

No. \_\_\_\_\_

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

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

*Petitioners,*

v.

MARCEL FASHION GROUP, INC.,

*Respondent.*

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

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**PETITION FOR WRIT OF CERTIORARI**

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## QUESTION PRESENTED

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

The question presented is:

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

**PARTIES TO THE PROCEEDING**

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

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

## **CORPORATE DISCLOSURE STATEMENT**

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

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

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

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

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

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

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## PETITION FOR WRIT OF CERTIORARI

Two distinct principles have long governed the law of preclusion: *claim preclusion* (once known as “merger and bar” or “res judicata”) and *issue preclusion* (“collateral estoppel”). Claim preclusion bars “successive litigation of the very same claim” by the very same parties. *New Hampshire v. Maine*, 532 U.S. 742, 748 (2001). Issue preclusion, which applies “in the context of a *different* claim,” “bars ‘successive litigation of an issue of fact or law actually litigated and resolved in a valid court determination essential to the prior judgment.’” *Taylor v. Sturgell*, 553 U.S. 880, 892 (2008) (emphasis added) (quoting *New Hampshire*, 532 U.S. at 748-49). In this case, the court of appeals conflated these two principles and barred the defendants from litigating defenses that had never been adjudicated, in the context of claims that had never been litigated.

This is the third trademark case between the parties. The plaintiff here alleges infringement claims based on acts that postdate the prior cases, and the Second Circuit thus held that these new claims may proceed. So far, so good: A claim “predicated on events that postdate the filing of” a prior case is not “the very same” as any claim raised in the prior litigation, so a plaintiff is free to bring new claims based on new events without having to worry about claim preclusion. *Whole Woman’s Health v. Hellerstedt*, 136 S. Ct. 2292, 2305 (2016). The defendants then raised a defense that had not been resolved in any prior case between the parties. Under basic principles of preclusion, they should have been free to do so: This case involves *different* claims than the ones previously

litigated (which is why the claims are not precluded), and the defense is an issue of law that was not actually litigated and resolved in any prior case.

The Second Circuit, however, held that “defense preclusion” barred petitioners from raising any defense to these new claims that *could have also been adjudicated* in the earlier cases between the parties, whether or not it actually was. In other words, the Second Circuit held that the prior judgment between the parties did *not* preclude the plaintiff from raising new claims, but *did* preclude the defendants from raising a defense to those new claims that was never previously resolved. That “sounds absurd, because it is.” *Sekhar v. United States*, 570 U.S. 729, 738 (2013).

It also creates a textbook circuit split. The Federal Circuit, Eleventh Circuit, and Ninth Circuit have all recently addressed successive-litigation situations mirroring this one. And they have all held that where a second case involves claims that postdate the first case between the parties, the defendant is not precluded from raising defenses that were not actually litigated and resolved in the first case. The decision below thus not only runs roughshod over basic preclusion principles and basic common sense, it is contrary to the law of three other circuits.

This recurring issue of federal procedure cries out for review. Under the Second Circuit’s “defense preclusion” test, parties in successive-action situations will be able to select favored forums based on differing preclusion rules. The Second Circuit’s decision thus invites the bizarre result of a court in a second case holding that a defense is precluded, even though the defense would *not* be precluded where the

first suit was brought, if it was adjudicated in a different federal court. That is an untenable result leading to forum shopping. It is paramount that application of federal preclusion principles be uniform.

Finally, this an ideal case in which to settle the question, as it is squarely and cleanly presented, and the Second Circuit has refused to reconsider its novel position. The Court should grant the petition.

### **OPINIONS BELOW**

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

### **JURISDICTION**

The Second Circuit issued its opinion on August 2, 2018, and denied rehearing on September 19, 2018. Justice Ginsburg extended the time for filing a petition for certiorari until February 15, 2019. This Court has jurisdiction under 28 U.S.C. § 1254(1).

## STATEMENT OF THE CASE

### A. The 2001 Action and the May 2003 Settlement Agreement

Lucky<sup>1</sup> is a well-established apparel company that sells “jeans and other casual apparel” at major department stores and retail locations around the country. As part of its business, Lucky owns the trademark LUCKY BRAND “and other marks that include the word ‘Lucky.’” However, respondent Marcel Fashion Group allegedly owns the trademark for GET LUCKY. App.40.

Marcel first sued Lucky for trademark infringement and unfair competition in 2001, for Lucky’s use of the phrase “GET LUCKY.” The 2001 action resulted in a settlement, which the parties signed in May 2003 (the “Settlement Agreement”). Lucky agreed to “desist henceforth from use of ‘Get Lucky’ as a trademark,” and Marcel agreed to release “any and all claims arising out of or in any way relating to Lucky Brand’s right to use, license and/or register the trademark LUCKY BRAND and/or any other trademarks ... [owned,] registered and/or used by Lucky Brand ... as of the date of this Agreement,” in exchange for \$650,000. App.32-33.

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

Roughly a year after the May 2003 settlement, Ally Apparel Resources LLC and Key Apparel

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

Resources, Ltd. (collectively “Ally”) “launched a ‘Get Lucky’ line of jeanswear and sportswear” under a license from Marcel. App.41. Lucky responded by suing Ally, Marcel, and Marcel’s president in 2005 in the Southern District of New York. Lucky’s suit (“the 2005 Action”) alleged that the defendants “had engaged in unfair business practices” and that the new “Get Lucky” clothing line “infringed on Lucky Brand’s trademarks.” App.41.

