserted in the prior litigation” but were not. 18 *Moore’s Federal Practice* § 131.10[3][c] (3d ed. 2019 update) (*Moore’s*).

Courts universally agree. According to the Iowa Supreme Court, a “defendant cannot avail himself of the defenses he might have interposed, or did interpose, in the first action,’ in a subsequent action.” *Spiker v. Spiker*, 708 N.W.2d 347, 354 (Iowa 2006) (quoting *Restatement* § 18). Or, as the Federal Circuit

has put it, “defenses that were raised or *could have been* raised by the defendant in [the first] action are extinguished” by the first action’s judgment. *Foster v. Halleco Manufacturing Co.*, 947 F.2d 469, 478 (Fed. Cir. 1991) (citing *Restatement* §§ 18, 19 & commentary).

These are not “outlier” (Petr. Br. 1, 5) statements. Courts broadly acknowledge that “res judicata is applicable to defenses which, although not raised, could have been raised in the prior action.” *Johnson’s Island, Inc. v. Board of Township Trustees*, 431 N.E.2d 672, 675 (Ohio 1982). See also *Harsh International, Inc. v. Monfort Industries, Inc.*, 662 N.W.2d 574, 581 (Neb. 2003) (res judicata “applies to the litigation of defenses”). Courts thus often refer to res judicata as “claim or defense preclusion.” *Wawaloam Reservation*, 850 A.2d at 932. Accord 18 FP&P § 4406 (referring to “claim preclusion and defense preclusion” as distinct from “issue preclusion”).

Countless other state<sup>4</sup> and federal<sup>5</sup> courts have recognized that res judicata bars defenses that were or could have been litigated in the prior action. That

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<sup>4</sup> See, e.g., *Mortgage Electronic Registration Systems, Inc. v. Wise*, 304 P.3d 1192, 1199 (Haw. 2013); *Mills v. City of Grand Forks*, 813 N.W.2d 574, 577 (N.D. 2012); *Martin v. Cash Exp., Inc.*, 60 So. 3d 236, 251 (Ala. 2010); *J.C. & S.C. v. Adoption of Minor Child*, 797 So. 2d 209, 212 (Miss. 2001); *Compania Financiară Libano, S.A. v. Simmons*, 53 S.W.3d 365, 367 (Tex. 2001); *Slider v. State Farm Mutual Automobile Insurance Co.*, 557 S.E.2d 883, 887-888 (W. Va. 2001).

<sup>5</sup> See, e.g., *United States v. Beane*, 841 F.3d 1273, 1285 (11th Cir. 2016); *Prewett v. Weems*, 749 F.3d 454, 462 (6th Cir. 2014); *GLF Construction Corp. v. LAN/STV*, 414 F.3d 553, 555 n.2 (5th Cir. 2005); *Pension Benefit Guarantee Corp. v. Beverley*, 404 F.3d 243, 248 (4th Cir. 2005); *United States v. Bryant*, 15 F.3d 756, 758 (8th Cir. 1994); *Towers, Perrin, Forster & Crosby v. Brown*, 732 F.2d 345, 347 (3d Cir. 1984).

includes this Court, which has repeatedly confirmed that *res judicata* bars relitigation of all matters “received to sustain *or defeat* the claim” or “which might have been offered for that purpose.” *Nevada*, 463 U.S. at 130 (emphasis added) (quoting *Cromwell*, 94 U.S. at 352). See also *Brown v. Felsen*, 442 U.S. 127, 131 (1979) (“*Res judicata* prevents litigation of all grounds for, *or defenses to*, recovery that were previously available to the parties, regardless of whether they were asserted or determined in the prior proceeding.”) (emphasis added).

Courts and treatises recognize two broad categories of defense preclusion in practice. First are cases in which a defendant loses in the first action and commences a second action as plaintiff, “seek[ing] to advance a claim against the original plaintiff” that could have been interposed as a defense in the first action. 18 FP&P § 4414. Second are cases, like this one, in which there is “a second action by the original plaintiff in which the defendant seeks to raise defenses that were equally available in the first action but were not advanced there.” *Ibid.* Recognizing defense preclusion in both circumstances is essential to achieving *res judicata*’s public policy objectives.

**1. *Defense preclusion generally bars a former defendant from converting a neglected defense into a claim***

**a.** Authorities uniformly agree that “a defendant will not be permitted in a later action to assert as an affirmative claim, a defense which, if asserted and proved as a defense in the former action, would have barred the judgment entered in plaintiffs’ favor.” 46 *Am. Jur.* § 481 (collecting cases at note 2). Accord, *e.g.*, *Lamb v. Geovjian*, 683 A.2d 731, 735 (Vt. 1996) (“[*Res judicata*] bars defendants from using defenses avail-

able in one action as the basis for a claim in a later action.”).

The general parameters for this version of defense preclusion require that (1) the parties be the same, (2) the defense have been fully available in the prior lawsuit, (3) the prior lawsuit have resulted in a valid final judgment, and (4) the two cases involve a common set of operative facts, so that the former defendant’s success on the defense-turned-claim would impair the rights established by the judgment in the prior lawsuit. For example, a second action commenced by a former defendant against the former plaintiff for a “declaratory judgment” that could have been raised as a defense in the first action and would, if granted, “impair the repose properly established by the first judgment” “cannot be permitted.” 18 FP&P § 4414.<sup>6</sup>

**b.** This Court applied defense preclusion in just this manner in *Stout v. Lye*, 103 U.S. 66 (1880). There, a debtor had executed a mortgage with a bank, encumbering certain real property. Other creditors later won a judgment against the same debtor and obtained a judgment lien against the same property. The bank sued the debtor in state court to establish the amount owed on the mortgage and to foreclose on the property. The debtor challenged neither the validity of the mortgage nor the rate of interest as usurious.

