No. 13-__

IN THE

Supreme Court of the United States

VON DREHLE CORPORATION,
Petitioner,

v.

GEORGIA PACIFIC CONSUMER PRODUCTS, LP, *et al.*,
Respondents.

On Petition for a Writ of Certiorari to the United States Court of Appeals for the Fourth Circuit

PETITION FOR A WRIT OF CERTIORARI

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July 8, 2013

QUESTION PRESENTED

Whether the court of appeals erred in refusing to follow the holdings of the Eighth and Sixth Circuits involving identical trademark litigation and not giving those rulings preclusive effect – and doing so in ways that disregard the district courts' inherent authority to consider preclusion and do serious violence to Fed. R. Civ. P. 15 and the proper standards other circuits routinely follow when reviewing decisions to permit amendments of pleadings.

PARTIES TO THE PROCEEDING

Petitioner in this case is von Drehle Corporation. Respondents are Georgia-Pacific Consumer Products, LP, and its parent company, Georgia-Pacific Corporation. von Drehle's distributor, Carolina Janitorial & Maintenance Supply, was an additional defendant below and von Drehle's distributor, Myers Supply, Incorporated, was a proposed intervenor-defendant below.

RULE 29.6 STATEMENT

Petitioner von Drehle Corporation is not a publicly traded company and no publicly held company owns ten percent or more of its stock. It has no parent corporation.

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PETITION FOR A WRIT OF CERTIORARI

Petitioner von Drehle Corporation respectfully petitions for a writ of certiorari to review the judgment and opinion of the United States Court of Appeals for the Fourth Circuit.

OPINIONS BELOW

The opinion of the United States District Court for the Eastern District of North Carolina is reported at 856 F. Supp. 2d 750, and is reproduced at Pet. App. 20a-30a. The opinion of the United States Court of Appeals for the Fourth Circuit is reported at 710 F.3d 527, and is reproduced at Pet. App. 1a-19a. The Fourth Circuit's order denying rehearing or rehearing en banc is not reported but is reproduced at Pet. App. 77a-78a. A prior opinion of the district court is reported at 645 F. Supp. 2d 532, and is reproduced at Pet. App. 61a-76a. A prior opinion of the court of appeals is reported at 618 F.3d 441, and is reproduced at Pet. App. 31a-60a.

JURISDICTION

The court of appeals issued its judgment and opinion on March 14, 2013. Pet. App. 1a. The court denied von Drehle's timely petition for rehearing or rehearing en banc on April 9, 2013. Pet. App. 77a. This Court has jurisdiction pursuant to 28 U.S.C. § 1254.

STATUTORY PROVISION INVOLVED

Federal Rule of Civil Procedure 15 provides in pertinent part:

> (a)(2) Other Amendments. In all other cases, a party may amend its pleading only with the

> opposing party's written consent or the court's leave. The court should freely give leave when justice so requires. . . .
>
> (d) Supplemental Pleadings. On motion and reasonable notice, the court may, on just terms, permit a party to serve a supplemental pleading setting out any transaction, occurrence, or event that happened after the date of the pleading to be supplemented. . . .[1]

INTRODUCTION

This case stems from the abusive litigation tactics of respondent Georgia-Pacific Consumer Products, LP ("GP"), which filed a series of substantively identical trademark enforcement suits around the country against petitioner von Drehle Corporation ("von Drehle") and its distributors in privity with it, including this case. Those cases involved the same underlying trademark claims arising from the same commercial practice: the use of unbranded paper towel products from various manufacturers in trademarked paper towel dispensers. Not coincidentally, those cases sought to ensure that smaller competitors would not threaten GP's dominant position in the market. In that litigation, GP incurred a string of losses in two district courts and two courts of appeals. See *Ga.-Pac. Consumer Prods. LP* v. *Myers Supply, Inc.*, No. 6:08-cv-6086, 2009 WL 2192721 (W.D. Ark. July 23, 2009), *aff'd*, 621 F.3d 771 (8th Cir. 2010) ("*Myers*"); *Ga.-Pac. Consumer*

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[1] von Drehle's motions below were brought under Rule 15(d), but the district court order and Fourth Circuit opinion referred to Rule 15(a); the standards for determination and review under the two paragraphs are identical. *See Franks* v. *Ross*, 313 F.3d 184, 198 n.15 (4th Cir. 2002).