Marcel counterclaimed, alleging trademark infringement and seeking to invalidate a range of Lucky marks, approximately 40% of which were registered after May 2003. *See Lucky Brand Dungarees Inc. v. Ally Apparel Res. LLC*, No. 05 Civ. 6757, 2006 LEXIS 91998, at \*4-5 (S.D.N.Y. Dec. 19, 2006). Marcel also sought “to enjoin [Lucky] from using the ‘Get Lucky’ trademark or any other similar trademark.” App.42.

Lucky moved to dismiss Marcel’s counterclaims based on the Settlement Agreement. The district court denied Lucky’s motion without prejudice because it could not say at that stage “that all of the relevant aspects of the disputed counterclaims were raised or could have been raised prior to” the Settlement Agreement, since some of the marks postdated May 2003 (when the settlement was finalized). App.28. The case “proceeded to a jury trial” without that defense ever being further litigated or actually adjudicated. App.29.

At trial, the jury found that Lucky had infringed Marcel’s GET LUCKY mark after May 2003. App.42. Following trial, Marcel sought to enjoin Lucky not only “from further use of GET LUCKY,” but also from

further use of “the LUCKY BRAND trademarks and any other trademarks using the word ‘Lucky.’” App.43. Lucky objected to that request, and Marcel ultimately dropped it. Pursuant to a joint submission, the 2005 Action resulted in a Final Order and Judgment, entered on June 1, 2010, under which Lucky was permanently enjoined from using the GET LUCKY mark, but nothing more. App.43; *see* App.71 (the injunction “does not apply to any marks beyond GET LUCKY”). Lucky also was required to pay damages for trademark infringement and breach of contract, though the Second Circuit later explained that it is far from clear whether the finding of trademark infringement was based on Lucky’s use of GET LUCKY, LUCKY BRAND, other LUCKY-formative marks, or some combination of marks.

### **C. The Current Action, Part One**

1. Marcel again sued Lucky for trademark infringement in 2011, this time in the Southern District of Florida. In the current action, Marcel does not allege that Lucky is continuing to use GET LUCKY. Instead, Marcel seeks *a new injunction* prohibiting Lucky from “using the LUCKY BRAND marks,” which Lucky has “continued to use” after the Final Order and Judgment was entered. App.65.

After the case was transferred to the Southern District of New York, Lucky moved for summary judgment on the ground that the Final Order and Judgment precluded Marcel’s claims.<sup>2</sup> The district

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<sup>2</sup> Marcel moved to hold Lucky “in contempt for violating the injunction issued in the 2005 Action by continuing to use the ‘Lucky Brand’ marks.” App.45. The district court denied this motion, ruling that the Final Order and Judgment “do[es] not

court agreed with Lucky on all counts. It thus granted summary judgment, concluding that Marcel's claims were barred by "*res judicata*." App.67 ("The Final Order and Judgment was a final adjudication on the merits of the 2005 Action, which involved the same claims, trademarks and parties as the instant action.").<sup>3</sup>

2. The Second Circuit vacated and remanded. In an opinion by Judge Leval and joined by Judges Calabresi and Lynch, the Second Circuit held that the Final Order and Judgment that resolved the 2005 Action "did not bar [Marcel] from instituting a second suit seeking relief for alleged further infringements that occurred subsequent to the earlier judgment." App.40; *see also* App.50 ("[A] suit claiming damages for prior infringements does not bar a subsequent suit for damages for subsequent infringements."). The allegations in the 2005 Action were "for earlier infringements" than the claims alleged here, which allegedly postdate the Final Order and Judgment. App.52. The Second Circuit thus held "that the district court erred in ruling that Marcel's present suit [was] precluded." App.52.

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prohibit use of the other Lucky Brand marks or the word Lucky." App.73-74. The Second Circuit affirmed on that issue. App.57.

<sup>3</sup> The district court's reasoning was similar to that of Magistrate Judge Rosenbaum in recommending that the case be transferred, where she concluded that "Marcel's current action asserts the same infringement claims that Marcel litigated for five years [in the 2005 Action] and eventually prevailed on before the New York federal court." App.65.

#### D. The Current Action, Part Two

1. On remand, “Marcel moved for and received leave to amend its complaint” after entry of the mandate. App.31. The new complaint clarified that although the alleged acts of infringement postdate the 2005 Action, the particular marks at issue do not. All twelve of the marks either “were registered prior to the 2003 Settlement Agreement” or were combinations “of the pre-2003 marks.” App.32. Lucky thus moved to dismiss on the ground that the Settlement Agreement—in which Marcel released “any and all claims arising out of or in any way relating to Lucky Brand’s right to use, license, and/or register the trademark LUCKY BRAND and/or any other trademarks ... owned, registered and/or used by Lucky Brand ... as of the date of th[e] Agreement” (App.27)—barred Marcel’s claims.