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<sup>6</sup> This version of defense preclusion is not merely a restatement of the compulsory counterclaim canon of Federal Civil Rule 13(a). To be sure, defenses converted into claims sometimes will be “foreclosed by direct operation of Rule 13(a).” 18 FP&P § 4414. But courts have recognized that defense preclusion applies to theories constituting “affirmative defenses,” not just counterclaims. *E.g.*, *Lamb*, 683 A.2d at 735. We address the relationship between defense preclusion and the compulsory counterclaim rule more fully in Part III(B), below.

The judgment creditors later sued the bank in federal court to set aside the mortgage or, in the alternative, to reduce the debt owed on the mortgage under the laws of usury. This Court held that the creditors' challenges had been available to the debtor in the prior foreclosure action as defenses, and that they could not be converted into claims in a subsequent action by the debtor's privies. *Id.* at 70-71. "It is true," the Court noted, that "the mortgagor did not set up as a defence that the bank had no right to take the mortgage, or that he was entitled to certain credits because of payments of usurious interest, but he was at liberty to do so." *Id.* at 71. "Not having done so, he is now concluded as to all such defences, and so are his privies." *Ibid.*

Courts have continued to apply defense preclusion in similar circumstances more recently. That was the basis for the decision in, for example, *Martin v. Cash Express, Inc.*, 60 So. 3d 236, 250-252 (Ala. 2010). There, the Alabama Supreme Court held that debtors who "could have asserted [but did not assert] the defense of illegality of the loan as a defense to the prior actions against them" were "precluded from using those same available defenses as the basis of a cause of action against the former plaintiff" in a subsequent suit. *Id.* at 252. In support of that conclusion, the court explained:

[I]t is a general rule that a valid judgment for the plaintiff definitely and finally negatives every defense that might and should have been raised against the action; and this is true, not only with respect to further or supplementary proceedings in the same cause, but for the purposes of every subsequent suit between the same parties, whether founded upon the same or a different cause of action.

*Id.* at 251 (quoting 2 Henry C. Black, *A Treatise on the Law of Judgments Including the Doctrine of Res Judicata* § 754 (2d ed. 1902)).

Additional cases applying defense preclusion in this manner include *Fox v. Maulding*, 112 F.3d 453 (10th Cir. 1997); *Henry v. Farmer City State Bank*, 808 F.2d 1228 (7th Cir. 1986); *Martino v. McDonald's Systems, Inc.*, 598 F.2d 1079 (7th Cir. 1979); *Yeiser v. GMAC Mortgage Corp.*, 535 F. Supp. 2d 413, 423 (S.D.N.Y. 2008); *Henderson v. Snider Bros.*, 439 A.2d 481 (D.C. 1981); *Harsh International Inc. v. Monfort Industries, Inc.*, 662 N.W.2d 574 (Neb. 2003); *Johnson's Island v. Board of Township Trustees*, 431 N.E. 2d 672 (Ohio 1982); *Jones v. Strauss*, 800 S.W.2d 842, 844-845 (Tex. 1990); *Henry Modell & Co. v. Reformed Protestant Dutch Church*, 502 N.E.2d 978, 981 (N.Y. 1986).

**b.** Lucky obliquely recognizes this kind of defense preclusion, describing it as an “ordinary incident of claim preclusion” providing that a losing defendant may not later bring a “collateral attack on a previously decided claim.” Petr. Br. 28 (emphasis omitted).

It is true that the “need” for defense preclusion is “clearest” in the context of a subsequent suit that is a direct, collateral assault on the judgment in the prior suit. *Nasalok Coating Corp. v. Nylok Corp.*, 522 F.3d 1320, 1328 (Fed. Cir. 2008) (quoting 18 FP&P § 4414). See also 18 *Moore's* § 131.02[2] (“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 defense preclusion applies in broader circumstances than direct collateral attacks. As the *Restatement* notes, preclusion is warranted not only where “successful prosecution of the second action would nullify the initial judgment” but also where it more

generally “would impair rights established in the initial action” (*Restatement* § 22(2)(b))—just like in *Stout*. Cf. 18 FP&P § 4407 (preclusion is warranted when “the second action would impair or destroy rights or interests established by the judgment entered in the first action”). For example, when “the initial judgment has resulted in a declaration of the plaintiff’s interest in certain property,” the former defendant may not, in a subsequent action, seek any kind of “relief which, if granted, would significantly impair that interest.” *Restatement* § 22. See also 18 FP&P § 4414 (stating that a subsequent action for a declaratory judgment pressing an omitted defense is not permitted).

Here, the final judgment from the 2005 lawsuit expressly declared that “the GET LUCKY trademark is valid and enforceable” against Lucky, entitling Marcel to damages with respect to the designs and merchandise at issue in the 2005 lawsuit. JA206. As Lucky appears to acknowledge (Petr. Br. 28-30), Lucky therefore would be precluded from bringing a subsequent lawsuit seeking a judicial declaration that the GET LUCKY trademark is *not* enforceable against it with respect to those same designs and merchandise. See 18 FP&P § 4414. Accord *Hallco*, 947 F.2d at 479-480, 483 (if “the devices in the two suits [were] essentially the same,” the plaintiff’s declaratory judgment action would be barred on the ground that granting relief would impair the rights established in a prior suit).<sup>7</sup>

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<sup>7</sup> See also, *e.g.*, *Golden v. Commissioner*, 548 F.3d 487 (6th Cir. 2008). Lucky mistakenly describes *Golden* as a “levy action.” Petr. Br. 29-30. Although the taxpayers there had received a notice of the IRS’s intent to file a levy action pursuant to 26 U.S.C. 6330(a)(1), the proceedings at issue were in fact a petition for review before the Tax Court, challenging the proposed collection as time-barred. *Golden*, 548 F.3d at 490.

Yet, as we next explain, Lucky attempts now to achieve the same practical result by continuing its infringing conduct and inducing follow-on suits from Marcel.