Prods. LP v. *Four-U-Packaging, Inc.*, 821 F. Supp. 2d 948 (N.D. Ohio 2011), *aff'd*, 701 F.3d 1093 (6th Cir. 2012) ("*Four-U*"). Ordinarily, that would be more than enough bites at the apple, but, according to the court below, not here.

This case arises in the Fourth Circuit from yet another of GP's suits addressing the exact same commercial dispute. In this case, too, GP lost in the district court. That court correctly dismissed GP's complaint on the ground that it was precluded by the prior judgments entered against GP in courts in the Eighth and Sixth Circuits. The district court reasoned that the judgments of these other courts should be given effect to bar additional litigation involving the same dispute and claims, especially in light of GP's abusive litigation tactics. The court therefore permitted von Drehle to amend its defenses pursuant to Fed. R. Civ. P. 15(a), even though the district court believed von Drehle had delayed raising the preclusive effect of one of the prior judgments in its favor. The court did so in part because von Drehle promptly asserted another, later judgment in its favor from a court in yet another circuit. The district court also determined that it had independent authority to consider the preclusive effect of those judgments.

The Fourth Circuit reversed, finding that the district court abused its discretion in permitting von Drehle to amend its defenses to raise the preclusive effect of the judgments arising (and affirmed) in two other circuits. It held that the district court acted "arbitrarily" in allowing amendment "as justice requires" under Rule 15(a), even though the district court merely gave proper effect to decisions of sister courts and promoted the core judicial value of

ensuring that the cases of similarly situated litigants are decided the same way.

In addition to this overall and fundamental conflict in the circuits about whether this national litigation should be over, there are subsidiary conflicts created by the rationales that the Fourth Circuit employed to avoid recognizing that respondents' claims should be brought to an end.

The holdings of the Fourth Circuit panel – concerning review of an order granting amendment of defenses under Rule 15(a) and a district court's inherent authority to consider preclusion – set forth standards that conflict with the standards employed by other courts of appeals. Each conflict merits review.

In sum, only review by this Court can prevent the extensive re-litigation of a decided issue and the legal uncertainty that have otherwise been triggered by the decision below, and only this Court can reconcile the divergent results of the different courts of appeals that have addressed this dispute.

STATEMENT OF THE CASE

To understand the divergence among the courts of appeals, including the conflicting judgments arising from and affecting the same ongoing, national dispute, it is necessary to review (a) the background of the dispute between the parties and their privies; (b) the litigation GP pursued and lost in the Sixth and Eighth Circuits; and (c) the proceedings in the Fourth Circuit leading to GP's loss in the district court and the reversal of that decision.

A. The Underlying Commercial Dispute.

Petitioner von Drehle Corporation manufactures paper products such as paper towels and toilet paper, as well as sells branded dispensers for those products for the away-from-home market. It provides multiple different paper towel products and dispensers. von Drehle sells its products primarily to distributors of janitorial supplies, which resell them to end users such as restaurants, hotels, offices, and other public facilities.

Since the nineteenth century, the sale and use of generic paper products to fill dispensers manufactured by other companies has been a widely accepted and longstanding practice in the industry. This practice is consistent with this Court's recognition more than a century ago that the sale of generic toilet paper to refill a patented toilet paper dispenser did not infringe upon the dispenser manufacturer's intellectual property rights. See *Morgan Envelope Co.* v. *Albany Perforated Wrapping Paper Co.*, 152 U.S. 425 (1894). Consistent with this industry practice, some of von Drehle's generic paper products are compatible with other manufacturers' dispensers. Likewise, respondent GP manufactures and markets some of its generic paper products for use in other manufacturers' dispensers, including von Drehle's dispensers.[2]

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[2] *See* GP Professional Product Listing, *available at* http://productcatalog.gp.com/CrossReference.aspx (last viewed July 2, 2013) (listing "[s]uggested . . . replacements" for paper towels manufactured by von Drehle and others). This practice is also referred to as "stuffing," which, as several circuits have recognized, is a common and permissible practice, *infra* pp. 8-10.