Marcel argued that “the res judicata or collateral estoppel effect of ... the Final Order and Judgment” from the 2005 Action precluded Lucky from relying on the Settlement Agreement here, because Lucky could have raised the same defense to the earlier claims in the 2005 Action. App.33. The district court disagreed. “Issue preclusion does not apply because the applicability of the Settlement Agreement’s release provision was not actually litigated and resolved in the 2005 Action.” App.35. “Claim preclusion does not apply” either, because Lucky “is not asserting a claim against Marcel,” and Marcel’s claims against Lucky were *different claims* than those litigated in the 2005 Action, which is why the Second Circuit held claim preclusion did not apply against Marcel. App.35; see App.30 (“this action ... concerns ... ‘infringements

that occurred subsequent to the earlier judgment”). The fact that Lucky did not raise the settlement defense at trial in the 2005 Action thus “does not vitiate it here.” App.36. The district court accordingly granted Lucky’s motion to dismiss.

2. A different Second Circuit panel (Judges Walker, Winter, and Pooler) heard Marcel’s second appeal. The court again vacated and remanded. The court began by noting that the Second Circuit had long “assumed that claim preclusion may bar a litigation defense,” but had “not had a case in which [the court] found a defense to be so precluded.” App.10. The court recognized, however, that the “leading treatise” instructs exactly the opposite—*i.e.*, that a defendant “may raise defenses in the second action that were not raised in the first, even though they were equally available and relevant in both actions.” App.11 n.4 (quoting 18 Charles Alan Wright & Arthur R. Miller, *Federal Practice & Procedure* § 4414 (3d ed. 2018) (“Wright & Miller”)).

The Second Circuit nonetheless held that a defendant may be precluded from raising defenses in a second action that he could have raised in the first case, but did not:

In sum, we conclude that defense preclusion bars a party from raising a defense where: (i) a previous action involved an adjudication on the merits; (ii) the previous action involved the same parties or those in privity with them; (iii) the defense was either asserted *or could have been asserted*, in the prior action; and (iv) the district court, in its discretion, concludes that preclusion of the defense is

appropriate because efficiency concerns outweigh any unfairness to the party whose defense would be precluded.

App.19 (emphasis added). The Second Circuit went on to explain that “the fairness of defense preclusion may depend on the nature of the action,” so application of this rule could depend on the particulars of the given case. App.18. “[W]here sophisticated parties, armed with able counsel, litigate claims and counterclaims for nearly two decades,” “applying defense preclusion” will “hardly ever be unfair[].” App.18.

The Second Circuit also recognized that defendants “should be given some room to make tactical choices.” App.17. Nonetheless, it then went on to hold that “it would have been an abuse of discretion” for the district court *not* to conclude that defense preclusion was appropriate here, because Lucky (“a sophisticated party”) could have argued in the 2005 Action that the Settlement Agreement barred the claims at issue there, but “decided to forego the [settlement] defense at summary judgment.” App.20-21. The new panel did not explain how its holding could be reconciled with the initial Second Circuit decision, which held that the *claims* in the current lawsuit *were not the same* as (and thus not precluded by) the claims at issue in the 2005 Action. *See* App.40 (holding that the 2005 Action did not preclude Marcel from “seeking relief for alleged further infringements that occurred subsequent to” the judgment that resolved that case). Nor did it address any of this Court’s cases squarely rejecting its approach.

## REASONS FOR GRANTING THE PETITION

The decision below creates a textbook circuit split. Three circuits have held that defendants are not precluded from raising defenses in a second case between the parties merely because they could have been litigated in the first case, but were not. The decision below, which held exactly the opposite, is not only inconsistent with those circuits, but also irreconcilable with this Court's case law, with bedrock principles of *res judicata*, as well as with the Federal Rules of Civil Procedure. Perhaps worse still, the Second Circuit's "defense preclusion" principle creates perverse incentives that will both increase forum shopping and decrease uniformity. The Court should grant the petition, reverse the Second Circuit's judgment, and restore stability in this important area of law.

### I. The Decision Below Creates A Circuit Split.

The Second Circuit's approach is fundamentally inconsistent with the decisions and reasoning of three other circuits. These courts all hold—in accordance with this Court's precedents—that a defendant cannot be barred from asserting a defense against a new claim unless that defense has been previously adjudicated against the defendant, in which case issue preclusion applies.

1. In the Federal Circuit, "the plaintiff and defendant" are "treated equally" when it comes "to *res judicata*." *Nasalok Coating Corp. v. Nylok Corp.*, 522 F.3d 1320, 1327 (Fed. Cir. 2008). "If the plaintiff would not be barred from bringing a second infringement suit" (*e.g.*, because its new claims arose from acts subsequent to those at issue in the first

case), then “the defendant” also will “not be precluded from” raising a defense that “could have been asserted” in the first case, but was not. *Id.* That is for a simple reason: “[I]n a second action ‘upon a different cause or demand, the principle of res judicata is applied’ ... only as to ‘matters which were actually litigated and determined in the first proceeding.’” *Aspex Eyewear, Inc. v. Marchon Eyewear, Inc.*, 672 F.3d 1335, 1343-44 (Fed. Cir. 2012) (quoting *Commissioner v. Sunnen*, 333 U.S. 591, 597-98 (1948)); *see, e.g., Ecolab, Inc. v. Paraclipse, Inc.*, 285 F.3d 1362, 1376-77 (Fed. Cir. 2002) (defendant not precluded from asserting invalidity defense in second case even though the defense could have been raised in prior litigation, but was not); *Foster v. Hallco Mfg. Co.*, 947 F.2d 469, 478-83 (Fed. Cir. 1991) (where second case involved “different cause of action” from first case, defendant not precluded from asserting invalidity defense equally available, but unraised, in first case).