**2. *Defense preclusion also bars a defendant from raising in a second action a defense omitted from a first action addressing the same claims***

**a.** The second category of cases in which defense preclusion arises are those, like this one, in which there is “a second action by the original plaintiff in which the defendant seeks to raise defenses that were equally available in the first action but were not advanced there.” 18 FP&P § 4414. This kind of defense preclusion is most likely to arise where the defendant’s continuing or repetitive conduct leads to identical but later-in-time violations of the same legal right established in a prior suit. Such cases necessarily involve post-judgment conduct by the defendant (and therefore are not barred by claim preclusion (Pet. App. 49-50)) but concern the same set of operative facts as the first suit, thus implicating defense preclusion.

As with the first version of defense preclusion, the elements of this second version require that (1) the parties be the same, (2) the defense have been fully available in the prior lawsuit, (3) the prior lawsuit have resulted in a valid and final judgment, and (4) the two suits involve a common set of operative facts, so that the defendant’s success on the defense in the second lawsuit would impair the rights established in the prior lawsuit.

Applying defense preclusion in this second category of cases is a corollary of applying defense preclusion in the first category. Imagine that the losing defendant in an initial lawsuit failed to raise a defense that would have defeated liability. As Lucky acknowledges (Petr.



Br. 28-30), the defendant would be precluded from commencing an action for a declaratory judgment approving the neglected defense and thereby undermining the rights established in the first suit. Yet the defendant could achieve the same practical result if, instead, it continued on with identical instances of wrongful conduct, waited for the plaintiff to sue again, and defeated the new lawsuit with the previously omitted defense.

In either event—whether the defendant files a declaratory judgment action of its own or instead induces the original plaintiff to sue again—the correctness of the final judgment in the first proceeding would be challenged if the defendant were permitted to raise the previously neglected defense with respect to identical recurring conduct. Thus, “[w]hen a former defendant attempts to undermine a previous judgment by asserting in a subsequent action a claim *or defense* that was or could have been asserted in the earlier case, the rules of defendant preclusion will apply.” *Nasalok Coating*, 522 F.3d at 1328 (emphasis added). Accord *Moore v. Harjo*, 144 F.2d 318, 322 (10th Cir. 1944) (where a defense is inconsistent with the resolution of rights underlying a prior judgment, the defense “cannot be subsequently pleaded, *either in defense or affirmatively*”) (emphasis added).

**b.** This Court applied defense preclusion in just this way in *City of Beloit*. There, Morgan sued the City of Beloit for payment on certain bonds. 74 U.S. at 621-622. The city raised an objection “to the validity of the bonds,” arguing that a Wisconsin statute enacting the charter for the city had relieved it of all liability on its outstanding debts. *Id.* at 621-623. But this was not the first suit between the parties; Morgan had sued earlier and “recovered a judgment at law against the [city] upon another portion of these securities—though not

the same with those in question in this case.” *Id.* at 621. Crucially, “[a]ll the objections taken in [the second] case might have been taken in [the earlier one]” but were not. *Id.* at 621-622.

This Court held that the city’s defense was precluded by the final judgment in the prior suit. “Under such circumstances,” the Court explained, “a judgment is conclusive, not only as to the *res* of that case, but as to all further litigation between same parties touching the same subject-matter, though the *res* itself may be different.” *City of Beloit*, 74 U.S. at 622. The Court held so with respect “not only to the questions of fact and of law, which were decided in the former suit, but also to the grounds of recovery or defence which might have been, but were not, presented.” *Ibid.* (citing *Henderson v. Henderson*, 67 Eng. Rep. 313 (1843)). It was of no moment that the matter precluded was an omitted defense rather than an omitted claim: “A party can no more split up defences than indivisible demands, and present them by piecemeal in successive suits growing out of the same transaction.” *Id.* at 623. Simply stated, “[t]he judgment at law established conclusively the original validity of the securities described in the bill, and the liability of the town to pay them.” *Ibid.*

What mattered in *City of Beloit* was not whether the underlying securities were identical; rather, what mattered was that the same facts, evidence, and legal rights were at issue in the two lawsuits—they involved the “same subject matter” and thus the same cause of action. 74 U.S. at 622-623.

*Cromwell* later confirmed this rule of defense preclusion. There, the Court explained that *res judicata* bars relitigation “not only [of] every matter which was offered and received to sustain or defeat the claim or demand, but [of] any other admissible matter which might have been offered for that purpose.” 94 U.S. at

352. “Thus, for example, a judgment rendered upon a promissory note is conclusive as to the validity of the instrument and the amount due upon it, although it be subsequently alleged that perfect defences actually existed.” *Ibid.* Even “[i]f such defences were not presented in the [prior] action” and decided by the court, a “subsequent allegation of their existence” will not be heard, because “[t]he judgment is as conclusive, so far as future proceedings at law are concerned, as though the defences never existed.” *Id.* at 352-353.

The Court reiterated this same principle in *Mercoïd Corp. v. Mid-Continent Investment Co.*, 320 U.S. 661 (1944). In a prior proceeding in that case, the plaintiff’s patent had been held valid; in a second proceeding on the same patent between the same parties, the defendant asserted, as a counterclaim, that the patent was being misused in violation of the antitrust laws. *Id.* at 662. The Court held that, although the antitrust counterclaim was only a permissive counterclaim and therefore could proceed despite that it had not been raised in the first suit, the defendant was otherwise “barred in the present case from asserting any defense which might have been interposed in the earlier litigation” concerning patent validity. *Id.* at 671.<sup>8</sup>

Courts have continued to apply defense preclusion in the same way more recently. In *Presidential Bank*,

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<sup>8</sup> The Court held further that, although the defendant was barred from raising defenses that it had neglected to raise in the prior suit, a defendant’s “failure to interpose the same defense in an earlier litigation” does not “foreclose [a] court[] from the exercise of [its] discretion” to deny an injunction that would aid violations of the antitrust laws. *Mercoïd*, 320 U.S. at 670. That holding, which we do not contest, has no application here.