GP is one of three companies that control an overwhelming share of the relevant paper products market. In 2002, GP introduced a line of motion-activated, hands-free paper towel dispensers called enMotion®. GP also started selling paper towel rolls that are ten inches wide and have no trademarks printed on them for use in enMotion®. In a departure from industry practice, GP insisted that users of the enMotion® dispenser also use only paper towel refills branded enMotion® and supplied by GP. GP claims that it leases rather than sells enMotion® dispensers and that the purchase of GP's paper towel refills is a condition of the leases and/or sub-leases. The existence and validity of these lease arrangements are disputed, but in any event petitioner is not a lessee and GP's claims are not for breach of contract.

In 2004, von Drehle developed a line of ten-inch paper towel rolls known by its model number, "810-B." Consistent with past industry practice, von Drehle originally developed the 810-B towels for use in enMotion® dispensers. Later, von Drehle began supplying its own dispenser that is compatible with 810-B towels. Today, there are several brands of towels and dispensers that are ten inches wide. GP also makes several sizes of "universal" dispensers bearing GP's trademarks, for which it does not insist that GP towels be used.

Starting in 2005, GP initiated nearly identical trademark enforcement suits in five different district courts against von Drehle and defendants in privity with it, its distributors, including the suit at issue. Unlike most trademark disputes that allege the intentional use of another's trademark, GP's main theory has been contributory trademark infringe-

ment, a form of secondary liability under the trademark laws governed by § 32 of the Lanham Act, 15 U.S.C. § 1114(1), and recognized in *Inwood Laboratories, Inc.* v. *Ives Laboratories, Inc.*, 456 U.S. 844, 854 (1982). GP's core argument has been that, by selling paper towels compatible with the enMotion® dispenser, von Drehle and its distributors "contributed" to alleged trademark infringement committed by the end users who place von Drehle towels in enMotion® dispensers – a practice that GP claims causes a likelihood of confusion among restroom consumers about the origin of the towels. In each jurisdiction, GP asserted the same core factual allegations, employed the same legal theories, and used the same witnesses and consumer surveys.

Notwithstanding this claim-splitting strategy, GP incurred a string of losses in two district courts as well as in the Eighth and Sixth Circuits in the *Myers* and *Four-U* litigation.[3] This petition stems from the sole case GP has won, in the Fourth Circuit, where that court reversed GP's loss in the district court.

B. GP's Losses In The Eighth And Sixth Circuits.

In September 2008, GP sued one of von Drehle's distributors in Arkansas, Myers Supply Incorporated, claiming contributory trademark infringement. The suit was virtually identical to the one that underlies the instant case. In July 2009, GP lost that suit after a bench trial. The district court made detailed

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[3] *See Ga.-Pac. Consumer Prods. LP* v. *Myers Supply, Inc.*, No. 6:08-cv-6086, 2009 WL 2192721 (W.D. Ark. July 23, 2009), *aff'd*, 621 F.3d 771 (8th Cir. 2010) ("*Myers*"); *Ga.-Pac. Consumer Prods. LP* v. *Four-U-Packaging, Inc.*, 821 F. Supp. 2d 948 (N.D. Ohio 2011), *aff'd*, 701 F.3d 1093 (6th Cir. 2012) ("*Four-U*").

findings of fact and concluded as a matter of law that the sale of von Drehle 810-B towels did not create a "likelihood of confusion" among consumers as to the origin of the towels. *Myers*, 2009 WL 2192721, at *6-8. Moreover, the court stressed that there was no evidence of actual confusion, that GP itself considered commercial purchasers of paper towels, such as restaurants and office buildings, to be the relevant end-users for the "likelihood of confusion" analysis, and that GP's own catalog "suggested replacement towels for other manufacturers' towel" brands. *Id.* at *7.

In September 2010, the Eighth Circuit affirmed, upholding the district court's finding that there was no likelihood that purchasers or consumers would be confused about the origin of the paper towels. Specifically, the Eighth Circuit held that the district court did not abuse its discretion and had made supported factual findings in discounting survey evidence about consumer confusion and "crediting more the testimony from industry leaders," including from GP's "own regional manager," "own catalog," and "own practices," which showed that it was entirely "acceptable . . . to place towels of one brand in [a] dispenser bearing the marks of a different brand." 621 F.3d at 776-77. The Eighth Circuit declined to reach the question whether GP had valid contracts with end-users, because no signed subleases with towel restrictions had ever been produced. *Id.* at 777. Finally, the Eighth Circuit emphasized that "society has an interest in promoting competition without burdening a seller with controlling its customers' uses of goods." *Id.* at 779.