*Ecolab* is particularly instructive. In the first case between the parties, the defendant “agreed” that the plaintiff’s patent “is a valid patent.” 285 F.3d at 1377. That case ultimately resulted in a consent judgment. *Ecolab* subsequently sued *Paraclipse* for patent infringement again. In the second case, *Paraclipse* asserted as a defense that the patent—which was the same patent at issue in the first case—was invalid. *Id.* at 1376. The district court ruled that *Paraclipse* was precluded from asserting an invalidity defense in the second case, but the Federal Circuit reversed. The devices that formed the basis of the claims in the second case were not “the same” as those in the first case, so claim preclusion did not apply. *Id.* at 1377.

Paraclipse was therefore free to argue that the patent was invalid, even though that argument was equally available in the first case.

*Hallco Manufacturing Co. v. Foster*, 256 F.3d 1290 (Fed. Cir. 2001), is similar. *Hallco* was the last of a long line of lawsuits involving reciprocating conveyers. In the first suit, the court granted summary judgment on Foster's claim that two Hallco devices infringed Foster's patent, which left Hallco "with only its invalidity defenses." *Id.* at 1292-93. Before Hallco could litigate those defenses, however, the parties settled, and the court dismissed with prejudice. *Id.* at 1293. Hallco then redesigned its devices and filed a declaratory judgment action alleging that its new devices did not infringe Foster's patent; Hallco alternatively alleged that Foster's patent was invalid. Foster counterclaimed, arguing, *inter alia*, that claim preclusion barred Hallco from arguing invalidity. *Id.* The Federal Circuit held that if the infringement claims stemmed from different transactions or occurrences than the infringement claims in the first suit, then claim preclusion would not apply. *Id.* at 1297-98. And if that were the case, then Hallco would be free to argue invalidity, even though that was an available (but not argued) defense in the first suit. *Id.* at 1298.<sup>4</sup>

That is exactly the opposite of what the Second Circuit held here. The plaintiff (Marcel) was not precluded from bringing a second infringement suit because its new claims did not arise from the same

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<sup>4</sup> The record did not make clear whether the redesigned devices were really the same as the old ones, so the court vacated and remanded for that determination to be made. 256 F.3d at 1298.

transactions or occurrences as the claims in the previous case (because they arose after that case ended); but the defendants (Lucky) *were* precluded from raising a defense that could have been litigated and resolved in the first case, but was not.

2. The decision below is also in square conflict with the Eleventh Circuit. *McKinnon v. Blue Cross & Blue Shield of Alabama*, 935 F.2d 1187 (11th Cir. 1991), was the second in successive ERISA actions. In the first case, Blue Cross could have argued that McKinnon was not “a ‘participant or beneficiary’ under ERISA,” but it did not. *Id.* at 1192. (Blue Cross did not take a position one way or another in the first case on whether “McKinnon, personally, is a participant or beneficiary” under ERISA. *Id.* at 1192-93.) McKinnon accordingly argued in the second suit that claim preclusion barred Blue Cross “from asserting” as a defense that she is not a “participant or beneficiary” under ERISA, because Blue Cross did not raise that defense in the initial action. *Id.* at 1192.

The Eleventh Circuit disagreed. The first suit was dismissed on July 2, 1987; the “cause of action” in the second suit (wrongful dismissal) did not arise until July 14, 1987. *Id.* at 1190-92. “The cause of action” in the first suit was thus “clearly distinguishable from the cause of action asserted by McKinnon in the present case.” *Id.* at 1192. Because McKinnon asserted a new, albeit related, claim, that doomed McKinnon’s preclusion argument against Blue Cross’s defense: “For *res judicata* to apply, the same cause of action must be involved in both cases (i.e., the cases must be based upon the same factual predicate).” *Id.* Because *McKinnon’s claim* in the second suit could not

have been litigated in the first case and was not barred, Blue Cross's *defense* was also not barred, even though the same defense was equally available, but not actually adjudicated, in the first suit.

By contrast, the Second Circuit held here that Marcel's claims were not precluded by the 2005 Action because they arose after that case closed, but Lucky's defense—which the court agreed was not actually adjudicated in the prior suit—*was* precluded simply because it *could have been* resolved in the prior suit.

3. The Ninth Circuit reached a similar conclusion to the Federal Circuit and the Eleventh Circuit in *Orff v. United States*, 358 F.3d 1137 (9th Cir. 2004), *aff'd on other grounds*, 545 U.S. 596 (2005). *Orff* came at the end of “a long line of cases involving the Central Valley Project (the ‘CVP’), the nation’s largest federal water management project.” *Id.* at 1141. A water district receives water from the CVP pursuant to a contract with the United States. *Id.* In an earlier case, *Barcellos & Wolfsen, Inc. v. Westlands Water Dist. (Barcellos I)*, No. CV 79-106-EDP (E.D. Cal. 1986), a federal court concluded that the United States had in fact waived sovereign immunity with respect to suits arising out of the contract. *See Orff*, 358 F.3d at 1141. Decades later, the United States reduced the district’s allocation “to fifty percent of its contractual supply,” which led to another suit, but the district court ruled there that the reduction did not violate the contract, and the Ninth Circuit affirmed. *Id.* Individuals in the district once again sued shortly thereafter on alternate grounds; this time, the United States argued that sovereign immunity barred the plaintiffs’ claims. *Id.* at 1141-42.