*FSB v. 1733 27th St. SE LLC*, 318 F. Supp. 3d 61 (D.D.C. 2018), for example, the district court approved “offensive use of res judicata” to prevent the defendant from raising in a second lawsuit a defense that it could have raised in a prior lawsuit concerning the same subject matter. *Id.* at 71-72 & n.2. “[T]he inconsistency that could result from not precluding these affirmative defenses,” the court held, “warrants the use of res judicata in this scenario.” *Id.* at 71 n.2.

c. Defense preclusion of this sort protects not only the finality of judgments in the abstract, but also “potential reliance interests of the plaintiff” in the validity and enforceability of the legal rights earlier established. 18 FP&P § 4414. Accord *Allen v. McCurry*, 449 U.S. 90, 94 (1980) (res judicata “encourage[s] reliance on adjudication”). This case proves the point: “Had [Lucky’s] defense been asserted successfully in the first action” (18 FP&P § 4414), Marcel would have arranged its business affairs differently. Instead, it arranged its affairs in reliance on the judicially-approved conclusion that Lucky’s designs infringe its trademark—including by committing resources to the prosecution of this lawsuit. It makes no difference for such reliance interests what role the defendant from the first action plays in the second action.

The principle that “the adjudication of a legal controversy should occur in one litigation in only one court” necessarily requires that “all parties involved” must “present in that proceeding all of their claims *and defenses* that are related to the underlying controversy.” *Kozyra v. Allen*, 973 F.2d 1110, 1111 (3d Cir. 1992) (emphasis added) (quoting *Cogdell v. Hospital Center at Orange*, 560 A.2d 1169, 1172 (N.J. 1989)). Only by requiring the parties to bring their entire cases in a single lawsuit—including requiring defendants to bring all of their defenses—can res judicata

successfully “encourage[] reliance on judicial decisions,” avoid repetitive lawsuits, and preserve judicial resources. *Brown*, 442 U.S. at 131.

## **II. THE SECOND CIRCUIT CORRECTLY APPLIED DEFENSE PRECLUSION IN THIS CASE**

This case is a prototypical example of the second kind of defense preclusion. Lucky produced merchandise bearing designs that Marcel claimed infringed a particular trademark. Marcel sued Lucky for its sales of those products and obtained a final judgment providing expressly that Marcel’s trademark is valid and enforceable against Lucky and that Lucky’s designs infringe the trademark. JA206-208. Lucky nevertheless went on making and selling identical copies of the same products bearing the same designs, post-judgment. JA54-62.

Marcel filed this subsequent lawsuit just one year later, challenging those successive sales of identical merchandise, asserting infringements of the same trademark. *Ibid.* In practical effect, Marcel sued to enforce the declaration of rights made in the prior final judgment. See Pet App. 21.

Just as in *City of Beloit*, the final judgment from the 2005 litigation “is conclusive, not only as to [the particular sales in] that case, but as to all further litigation between same parties touching the same subject-matter,” namely the same trademark and clothing designs, “though the [sales at issue] may be different.” 74 U.S. at 622.

That follows not only from *City of Beloit*, but also from the contemporary principles that animate the doctrine of *res judicata* today. To allow Lucky to raise in this subsequent suit a defense to liability that it neglected to raise in the 2005 action would destroy the repose and finality of the judgment entered in the 2005

action. Indeed, it would powerfully encourage defendants like Lucky to flout prior judicial determinations of the parties’ rights, in hopes of obtaining a more favorable result in a subsequent lawsuit. That would run counter to “the sound and obvious principle \* \* \* that a losing litigant deserves no rematch after a defeat fairly suffered.” *Astoria*, 501 U.S. at 107.

The 2005 action and the present lawsuit involve the same parties and the same cause of action; the 2005 action ended in a final judgment on the merits; and no unfairness would result from precluding Lucky’s release defense. The Second Circuit correctly held that Lucky’s defense is precluded.

**A. This case and the 2005 lawsuit concern a common nucleus of operative facts**

In Lucky’s view, the present lawsuit involves a new and distinct cause of action from the claims in the 2005 litigation. According to the contemporary “transactional” test for res judicata, that is plainly wrong—as Lucky itself previously has conceded.

1. The question whether successive causes of action are the “same” for res judicata purposes turns on whether they concern a “common nucleus of operative fact” (*Currier v. Virginia*, 138 S. Ct. 2144, 2154 (2018) (plurality))—that is, whether they concern the same “transaction, or series of connected transactions.” *Restatement* § 24(1). This transactional approach is “[t]he now-accepted test in preclusion law for determining whether two suits involve the same claim or cause of action.” *United States v. Tohono O’Odham Nation*, 563 U.S. 307, 316 (2011).

Whether a series of transactions is sufficiently connected to constitute a single cause of action for preclusion purposes is “to be determined pragmatically” (*Restatement* § 24(2)) and depends on whether the

second suit addresses the same “common nucleus of operative facts” as the first suit. *Currier*, 138 S. Ct. at 2154 (plurality). Accord *Tohono O’Odham*, 563 U.S. at 316 (“[W]hether two suits involve the same claim or cause of action depends on factual overlap.”).