In November 2011, GP lost yet another contributory trademark infringement case against another of von Drehle's distributors in Ohio. *Four-U,* 821 F. Supp. 2d 948. The district court in *Four-U* correctly applied the judgment in *Myers* and held that GP's claims were precluded, because there was "no dissimilarity of facts" between that case and *Myers*, and no indication that "'general industry practice'" in favor of unbranded paper towels varies by state. *Id.* at 953-54. Moreover, the district court reasoned that although the Sixth and Eighth Circuits' considerations for "likelihood of confusion" were "formulated somewhat differently, the standards in both circuits are essentially the same." *Id.* at 955. Therefore, the district court concluded, the "ultimate question in both circuits remains the same: namely, whether consumers would be confused as to who has made a product on the basis of an identifying mark." *Id.* at 954-55. The district court noted that its decision did not conflict with the parallel Fourth Circuit litigation, which at that time had been remanded for further factual determinations. *Id.* at 955.

The Sixth Circuit affirmed, holding that "the factual differences in defendants, surveys, geographic regions, and mark recognition are not sufficient to bar application of issue preclusion in this case." 701 F.3d at 1100. Furthermore, the Sixth Circuit found that while the Sixth and Eighth Circuits' tests for the "likelihood of confusion" were "enumerated differently, their substance is largely identical." *Id.* at 1101. Moreover, the Sixth Circuit stressed that "[o]ne of [its] primary goals in applying issue preclusion is to 'foster[] reliance on judicial action by minimizing the possibility of inconsistent decisions.'" *Id.* at 1103 (second alteration in original). Therefore, the court concluded that invoking issue preclusion "poses no

risk of creating inconsistent rulings" because, in the parallel litigation in the Fourth Circuit, the district court at that time had "set aside the jury verdict and dismissed all of Georgia-Pacific's claims based upon issue preclusion." *Id.*

In addition to this litigation in the Sixth and Eighth Circuits, GP brought yet two other cases that are currently pending. See *Ga.-Pac. Consumer Prods. LP* v. *Superior Janitor Supply, Inc.*, No. 1:09cv323 (S.D. Ohio filed May 9, 2009); *Ga.-Pac. Consumer Prods., LP* v. *Inland Supply Co.*, No. 3:09-CV-00246 (D. Nev. filed May 12, 2009).

C. GP's Losses In The Eastern District Of North Carolina And Reversal By The Fourth Circuit.

The instant litigation between GP and von Drehle resulted in an initial district court decision in von Drehle's favor in 2009, a decision by the Fourth Circuit reversing and remanding for further proceedings, a further district court decision and judgment in von Drehle's favor in 2012, on other grounds, and then the Fourth Circuit decision that is the subject of this petition.

1. Initial District Court And Fourth Circuit Decisions.

In July 2005, GP initiated this case against von Drehle in the United States District Court for the Eastern District of North Carolina. GP alleged several claims arising from von Drehle's sales of 810-B paper towels, including contributory trademark infringement. von Drehle asserted several counter-claims, including that GP had engaged in a "tying" arrangement in violation of federal antitrust laws. Initially, one of von Drehle's distributors, Carolina

Janitorial & Maintenance Supply, was a named defendant. The parties engaged in extensive discovery and the district court initially denied von Drehle's motion for summary judgment.

In August 2009, a mere 22 days after the district court judgment in *Myers*, the district court reconsidered and granted summary judgment in von Drehle's favor on all of GP's claims. Pet. App. 61a-76a. At that time, von Drehle had not yet asserted that the district court judgment in *Myers* provided an additional affirmative defense based on *Myers*' preclusive effect. The district court reasoned that "[t]he marketing of paper towel rolls for use in a competitor's dispenser is common practice within the industry," that competition should be "free and unrestricted," and that "[a]ny other finding" would "stifle" and "be . . . against legitimate competition." *Id.* at 68a-69a. The district court also noted that "GP, itself, [had] marketed paper towel rolls for use in von Drehle's dispenser." *Id.* at 68a. The district court also granted GP summary judgment on von Drehle's antitrust and other counterclaims.