On appeal, the plaintiffs argued that the “sovereign immunity defense is barred by issue and claim preclusion pursuant to” *Barcellos I*. *Id.* at 1142-43. The Ninth Circuit disagreed. Issue preclusion did not apply because “the issues litigated” in *Barcellos I* were not “identical” to the issues in the present case. *Id.* at 1143 (quoting *Cent. Delta Water Agency v. United States*, 306 F.3d 938, 953 (9th Cir. 2002)); *see id.* (“In *Barcellos I*, the district court rejected the government’s sovereign immunity defense on two alternate grounds,” but “[n]either ground applies in this case.”). Claim preclusion did not apply either, because “this action arises out of the government’s allocation of CVP water for 1993 based on designations of threatened species that occurred long after *Barcellos I* had been decided.” *Id.* at 1144.

Because the plaintiffs’ claims postdated that earlier decision, the United States was free to raise the defense, even though it could have made the same argument in *Barcellos I*, but did not. Again, that is exactly the opposite of what the Second Circuit held here. In short, the decision below squarely conflicts with the law of three other circuits.

## **II. The Decision Below Cannot Be Reconciled With This Court’s Precedents.**

### **A. Neither Claim Preclusion nor Issue Preclusion Bars Defenses that were Not Actually Resolved in any Prior Case.**

1. Claim preclusion bars “successive litigation of the very same claim” by the very same parties. *New Hampshire*, 532 U.S. at 748. A claim is not “the very same” as one raised in an earlier case if it is “predicated on events that postdate the filing of” the

earlier case. *Hellerstedt*, 136 S. Ct. at 2305. As such, claim preclusion “does not bar claims that are predicated on events that postdate the filing of the initial complaint.” *Id.* (quoting *Morgan v. Covington*, 648 F.3d 172, 178 (3d Cir. 2011)). That rule is well settled. Equally settled are the contours of issue preclusion, which bars re-litigation of issues that were “actually litigated and resolved” in a prior case. *Sturgell*, 553 U.S. at 892. Those twin principles produce a “simple” rule in conjunction: “[I]n successive actions growing out of different transactions, the defendant is free to raise defenses that were equally available but omitted from the first action.” Wright & Miller § 4414.

The view that the rule is “simple” (and contrary to what the Second Circuit held below) is not just one found in treatises. It is also the clear holding of this Court. Over 200 years ago, this Court explained that where a second suit is “upon distinct and different causes of action” from a prior case “against the [same] defendant,” “the first cannot be pleaded in bar of the second.” *Clark v. Young & Co.*, 5 U.S. (1 Cranch) 181, 181 (1803); *see id.* at 193 (Marshall, C.J.) (“a verdict in a prior suit may be given in evidence as a bar to another suit [only] for the same cause of action”).

The Court subsequently reaffirmed that rule on various occasions, making clear that it applied to issues raised by defendants. *See, e.g., Sunnen*, 333 U.S. at 598 (“Since the cause of action involved in the second proceeding is not swallowed by the judgment in the prior suit, the parties are free to litigate points which were not at issue in the first proceeding, even though such points might have been tendered and

decided at that time.”); *Balt. S.S. Co. v. Phillips*, 274 U.S. 316, 319 (1927) (“[I]f the second case be upon a different cause of action, the prior judgment or decree operates as an estoppel only as to matters actually in issue or points controverted, upon the determination of which the judgment or decree was rendered.”); *Nesbit v. Indep. Dist. of Riverside*, 144 U.S. 610, 618 (1892) (“[W]hen the second suit is upon a different cause of action, though between the same parties, the judgment in the former action operates as an estoppel only as to the point or question actually litigated and determined, and not as to other matters which might have been litigated and determined.”). In other words, where the claims asserted by the plaintiff are different than those asserted in an earlier case between the parties (as the initial Second Circuit opinion held was true in this case), then issues that could have been raised by the defendant in an earlier lawsuit are precluded only where the requirements for issue preclusion are satisfied.

That rule supplied the legal basis for the holding in *Davis v. Brown*, 94 U.S. (4 Otto) 423 (1876). *Davis* was the second suit between the same sets of parties. In the first suit, the plaintiff sued the “second indorsers” of two promissory notes. *Id.* at 427-28. In the second suit, the plaintiff sued the same “indorsers,” but brought claims regarding ten *different* notes. *Id.* at 428. In that second suit, the indorser-defendants argued that they could not be held liable for their “indorsements” because of an agreement with the bank that allegedly shielded them from liability. *Id.* The plaintiff responded by arguing that *res judicata* barred the defendants from asserting their agreement with the bank as a defense, because they

could have raised it in the first case, but did not. *Id.* at 428-29.