Courts therefore ask whether the claims in the two cases “are based on the same, or nearly the same, factual allegations” (*Herrmann v. Cencom Cable Associates*, 999 F.2d 223, 226 (7th Cir. 1993)) and whether they seek “redress for essentially the same basic wrong” (*Kale v. Combined Insurance Co. of America*, 924 F.2d 1161, 1166 (1st Cir. 1991)). See also *Moore v. New York Cotton Exchange*, 270 U.S. 593, 610 (1926) (in a compulsory counterclaim case, stating that a “transaction” for res judicata purposes has “flexible meaning” and “may comprehend a series of many occurrences, depending not so much upon the immediateness of their connection as upon their logical relationship”). To put it more simply, the question is whether “the ‘gist’ of the two actions is the same,” so that “a different judgment in the second action would impair or destroy rights or interests established by the judgment entered in the first action.” 18 FP&P § 4407. See also *Baltimore S.S. Co. v. Phillips*, 274 U.S. 316, 321 (1927) (“The number and variety of the facts alleged do not establish more than one cause of action so long as their result, whether they be considered severally or in combination, is the violation of but one right by a single legal wrong.”).

Here, the claim in the second lawsuit is that the defendant has continued with an identical course of wrongful conduct even after losing in the first lawsuit. There can be no doubt that the causes of action in the prior suit and the present suit are the “same” for purposes of preclusion rules. They involve the same basic factual allegations and ask the court to redress

the same legal wrong. If the particular entitlement to damages asserted here had resulted from sales taking place before the judgment in the 2005 action, Marcel's claims surely would be barred by claim preclusion; they do not cease to arise from the same series of connected transactions (the same nucleus of operative facts) merely because they accrued afterward.

Lucky has conceded this point repeatedly. In the first appeal, it argued that "Marcel based the 2011 Action principally upon the common nucleus of operative facts shared with the 2005 Action" because it "claims \* \* \* nothing more than additional instances of what was previously asserted." 1st Lucky C.A. Br. 35 (quotation marks omitted). Before the district court, it asserted the same: The complaint here "is not based on any new facts or different conduct" from the 2005 action. 1st C.A. App. 177. The present lawsuit asserts "additional instances of the same conduct" found to infringe Marcel's trademark in the 2005 suit, and "Marcel simply complains that Lucky Brand's prior conduct has continued." *Id.* at 179-180.

Lucky's earlier contentions were correct: Marcel alleges that Lucky has "continued to willfully infringe upon [Marcel's] GET LUCKY mark by using the LUCKY BRAND marks in the identical manner and form, and in connection with the identical goods for which they were found liable" in the 2005 action. JA62.

The claims here and in the 2005 litigation are the same for purposes of defense preclusion. As to that single cause of action—whether a particular line of products violates Marcel's GET LUCKY trademark—Lucky had its day in court, and it lost. To allow it to relitigate its liability here, because it has gone on committing additional instances of identical, wrongful conduct (requiring Marcel to file yet another lawsuit) would encourage disrespect for final judgments, invite



repetitive litigation, and “impose unjustifiably upon” Marcel, “who ha[s] already shouldered [its] burdens” of litigation. *Astoria*, 501 U.S. at 107-108. That would be no way to manage a system of civil justice.<sup>9</sup>

**b.** Lucky bases its change in position before this Court on the Second Circuit’s rejection of its claim-preclusion argument in the first appeal. As Lucky sees it, claim preclusion is “off the table” in this case (Br. 25-26) because a subsequent suit alleging post-judgment conduct necessarily involves a “new” cause of action, separate and apart from any claim resolved in any previous lawsuit. *E.g.*, Petr. Br. 31. By Lucky’s lights, that was the basis for the Second Circuit’s decision in the first appeal: Marcel’s present claims are not barred by claim preclusion because they “*are not the same* as its claims in either of the parties’ prior lawsuits” (Br. 25), they “*are different from* the claims in the 2005 Action” (Br. 26), and they are “*different claims*” and “*new claims*” (Br. 22). As Lucky’s logic goes, if claim preclusion is “off the table” because the claims are different, defense preclusion must be off the table for the same reason. See Petr. Br. 22, 25.

Lucky’s premise confuses two distinct elements of res judicata: the requirement that the causes of action

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<sup>9</sup> Probably because courts once took a narrower view of what it meant for two cases to involve the same cause of action (*Williamson v. Columbia Gas & Electric*, 186 F.2d 464, 469-470 (3d Cir. 1950)), earlier treatises recognized that “a valid judgment for the plaintiff definitely and finally negatives every defense that might and should have been raised against the action” in “every subsequent suit between the same parties,” even upon a “different cause of action.” 2 Henry C. Black, *A Treatise on the Law of Judgments Including the Doctrine of Res Judicata* § 754 (2d ed. 1902). Thus, even if Lucky were right that post-judgment claims are hyper-technically “different” causes of action, defense preclusion still would apply.

be the same, and the requirement that prior proceedings have offered an actual opportunity to litigate the precluded claim or defense.

The reason that “a suit claiming damages for prior infringements does not bar a subsequent suit for damages for \* \* \* [identical, post-judgment] infringements” (Pet. App. 50) is not that the claims are “different” for preclusion purposes. They are not. The reason, instead, is that the plaintiff must actually have been *able* to raise the claim in the prior suit before preclusion can apply. See, e.g., *Allen*, 449 U.S. at 94 (res judicata bars only those claims that were or “could have been” raised). “[E]ven where two claims arise out of the same transaction, [a] second suit is not barred by [claim preclusion] unless the plaintiffs had the opportunity in the first suit to fully and fairly litigate the particular issue giving rise to the second suit.” *Creech v. Addington*, 281 S.W.3d 363, 382 (Tenn. 2009).

That was the basis for the Second Circuit’s decision in the first appeal, not any perceived difference in the causes of action. Pet. App. 49-50. 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.” *Lawlor v. National Screen Serv. Corp.*, 349 U.S. 322, 328 (1955). Marcel is free in this case to seek damages for post-judgment infringements based on identical facts, because it could not “lawfully have been awarded” damages in the 2005 lawsuit “for infringements that had not yet occurred and might never occur.” Pet. App. 49-50 (citing *TechnoMarine SA v. Giftports, Inc.*, 758 F.3d 493, 502 (2d Cir. 2014) (claims “based on the new acts of infringement” are ones that “could not have been litigated in the earlier proceeding”). Accord, e.g., *Media Rights Technologies, Inc. v. Microsoft Corp.*, 922 F.3d 1014, 1021 (9th Cir.