Before the Fourth Circuit, von Drehle addressed *Myers* at length. Indeed, a section of von Drehle's brief was entitled "Georgia-Pacific loses a trial asserting the same claims against a von Drehle distributor," but von Drehle did not directly argue that the judgment in its favor should be affirmed on the alternative ground that *Myers* had preclusive effect. That issue had not yet been raised in or addressed by the district court by way of a Rule 15 motion to amend the answer, and thus was not properly presentable to the court of appeals. In August 2010, the Fourth Circuit vacated in part and remanded the grant of summary judgment on GP's

contributory infringement claims. Pet. App. 31a-60a. The court reasoned that, in analyzing contributory trademark infringement, the "district court erred in limiting its likelihood of confusion inquiry to distributors who purchased 810-B [towels] and their respective end-user customers," *i.e.*, the businesses that purchase the towels. *Id.* at 49a. The Fourth Circuit also affirmed the dismissal of von Drehle's counterclaims.[4]

2. District Court Order At Issue In This Petition.

In November 2010, a mere two months after remand from the Fourth Circuit and more than a year before the scheduled trial, von Drehle moved to supplement its defenses pursuant to Fed. R. Civ. P. 15 to add the defenses of claim and issue preclusion based on *Myers*. The district court initially denied von Drehle's motion based on the passage of time between *Myers*' issuance and the motion, even though for the vast majority of that time the matter was before the court of appeals and the district court thus lacked jurisdiction over the litigation.

von Drehle sought reconsideration of that decision, and Myers Supply, Inc. sought to intervene in this case under Fed. R. Civ. P. 24 to assert the judgment in its favor as a defense. Both requests were denied. von Drehle and Myers Supply appealed, but that appeal was dismissed when the district court subsequently granted judgment to von Drehle.

In November 2011, GP suffered its district court loss in *Four-U,* the parallel contributory trademark

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[4] The Eighth Circuit had this decision before it when it reviewed *Myers*. The Eighth Circuit found no conflict between the two decisions. *Myers*, 621 F.3d at 776.

infringement case against a von Drehle distributor in Ohio. See *supra* p. 9. Four days after the issuance of *Four-U*, von Drehle filed a second motion to supplement its answer to include preclusion defenses, pursuant to Fed. R. Civ. P. 15, along with a renewed motion for summary judgment. The district court chose not to rule on the Rule 15 motion before trial and sent the sole remaining issue of contributory trademark infringement to trial. In January 2012, a jury rendered a verdict in GP's favor, awarding $791,431 in damages.

von Drehle filed post-trial motions renewing its Rule 15 motion and renewing the preclusion defenses on the merits through a motion for judgment as a matter of law under Fed. R. Civ. P. 50.

Then, in the decision directly at issue in this petition, the district court granted von Drehle's still pending Rule 15 motion, permitting von Drehle to amend the pleadings to include preclusion defenses, and granted its renewed motion for judgment as a matter of law. Pet. App. 30a. The court held that GP's claims against von Drehle and those litigated in *Four-U* and *Myers* "concern the same core of operative facts" and "the same issue of whether such practice infringes on [GP's] valid trademark." *Id.* at 29a. The district court found that GP's claims were precluded under both the doctrines of res judicata and collateral estoppel, stressing that *Myers* and *Four-U* "clear[ly]" arise "from the same core of operative facts," and involve "identical" issues. *Id.* at 27-28a.

Additionally, the district court noted that while it had previously concluded that von Drehle's first motion to amend its answer had come too long after *Myers*, its second motion came "just four days" after

the decision in *Four-U*. Pet. App. 22a. In light of the "discretion" vested in trial courts to decide Rule 15(a) motions and the fact that von Drehle "promptly alerted" the court to *Four-U*, the district court held that the Rule 15 motion and preclusion defenses were timely. *Id.* at 25a. The district court also recognized the principle that Rule 15 motions may only be denied when judicially-recognized factors are present, but found that no such factors existed here, because von Drehle's "actions do not evidence bad faith or dilatory motive." *Id.* at 24a-25a.