The Court in *Davis* rejected the plaintiff's position as "clearly untenable," because "[w]hen a judgment is offered in evidence in a subsequent action between the same parties upon a *different* demand,"<sup>5</sup> the judgment in first case "operates as an estoppel only upon [a] matter *actually at issue and determined in the original action.*" *Id.* at 428-29 (emphases added). Because the agreement issue was not litigated and resolved in the first case, the Court held that the indorser-defendants were free to raise it against the different claims at issue in the second case, even though they could have done so in the first case too. *Id.* at 429.

The decision below cannot be reconciled with that binding precedent. Under the Second Circuit's self-styled "defense preclusion" test, defenses that *have not been* actually litigated and determined in any prior case may nonetheless be precluded in a later case *involving different claims.*

2. Respondent has previously argued that this Court's precedents distinguish between defenses that were "*not plead or raised ... in the prior action*" (and so were "not addressed in the prior matter" *at all*), and defenses that were raised but "not pursue[d]" to judgment. Reply Br. for Plaintiff-Appellant 18-19, *Marcel Fashions Grp., Inc. v. Lucky Brand Dungarees, Inc.*, No. 17-0361 (2d Cir. July 24, 2017). That

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<sup>5</sup> In this context, "demand" is synonymous with "claim" or "cause of action." Wright & Miller § 4406 ("Three different labels are used to describe the precluded area: 'claim,' 'demand,' and 'cause of action.'"); see, e.g., *United States v. Tohono O'Odham Nation*, 563 U.S. 307, 313 (2011); *Cromwell*, 94 U.S. at 352-53.

argument misreads this Court’s case law. *Davis* squarely rejected the position that a prior judgment precludes a defendant from an issue “as a defence in a subsequent action between the same parties upon other [claims].” 94 U.S. at 428. It mattered not that the “validity and efficacy” of that defense could have been “litigated and determined” in the prior case. *Id.* Any other position “confounded the operation of a judgment upon the demand involved in the action, in which the judgment was rendered, with its operation as an estoppel in another action between the parties upon a different demand.” *Id.* In modern parlance, *Davis* rejected the plaintiff’s position because it conflated claim and issue preclusion, just as respondent and the Second Circuit did below.

That could not be clearer in *Davis* and its companion case, *Cromwell v. County of Sac*, 94 U.S. (4 Otto) 351 (1876). At the time *Davis* and *Cromwell* were decided, judges used the term “estoppel” to refer to what “issue preclusion encompasses” today, and used the terms “merger’ and ‘bar’” to refer to what we now call claim preclusion. *Sturgell*, 553 U.S. at 892 n.5; see Wright & Miller § 4402 (“The Terminology of Res Judicata”). *Cromwell* held that in a second case involving the *same* claim as a case previously litigated to judgment, “the judgment, if rendered upon the merits, constitutes an absolute *bar* to a subsequent action.” 94 U.S. at 352 (emphasis added).<sup>6</sup> In other

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<sup>6</sup> Lower courts have accordingly held that a defendant will be precluded from bringing new *claims* in a second suit that constitute “a collateral attack on the first judgment.” *Nasalok*, 522 F.3d at 1324; see, e.g., *U.S. for Use & Benefit of Treat Bros. Co. v. Fid. & Deposit Co. of Md.*, 986 F.2d 1110, 1115 (7th Cir. 1993) (“a later claim will be barred if successful prosecution

words, a prior judgment will have claim-preclusive effect only where the present suit involves “the same cause of action or claim” that “was decided on the merits” in the “prior suit.” *Hellerstedt*, 136 S. Ct. at 2331. And *Davis*, which was decided the same Term as *Cromwell*, held that where a second case is “upon a *different* demand,” the defendant is “estoppe[d]” (*i.e.*, issue precluded) *only* from raising defenses that were “actually at issue *and determined*” in the first case. 94 U.S. at 428 (emphasis added). In other words, a prior judgment has issue-preclusive effect only as to “issue[s] of fact or law raised *and necessarily resolved* by a prior judgment.” *Bravo-Fernandez v. United States*, 137 S. Ct. 352, 358 (2016) (emphasis added); *see, e.g., Sturgell*, 553 U.S. at 892 (“actually litigated and resolved”); *Nesbit*, 144 U.S. at 618 (“actually litigated and determined”).

Here, by contrast, the issue of whether the Settlement Agreement released infringement claims that postdated May 2003 was *not* resolved in the 2005 Action. Indeed, the Second Circuit clearly and specifically noted “the omission of the defense in the

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would abrogate the prior judgment or impair rights established in the initial action”). That rule applied in *Nasalok*, where the defendant in the first suit was the plaintiff in the second suit, because granting Nasalok’s invalidity claim in the second suit “would require modification of the injunction” Nylok obtained in the first suit. 522 F.3d at 1329. But that rule does not apply to *defenses* in situations where, as here, the parties are on the same sides of the “v.” in both cases. *See* Wright & Miller § 4414 (distinguishing “[s]uccessive actions by the same plaintiff against the same defendant” from situations in which the defendant in first case is the plaintiff in the second). In such situations, claim preclusion ensures that crediting a defense (*i.e.*, denying a claim) will not alter the relief obtained on *different* claims in a prior suit.

earlier action.” App.20; *see* App.20 (“the record evinces” that Lucky did not “fully litigate[] the release defense in the 2005 Action”). So although the court found no “justification” or “explanation” for that omission, that is entirely irrelevant. Claim preclusion applies *only* with respect to claims that are the very same as those previously litigated, and issue preclusion applies *only* to render a prior judgment “conclusive in another action” involving different claims where the issues were “*actually litigated and determined* in the original action, not what might have been thus litigated and determined.” *Cromwell*, 94 U.S. at 353 (emphasis added). Here, as the initial opinion of the Second Circuit plainly held, the “claims” in the present case are not the same as those in the 2005 Action. *See supra* p.7. And as the opinion below rightly noted, the “issue” of release was not determined in the 2005 Action. Neither claim preclusion nor issue preclusion thus applies, and the decision below cannot be squared with this Court’s case law.