2019). Marcel accordingly may litigate its claims in this lawsuit despite that the cause of action in this litigation arises out of the same series of connected transactions as the 2005 lawsuit.

Lucky breezes past this point, even though the supposed distinctness of the causes of action between the two cases is the lynchpin of its argument. It says (Br. 11-12) simply that, because Marcel's claims in this case "*could not have been raised* in the 2005 Action," it follows "that Marcel's claims in the Current Action are *new* claims," which in turn means that the only preclusion rule that might apply is issue preclusion. Accord Petr. Br. 22.

No amount of italics can obscure the error in Lucky's argument: A series of connected transactions do not lose their character as connected—they do not cease to arise from a common nucleus of operative fact and thereby form a single cause of action for preclusion purposes—because some precede and others follow the conclusion of a first lawsuit. No, when "a second action advances any part of the same claim or cause of action," such as when the plaintiff sues to challenge post-judgment conduct that is part of the same "nucleus of operative facts" as the first action, preclusion rules apply. 18 FP&P § 4407.

Here, Lucky's defense could have been raised in the 2005 lawsuit, but Marcel's claims (based as they are on post-judgment conduct) could not. Thus, Lucky's defense is precluded, and Marcel's claims are not.

**B. Defense preclusion is flexible and discretionary, and its application in this case was manifestly fair**

At scattered points throughout its brief, Lucky says that defense preclusion is inefficient and unfair. But in making that claim, Lucky ignores the court of appeals'

conclusion—reached in response to just those concerns—that defense preclusion is discretionary, narrow, and flexible. See Pet. App. 17-20. And there is nothing remotely unfair about the Second Circuit’s decision to apply defense preclusion in *this* case.

1. The Second Circuit’s application of defense preclusion in this case was plainly fair. The parties in the 2005 action—sophisticated companies all—were “armed with able counsel” and had every incentive to litigate the case as fully as possible. Pet. App. 18. Indeed, Lucky initially raised the release defense in the 2005 action. After the district court declined to dismiss on that ground, Lucky abandoned the defense. See Petr. Br. 9. Its reasons for shifting course are its own; maybe it lost confidence in the defense. Regardless, there is no apparent “explanation for the omission of the defense in the earlier action.” Pet. App. 20. It is hardly unfair to hold a sophisticated, well-represented defendant to its considered decision to abandon an issue that it knew well enough to raise initially in a motion to dismiss.

2. Generalizing away from the equities of this case, Lucky worries that defense preclusion “will force counsel for defendants to raise and litigate to judgment every possible defense.” Petr. Br. 41 (emphasis omitted). This will discourage “parties [from] streamlining their cases,” it contends, because “no defendants [will] willingly trim their case 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.” *Ibid.* (parenthetical omitted). This, Lucky says, will be inefficient and unfair.

That position reflects a striking inattention to the basic point of *res judicata*. Litigants are entitled to a single bout, not successive rematches. *Res judicata* thus “reflects the expectation that parties who are

given the capacity to present their ‘entire controversies’ shall in fact do so.” *Restatement* § 24 cmt. a. This expectation means that plaintiffs and defendants alike must make often-difficult choices about how to litigate. They sometimes make good choices, sometimes bad ones. But when parties attempt to relitigate the same claims, there is nothing surprising about holding a litigant to the choices made the first time around.

Because defense preclusion applies in only the rare case where a losing defendant continues with the same course of wrongful conduct, moreover, it “will arise in a limited selection of cases.” Pet. App. 18 n.7. There is no case for relaxing the rules of *res judicata* in circumstances where a defendant decides to continue doing wrong after losing in a first lawsuit.

Besides, the Second Circuit accounted for potential unfairness, expressly recognizing that defense preclusion is a flexible device. Pet. App. 17. The court acknowledged, for example, that “[i]t might be unfair to bar a defendant from raising a defense that it elected not to bring in an earlier action because that action was of a significantly smaller scope, or the defense was somehow tangential to the matter.” *Ibid.* And defendants should have “room to make tactical choices to attempt to end the suit against them with as little cost as possible without facing the unforeseen consequences of forever abandoning a defense.” Pet. App. 17-18. The Second Circuit therefore correctly concluded that “trial courts [must have] broad discretion to determine when [defense preclusion] should be applied,” balancing the “twin concerns” of “judicial efficiency and fairness.” Pet. App. 19.

That conclusion is consistent with the approach taken by other courts, which broadly recognize that *res judicata* is not “to be rigidly applied.” *Hauschildt v. Beckingham*, 686 N.W.2d 829, 837 (Minn. 2004).

Courts administer the doctrine “as fairness and justice require,” bearing in mind that *res judicata* “should not be applied so rigidly as to \* \* \* work an injustice.” *Riverwood Commercial Park v. Standard Oil Co.*, 729 N.W.2d 101, 107 (N.D. 2007). Courts balance “the benefits of efficient proceedings and finality and consistency of judgments with the dangers of unduly limiting the rights of litigants to have all of their claims heard on merits.” *Creech*, 281 S.W.3d at 381.

Lucky declines to acknowledge, let alone respond to, the court of appeals’ clear and direct answer to its efficiency and fairness concerns. It instead pretends that the Second Circuit adopted a rigid rule that applies categorically. But the Second Circuit did not adopt an inflexible rule, nor would one be warranted. Cf. *Parklane Hosiery*, 439 U.S. at 331 (“[T]rial courts [have] broad discretion” applying issue preclusion offensively, and when its application “would be unfair to a defendant, a trial judge should not allow [its] use.”).