"Alternatively," the district court noted that it had the power to "raise a preclusion defense *sua sponte*," Pet App. 25a (citing *Arizona* v. *California*, 530 U.S. 392, 412 (2000)), in light of the "circumstances" here, including "several lawsuits filed by [GP] attempting to litigate the same core question." *Id.* The court explained that "'[t]his result is fully consistent with the policies underlying res judicata: it is not based solely on the defendant's interest in avoiding the burdens of twice defending a suit, but is also based on the avoidance of unnecessary judicial waste.'" *Id.*

3. The Fourth Circuit Decision.

GP appealed, and in March 2013, the Fourth Circuit held that the district court had abused its discretion in granting the motion to add preclusion defenses because it acted in an "'arbitrary manner.'" Pet. App. 15a. The Fourth Circuit reasoned that von Drehle had waived these defenses by failing to assert them in a timely manner and that the district court had erred in considering them. While the Fourth Circuit found it was "not necessary [to] determine the precise point at which von Drehle waived the preclusion defenses," *id.* at 16a, it considered the total period between the date that *Myers* was issued

and von Drehle's initial motion to add preclusion defenses, 480 days. *Id.* That 480-day period included more than 390 days during which the judgment in von Drehle's favor was on appeal before the Fourth Circuit. *Id.* at 13a-14a (finding that von Drehle "could have argued that the *Myers* decision provided an alternative basis for affirmance"). The Fourth Circuit also held that the district court's reliance on *Four-U* was "'arbitrary,'" because that case was used as a "'strawman' to consider belatedly the preclusive effect of *Myers*." *Id.* at 15a.

Additionally, the Fourth Circuit held that the district court abused its discretion in considering preclusion *sua sponte* because no "'special circumstances'" justified doing so. Pet. App. 16a-17a. The Fourth Circuit concluded that this case was "ill-suited for sua sponte consideration of preclusion," because "the issue of trademark infringement already had been decided by the jury." *Id.* at 17a.[5]

von Drehle timely filed a petition for rehearing or rehearing en banc, which the Fourth Circuit denied on April 9, 2013. Pet. App. 77a.

REASONS FOR GRANTING THE PETITION

The most fundamental reason to grant certiorari is to address the embarrassment created by having the same national matter litigated three times, with the result of two courts of appeals holding that defendants win and then a third court concluding that

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[5] In a footnote addressing an issue that the Fourth Circuit acknowledged it was "not required to reach," the court noted its "concern that the district court acted in contravention of the mandate rule in considering von Drehle's preclusion defenses." Pet. App. 17a n.13.

plaintiff wins. Our system of justice places a primary value on fairness and finality and on ensuring that every litigant has an opportunity to bring his legitimate claims before a court for ultimate disposition. But if a plaintiff loses, then the matter is finished and the defendants are entitled to the benefit of repose. Not so here. Seeking to protect its dominant market position, GP continues to press relentlessly a position that it has lost fully and fairly all the way up through two courts of appeals. The Fourth Circuit's willingness to flout principles of finality and render the judicial process a test of resources rather than a system of laws should be rejected by this Court. It should grant the petition, recognizing that preclusion bars this litigation, and thereby eliminate the disharmony in the law created by the court of appeals' decision in this case.

I. THE FOURTH CIRCUIT APPLIES A HEIGHTENED STANDARD OF REVIEW OF A DISTRICT COURT'S DETERMINATION TO GRANT LEAVE TO AMEND PURSUANT TO FED. R. CIV. P. 15, IN CONFLICT WITH THE DEFERENTIAL RULE APPLICABLE IN OTHER CIRCUITS.

Federal Rule of Civil Procedure 15(a) directs that when a party moves to amend pleadings, "[t]he court should freely give leave when justice so requires," Fed. R. Civ. P. 15(a)(2). *Foman* v. *Davis*, 371 U.S. 178, 182 (1962), requires that leave to amend "should, as the rules require, be 'freely given,'" unless specific factors permit denial.

In nearly all circuits, a very "deferential standard of review [applies on appeal of] district court decisions to grant Rule 15 amendments." *IES Indus., Inc.* v. *United States*, 349 F.3d 574, 580-81 (8th Cir.

2003) (affirming grant of Rule 15 motion). Numerous circuits have confirmed that Rule 15(a) embodies a liberal policy of granting amendments. See, *e.g.*, *Adams* v. *Gould Inc.*, 739 F.2d 858, 864 (3d Cir. 1984) (Rule 15 "embodies the liberal pleading philosophy of the federal rules."); *Carson* v. *Polley*, 689 F.2d 562, 584 (5th Cir. 1982) ("Rule 15 'evinces a bias in favor of granting leave to amend'"); *McDowall* v. *Orr Felt & Blanket Co.*, 146 F.2d 136, 137 (6th Cir. 1944) (Rule 15 "continues, confirms, and emphasizes the practice in effect prior to its adoption, in which liberality in amendment was encouraged and favored"); *Eminence Capital, LLC* v. *Aspeon, Inc.*, 316 F.3d 1048, 1051 (9th Cir. 2003) (per curiam) (Rule 15 "is to be applied with extreme liberality") (internal quotation marks omitted). District courts frequently grant – and courts of appeals regularly affirm the grant of – Rule 15(a) motions in a wide variety of circumstances, including motions brought soon before trial or even after the entry of judgment. See *infra* p. 20.