**B. The Second Circuit’s Rule is Inconsistent with the Federal Rules of Civil Procedure.**

The decision below also tramples on the clear distinction between compulsory and permissive counterclaims. Under the compulsory counterclaim rule, defendants “must state” all defenses that “arise[] out of the transaction or occurrence that is the subject matter of the [plaintiff’s] claim.” Fed. R. Civ. P. 13(a). If a compulsory counterclaim “is not brought” at the first opportunity, then the defendant is “barred” from raising it as either a claim or defense in any later

proceeding. *Baker v. Gold Seal Liquors, Inc.*, 417 U.S. 467, 469 n.1 (1974). Circuit courts have accordingly held that defendants *are* precluded from raising a defense in a second suit if the defense “was a compulsory counterclaim that the defendant failed to assert in the first action.” *Nasalok*, 522 F.3d at 1324.

But that exception does not explain the decision below, for a simple reason: The argument that the Settlement Agreement bars Marcel’s claims *was not a compulsory counterclaim*. A counterclaim is compulsory only if it “arises out of the transaction or occurrence that is the subject matter of the opposing party’s claim.” Fed. R. Civ. P. 13(a)(1). And here, Marcel’s current claims do *not* arise out of the occurrences at issue in the 2001 case that resulted in the Settlement Agreement. Indeed, the Second Circuit expressly held in the first appeal in this case that the claims currently at issue are claims “for alleged further infringements that occurred *subsequent to* the earlier judgment.” App.40.

Lucky’s release defense was thus at most a *permissive* counterclaim in the 2005 Action (if it were a counterclaim at all).<sup>7</sup> See Fed. R. Civ. P. 13(b). And failure to litigate permissive counterclaims does *not* preclude raising them in subsequent proceedings. See,

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<sup>7</sup> The distinction between permissive counterclaims and defenses is not always easy to draw. Indeed, as one of the architects of the Federal Rules once put it, “it is easy to make a slip on the unimportant matter of designation.” Charles E. Clark, *Proceedings Before the Cleveland Institute on the Federal Rules* 231 (Am. Bar Ass’n 1938). That explains why “allegations that actually constitute a defense may be treated as such even though [they are] erroneously denominated as a counterclaim.” Wright & Miller § 1275; see Fed. R. Civ. P. 8(c).

*e.g.*, *Valley View Angus Ranch, Inc. v. Duke Energy Field Servs., Inc.*, 497 F.3d 1096, 1102 (10th Cir. 2007) (preclusion does not bar “defendants who elected not to assert a [permissive] counterclaim in [a] prior action” from raising it in a later action); *D-1 Enters., Inc. v. Commercial State Bank*, 864 F.2d 36, 39-40 (5th Cir. 1989) (rejecting as “odd indeed” the notion that a defense “that was not required as a compulsory counterclaim” in an earlier case could somehow be “barred by *res judicata*” in a later case).

That is clear from this Court’s decision in *Mercoïd Corp. v. Mid-Continent Investment Co.*, 320 U.S. 661 (1944). In the first *Mercoïd* case, the plaintiff’s patent was held to be valid; in the second *Mercoïd* case, the defendant raised a patent-misuse counterclaim that could have been litigated by privies in the first case, but was not. *Id.* at 662-64. The plaintiff argued that the defendant was precluded from raising that defense in the second case because its privies failed to raise it in the first case, but this Court disagreed. *Id.* at 670-71. The counterclaim was not compulsory, so the ordinary rule applied: The prior judgment was preclusive “only as to those matters in issue or points controverted.” *Id.* at 671. Because misuse was not both litigated and actually adjudicated in the first case, the defendant was not precluded from raising the issue in the second case.<sup>8</sup> Again, that is exactly the opposite of what the decision below held.

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<sup>8</sup> The Court ultimately remanded for resolution of whether “the second cause of action between the parties is [actually] upon a different claim [as] the prior judgment.” *Mercoïd*, 320 U.S. at 670-71. If the second case did not involve different claims from the first, then the *plaintiff* would be claim precluded. *Id.* at 670.

**C. The Second Circuit’s Rule is Fundamentally Unfair to Defendants.**

Under the Second Circuit’s sweeping approach, any failure to assert a defense risks barring that defense for all time against all claims brought by the same plaintiff—just as the Second Circuit held with respect to Lucky’s release defense here. Such a result is contrary to basic notions of fairness underlying the law of preclusion. *See* Wright & Miller § 4415 (preclusion “should not be applied ... to deny justice”).

To be sure, the Second Circuit paid lip service to considerations of fairness in the decision below. The court recognized 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 ... the defense was somehow tangential to the matter,” and instructed that considerations of fairness should be balanced against “efficiency concerns.” App.17. But the court then went on to hold that the district court would have committed *abuse of discretion* if it had concluded that the unfairness to Lucky of being barred from raising a defense never previously resolved outweighed the “efficiency” of preclusion. App.19.