**3.** Lucky asserts that defense preclusion would be inappropriate in trademark disputes in particular because such cases are “uniquely susceptible to shifting outcomes over time as facts on the ground change.” Petr. Br. 3. Accord Petr. Br. 42-45. “[W]hat distinguishes two things today,” Lucky warns (Br. 42), “might not distinguish them tomorrow.” That also is no basis for refusing to recognize defense preclusion.

For one thing, Lucky’s concern about changing circumstances in trademark cases is not limited to the preclusion of defenses; its worry would apply equally to the preclusion of claims and issues. And yet Lucky does not suggest that trademark cases should be immune from claim preclusion or issue preclusion wholesale. It gives no explanation why defense preclusion should be treated differently.

Regardless, the possibility of changed circumstances is a red herring. Preclusion rules “extend[] only to the facts in issue as they existed at the time the judgment was rendered, and [do] not prevent a re-examination of the same question between the same parties where in the interval the facts have changed or new facts have occurred which may alter the legal rights or relations of the litigants.” *Creech*, 281 S.W.3d at 381 (quotation marks omitted). Thus, “[w]hen other facts or conditions intervene before the second suit, furnishing a new basis for the claims and defenses of the respective parties, the issues are no longer the same and the former judgment cannot be pleaded in bar of the second action.” *Lord v. Garland*, 168 P.2d 5, 11 (Cal. 1946). Accord *Whole Woman’s Health v. Hellerstedt*, 136 S. Ct. 2292, 2305 (2016) (“[D]evelopment of new material facts can mean that a new case and an otherwise similar previous case do not present the same claim.”).

If “myriad” facts truly had “changed from the first case to the second” (Petr. Br. 42), defense preclusion would not apply. But that assuredly is not the case here: Marcel filed suit just eleven months following the final judgment in the 2005 action, alleging sales of identical merchandise creating the same trademark confusion as the jury had found less than one year earlier.

### **III. LUCKY’S REMAINING OBJECTIONS ARE NOT PERSUASIVE**

Lucky offers two final objections. First, it insists (Br. 18-22) that this Court’s decision in *Davis v. Brown*, 94 U.S. 423 (1877), forecloses defense preclusion. Second, it says (Br. 34-40) that defense preclusion is inconsistent with the compulsory counterclaim pro-

visions of Federal Civil Rule 13(a) and due process. Neither contention is persuasive.

**A. *Davis* does not control**

The question at issue in *Davis* was whether the defendants had disclaimed indorser liability on ten promissory notes. The defendants were prior holders of the notes who had indorsed the notes to a bank in satisfaction of a debt to the bank. 94 U.S. at 424, 428. The bank then indorsed the notes to Davis, who was unable to collect from the original maker of the notes. Davis sued, asserting that the defendants, as prior indorsers, were liable in the maker's stead to satisfy the debt. The defendants answered that they had disclaimed indorser liability by contract executed at the same time as the indorsements. *Id.* at 426-427.

Yet Davis had filed an earlier lawsuit and prevailed “against the same defendants upon two other notes of the same party, of like amount and date as those in suit” as to which the same disclaimer of liability would have applied. *Davis*, 94 U.S. at 424. In that earlier case, however, the disclaimer defense had not been “pleaded nor relied upon.” *Id.* at 428. Davis accordingly argued that the judgment from the prior suit was “an estoppel against the setting up of [the disclaimer] as a defence in a subsequent action between the same parties upon other notes.” *Ibid.*

This Court rejected that argument for one clear reason: The second lawsuit concerning the ten different notes was an action “upon a different demand.” *Davis*, 94 U.S. at 428. According to the Court, each note was an independent source of legal right, comprising its own transaction for purposes of res judicata. This much is clear from the fact that Davis was not barred by claim preclusion from filing a successive lawsuit to



collect on the ten other notes, after having previously sued on the first two notes.

*Davis* is not controlling here for two reasons. First, *Davis* stands only for the proposition that a suit on one negotiable instrument represents a different cause of action from a suit on a different instrument. *Davis*'s holding on that score, and its resulting refusal to bar the defendant's defense, sheds no light on the question here—which is whether the preclusion of a defense is warranted when the defendant is engaged in continuing conduct that leads to identical but post-judgment violations of the same legal right established in a prior suit. The same goes for the Court's decision in *Cromwell* (which similarly confirmed that defense preclusion does not apply in a successive case “upon a different claim or cause of action” (94 U.S. at 352)) and each of the cases in the string cites at pages 2-3 and 21-22 of Lucky's brief, many of which offer only dictum.

Second—and more fundamentally—*res judicata* is a judge-made rule that has adapted over time to “evolving procedural ideas.” *Paramount Pictures Corp. v. Allianz Risk Transfer AG*, 96 N.E.3d 737, 745 (N.Y. 2018). “[C]ourts have broadened preclusion principles” over the years and now “apply [them] in contexts not formerly recognized at common law.” *Ibid.* (quoting *Allen v. McCurry*, 449 U.S. 90, 94 (1980)). Pertinent here, “[a] reading of the early cases as compared with recent ones makes it clear that the meaning of ‘cause of action’ for *res judicata* purposes is much broader today than it was earlier” in the Nation's history, as courts have embraced a “modernization” of civil procedure. *Williamson v. Columbia Gas & Electric Corp.*, 186 F.2d 464, 469-470 (3d Cir. 1950). This Court has expressly recognized as much. *Tohono O'Odham*, 563 U.S. at 310-311 (identifying the “same transaction” standard as the “now-accepted test”).

At bottom, the most Lucky might say about this Court's res judicata cases from the mid-nineteenth century is that they paint an unclear picture. Compare *City of Beloit* with *Davis*. But modern doctrine, informed by the fundamental principles of res judicata and contemporary civil practice, is clear: The court of appeals properly applied defense preclusion here.