Indeed, ten circuits require that the district court grant a Rule 15(a) motion unless specific, judicially-recognized factors are present that demonstrate that an amendment will not serve the ends of justice.[6] For

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[6] *González-Pérez* v. *Hosp. Interamericano de Medicina Avanzada (HIMA)*, 355 F.3d 1, 5-6 (1st Cir. 2004) (quoting *Foman*); *State Teachers Ret. Bd.* v. *Fluor Corp.*, 654 F.2d 843, 856 (2d Cir. 1981) ("Reasons for a proper denial of leave to amend include undue delay, bad faith, futility of the amendment, and perhaps most important, the resulting prejudice to the opposing party."); *Carson*, 689 F.2d at 584 (denial requires "'undue delay, bad faith or dilatory motive on the part of the movant, repeated failure to cure deficiencies by amendments previously allowed, undue prejudice to the opposing party by virtue of the allowance of the amendment, [and] futility of amendment'"); *Ziegler* v. *IBP Hog Mkt., Inc.*, 249 F.3d 509, 519

example, the Third Circuit holds that "under the liberal pleading philosophy of the federal rules as incorporated in Rule 15(a), an amendment should be allowed whenever there has not been undue delay, bad faith on the part of the plaintiff, or prejudice to the defendant as a result of the delay." *Adams*, 739 F.2d at 867-68. Similarly, the Ninth Circuit held that "there exists a *presumption* under Rule 15(a) in favor of granting leave to amend," absent a finding of prejudice to the non-movant, or a "strong showing" of undue delay, bad faith, or dilatory motive. *Eminence Capital*, 316 F.3d at 1052 (emphasis in original).

In contrast, the Fourth Circuit did not apply a "deferential standard of review [to] district court decisions to grant Rule 15 amendments," *IES Indus.*, 349 F.3d at 580-81, or acknowledge "the liberal pleading philosophy of the federal rules." *Adams*, 739 F.2d at 864. Instead, the Fourth Circuit applied a rule that district court decisions granting a Rule 15(a) motion amount to an abuse of discretion whenever a district court "acts in an 'arbitrary manner.'" Pet. App. 11a.

This failure to apply the "deferential standard of review" is underscored by the panel's overturning the grant of leave to amend as "arbitrary" and an abuse of discretion even though the district court had found that the motion to amend was presented with "[no] bad faith or dilatory motive." Pet. App. 25a. And,

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(6th Cir. 2001) (same); *Barry Aviation, Inc.* v. *Land O'Lakes Mun. Airport Comm'n*, 377 F.3d 682, 687 (7th Cir. 2004) (same) (quoting *Foman*); *Dennis* v. *Dillard Dep't Stores, Inc.*, 207 F.3d 523, 525 (8th Cir. 2000) (same) (invoking *Foman*); *Minter* v. *Prime Equip. Co.*, 451 F.3d 1196, 1205 (10th Cir. 2006) (same); *Espey* v. *Wainwright*, 734 F.2d 748, 750 (11th Cir. 1984) (per curiam) (same).

with respect to the panel's own assessment of delay, which it substituted for the district court's determination, the panel acknowledged but declined to weigh the district court's reliance on how von Drehle sought leave to amend just days after GP became subject to another judgment, in the *Four-U* case, that independently had claim preclusive effect.[7] Pet. App. 15a-16a; see *infra* p. 22. By relying for its "arbitrariness" determination on the delay separately associated with the earlier *Myers* judgment, the panel confirmed and deepened the conflict with the approach adopted by other circuits, under which "delay alone is insufficient to deny a motion for leave to amend." *Dennis* v. *Dillard Dep't Stores, Inc.*, 207 F.3d 523, 525 (8th Cir. 2000); see *State Teachers Ret. Bd.* v. *Fluor Corp.*, 654 F.2d 843, 856 (2d Cir. 1981) (same); see also *Bechtel* v. *Robinson*, 886 F.2d 644, 652 (3d Cir. 1989) (prejudice is the "'touchstone'"); *Eminence Capital*, 316 F.3d at 1052 (same). The panel's substitution of its view for the district court's would clearly not have been permitted under the different, deferential standard applicable in other circuits. See, *e.g.*, *IES Indus.*, 349 F.3d at 580-81 (meaningful deference to a district court's decision to grant a Rule 15(a) motion is required, even where, if the court of appeals had "been in the District Court's