That is a remarkable conclusion. The district court denied Lucky’s motion to dismiss in the 2005 Action on the specific ground that it was unclear whether the Settlement Agreement actually resolved all of Marcel’s claims (because some of them involved marks registered after May 2003). App.28. Given that clear law of the case, a reasonable litigant may have chosen not to expend resources on a defense that would not have resolved every claim (and thus may still have resulted in trial). *See Cromwell*, 94 U.S. at

356 (defendant may have good reason not to raise defense in initial action, “such as the smallness of the amount or the value of the property in controversy, the difficulty of obtaining the necessary evidence, the expense of the litigation, and his own situation at the time”); *see also, e.g., Otherson v. DOJ*, 711 F.2d 267, 273 (D.C. Cir. 1983). Yet the Second Circuit found “no conceivable justification” why Lucky did not “fully litigate[] the [Settlement Agreement] release defense in the 2005 Action.” App.20. What is more, the Second Circuit refused to remand the case to allow the district court—the very judge that presided over the 2005 Action—to decide whether Lucky’s decision not to pursue the release decision at trial was reasonable. In doing so, the Second Circuit revealed just how sweeping its “defense preclusion” test truly is, and how far afield it lies from the traditional concerns of fairness that underlie the law of preclusion.

### **III. This Is An Ideal Vehicle To Resolve A Question of Surpassing Importance.**

The Second Circuit’s decision is flatly contrary to ordinary principles of preclusion, the Federal Rules of Civil Procedure, two centuries of this Court’s cases, and the decisions of three other circuits. That is more than enough to warrant this Court’s review. That lower courts “have had difficulty in articulating the rules of defendant preclusion that have been developed to deal with” cases “in which the same defendant seeks to raise new matters” in a second case “by way of defense rather than claim,” *Wright & Miller* § 4414, only serves to confirm the need for this Court’s review.

The opinion below proves the point. The rules that apply to “successive actions by the plaintiff that legitimately grow out of the same basic transaction” are different from the rules that apply to “[s]uccessive actions growing out of *different* transactions.” *Id.* (emphasis added). The latter describes the situation at issue here. (Again, the initial Second Circuit decision in this case held that the claims in the present case were *different claims* stemming from *different occurrences* than the claims in the 2005 Action. *See* App.40, 50-51.) Yet in holding that Lucky was categorically precluded from raising the Settlement Agreement as a defense, the Second Circuit relied on Wright & Miller’s discussion of the *former* situation—which, again, *is not this case*. *See* App.11 n.4. And the Second Circuit left no room for district courts to consider whether it was reasonable for the defendant not to assert its defense in the earlier case, holding that it would be an *abuse of discretion* for a court to conclude that Lucky should not be barred here. This case thus provides an ideal vehicle to clarify the rules governing preclusion in successive actions involving different claims.

That is particularly true given that this is a trademark case. Trademark rights can grow or shrink over time, as can the likelihood of confusion between two marks. A “defense preclusion” rule like the one the Second Circuit applied below thus puts defendants at a significant disadvantage in situations such as this, where serial litigation is likely as the underlying facts change. And that is particularly worrisome given that successive litigation is particularly common in the intellectual property space. More worrisome still, while the Second Circuit claimed that its new

rule promotes efficiency, the exact opposite is true. Had the Second Circuit followed traditional principles of preclusion (as the Federal Circuit, Eleventh Circuit, and Ninth Circuit all have done), the Settlement Agreement could have barred Marcel's claims, thus ending this litigation. Instead, this case will continue, thus depriving Lucky of the benefit of its bargain and undercutting the strong policy interest that all courts have in promoting settlement.

Finally, if the decision below is allowed to stand, then parties will be able to forum-shop based on preclusion rules. That is clear from this very case. The 2005 Action, which the Second Circuit held carried preclusive effect against Lucky in the present case, was filed and resolved in the Southern District of New York. But Marcel initially brought the present action in the Southern District of *Florida*. See *supra* pp.6-7. The perverse lesson of the decision below is that Lucky should have assented to the more inconvenient venue; after all, in the Eleventh Circuit a defendant is *not* precluded from raising defenses in a second suit unless they were actually litigated in the first suit. See *supra* pp.14-15 (discussing *McKinnon*, 935 F.2d at 1192). That is flatly contrary to the legislative "purpose" of venue provisions, which "is to protect the defendant against the risk that a plaintiff will select an unfair or inconvenient place of trial." *Leroy v. Great W. United Corp.*, 443 U.S. 173, 183-84 (1979) (emphasis omitted). Nor is it a small concern. Although individuals typically are not subject to suit in more than a small handful of jurisdictions, that is not true of corporate entities. See 28 U.S.C. § 1391(c). And it is a particular concern with respect to defendants: What a *defendant* may or may not raise

in a second federal case should not depend on which federal court the plaintiff chooses to sue in. A rule that promotes selecting one federal forum in order to bar defenses that would not be precluded in another federal forum is a rule that cannot be sustained.

**CONCLUSION**

For the foregoing reasons, this Court should grant the petition for certiorari.

Respectfully submitted,

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