**B. Defense preclusion is consistent with the federal rules and due process**

1. Lucky contends (Br. 35-36) that recognizing defense preclusion would invariably give defenses “the preclusive equivalent of compulsory counterclaims.” It asserts (Br. 36) that such status would be “contrary to the plain text of the Federal Rules,” which distinguish between defenses and counterclaims, making counterclaims compulsory only when they “arise out of the same transaction or occurrence as the plaintiff's claim” in the prior suit. *Ibid.*

As an initial matter, the compulsory counterclaim rule is merely a partial “procedural implementation” of the “‘judge-made’ doctrine of res judicata.” *Allan Block Co. v. County Materials Corp.*, 512 F.3d 912, 916 (7th Cir. 2008). In this way, “rule 13(a) operates as a procedural shortcut—an expedient employed by federal courts to achieve the preclusive ends of res judicata.” *Paramount Pictures*, 96 N.E.3d at 746. The rule does not, by operation of the *expressio unius* principle, somehow rule out a court's application of the other elements of res judicata. Courts have routinely “supplemented Rule 13(a) with additional defendant-preclusion rules” when the policies underlying res judicata call for it. 18 FP&P § 4414.

In any event, there is no daylight between the circumstances in which defenses are compulsory under defense preclusion and counterclaims are compulsory

under Rule 13(a). Defense preclusion applies only when the causes of action are the same, so that success on the defense in the second action would imply error in the judgment from the first action. Rule 13(a) applies in the same circumstance: “[A] final judgment against the first-action defendant typically precludes” the defendant from later raising a “counterclaim whose ‘successful prosecution in the action would nullify the initial judgment or would impair rights established in the initial action.’” *R.G. Financial Corp. v. Vergara-Nunez*, 446 F.3d 178, 185 (1st Cir. 2006) (quoting *Restatement* § 22(2)(b)). See also 5 Neb. Prac., Civil Procedure § 8:13 (“[D]efense preclusion can sometimes operate as the functional equivalent of a compulsory counterclaim rule.”). By contrast, “most permissive counterclaims are sufficiently unrelated to the original claim that ordinary *res judicata* principles would suggest the same result.” 18 FP&P § 4414.

Lucky’s contrary arguments elevate form over substance. A single set of facts often may “constitute a defense to a pending action and also constitute an affirmative cause of action against the plaintiff.” *Moore*, 144 F.2d at 322. This case is an example: Lucky could, in theory, have raised its release defense as a counterclaim for a declaratory judgment in the 2005 suit. Indeed, courts often treat non-infringement defenses in trademark cases as compulsory “declaratory judgment counterclaim[s].” *Commerce Bancorp, Inc. v. BankAtlantic*, 2004 WL 612525, at \*2 (D.N.J. Jan. 12, 2004) (collecting cases). And even permissive counterclaims can be precluded: “[I]f allowing a permissive counterclaim to go forward would nullify the earlier judgment or impair rights established in the earlier action, even a permissive counterclaim can be barred.” *Capitol Hill Group v. Pillsbury, Winthrop*,

*Shaw, Pittman LLC*, 569 F.3d 485, 492 (D.C. Cir. 2009).

The question, therefore, is not whether a theory for defeating liability is better labeled a counterclaim or a defense, or compulsory or permissive. The question is only whether allowing the defendant to litigate the theory—however characterized—in a subsequent suit, after having neglected it from a prior suit, would impair the rights established by the judgment from the prior suit. If it would, the defense is barred.

In other words, the permissive counterclaim rule is not a license for defendants “to remain silent in the first action and then bring a second one on the basis of a preexisting claim for relief that would impair the rights or interests established in the first action.” *Paramount Pictures*, 96 N.E.3d at 752 (Rivera, J., concurring) (quoting *Henry Modell*, 502 N.E.2d at 981 n.2). See, e.g., *Martino*, 598 F.2d at 1083 (holding precluded a previously waived counterclaim despite that it was permissive in the prior suit).<sup>10</sup>

**2.** Lucky dedicates a single paragraph to a final, half-hearted argument that defense preclusion offends due process norms. Petr. Br. 33. It does not.

As Lucky acknowledges (Br. 33), due process guarantees a full and fair opportunity to litigate. In the 2005 lawsuit, Lucky “was afforded [its] day in court with respect to every issue involved in the litigation” (*Sherrer v. Sherrer*, 334 U.S. 343, 348 (1948)), including the question whether Marcel released Lucky from liability for the cause of action at issue. “Under such

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<sup>10</sup> Lucky is wrong (Br. 37) that, if its release defense had been cast as a counterclaim, it would have been permissive. One of Marcel’s claims in the 2005 lawsuit was Lucky’s breach of the very same settlement agreement by which Lucky now says that Marcel released Lucky from liability. See 2d C.A. App. 98-141.

circumstances, there is nothing in the concept of due process which demands that [Lucky] be afforded a second opportunity to litigate.” *Ibid.*

Nor is it any answer to say that precluding relitigation of omitted defense may lead to an “inaccurate adjudication.” Petr. Br. 33. As this Court has said, “even an erroneous judgment is entitled to res judicata effect.” *City of Arlington v. FCC*, 569 U.S. 290, 297 (2013). Accord, *e.g.*, *Sparks v. Ewing*, 163 So. 112, 112 (Fla. 1935). Any other conclusion would mark an end to the repose established by final judgments.

Having said that, there is no concern for an inaccurate adjudication here. The confusion-based liability assessed by the jury in the 2005 action (JA207-208; 1st C.A. App. 355-356) arose principally out of Lucky’s continued use of the “get lucky” slogan alongside its other marks. Trial Tr. 665-667, 912. Marcel assuredly did not release Lucky from liability for infringements that depend on Lucky’s breach of the very agreement in which the release was granted. The district court’s contrary conclusion was unquestionably wrong—although it was an error that the Second Circuit did not need to correct in light of its preclusion holding.

**CONCLUSION**

The judgment below should be affirmed.

Respectfully submitted.

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