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[7] This case turns on the Fourth Circuit's failure to give any deference to the district court and its treatment of *Four-U*. For this reason, the Fourth Circuit's *dicta* concerning the mandate rule, Pet. App. 17a n.13, is irrelevant. In any event, the mandate rule cannot serve as an independent basis for resolving the circuit conflicts in this case, because the question of preclusion based on *Myers* was not decided in GP's initial appeal to the Fourth Circuit, and *Four-U* had not yet been decided and thus could not have been included in the Fourth Circuit's mandate.

shoes, [it] may well have decided the issue differently"); *Rachman Bag Co.* v. *Liberty Mut. Ins. Co.*, 46 F.3d 230, 235 (2d Cir. 1995).

Moreover, to the extent the panel objected to the timing of the district court's ruling as occurring after the jury issued its verdict, Pet. App. 17a, that aspect of the panel's reasoning, too, underscores the conflict among the circuits' approaches. Although the motion for leave to amend was made well before trial, the panel noted that the district court ruled on the motion after the jury had returned a verdict. In other circuits, that timing – or granting leave to amend even later in the proceedings – provides no basis to overturn a district court's ruling permitting amendment. See, *e.g.*, *Dussouy* v. *Gulf Coast Inv. Corp.*, 660 F.2d 594, 598 (5th Cir. 1981) ("Amendment can be appropriate as late as trial or even after trial. Instances abound in which appellate courts on review have required that leave to amend be granted after dismissal or entry of judgment.") (citations omitted); *Lone Star Motor Import, Inc.* v. *Citroen Cars Corp.*, 288 F.2d 69, 75 (5th Cir. 1961) (reversing a post-judgment denial of Rule 15(a) motion because "[Rule] 15(a) declares an affirmative policy in emphatic terms" and judge failed to cite basis for prejudice).

The Fourth Circuit's divergent approach to Rule 15(a) is particularly consequential because the right provided by that rule may be exercised in every case. Fed. R. Civ. P. 15(a)(1). In many cases, the Fourth Circuit's rule of heightened scrutiny will produce results inherently contrary to the "spirit of the Federal Rules of Civil Procedure for decisions on the merits." *Foman,* 371 U.S. at 181; see also *Lopez* v. *Smith*, 203 F.3d 1122, 1127 (9th Cir. 2000) (en banc) (stressing the principle that cases should be

"'deci[ded] on the merits, rather than on the pleadings or technicalities.'"). The question of whether a determination by a district court to grant leave to amend is assessed under a deferential standard or the Fourth Circuit's heightened review for "arbitrariness" will, as here, affect the outcome of a wide array of civil cases.

II. THE COURTS OF APPEALS DISAGREE REGARDING THE SCOPE OF A DISTRICT COURT'S INHERENT POWER TO CONSIDER PRECLUSION DEFENSES *SUA SPONTE*.

It is common ground that a court may raise a preclusion defense *sua sponte* in "special circumstances." *Arizona* v. *California*, 530 U.S. 392, 412 (2000). That decision identified one example of a "special circumstance" – when a court is on notice that it previously decided the issue – and indicated that there are other situations when *sua sponte* consideration is "'consistent with the policies underlying res judicata.'" *Id.* Even the Fourth Circuit acknowledged that other "special circumstances" may justify the courts' sua sponte consideration of preclusion defenses. Pet. App. 16a n.11.

The courts of appeals diverge, however, over whether a district court has the discretion, *sua sponte*, to consider preclusion when doing so would avert the risk of inconsistent results and relitigation of previously decided issues. If the Fourth Circuit decision is allowed to stand, doing so would be an abuse of discretion. In other circuits, it would clearly not be: district courts have much broader powers to consider preclusion in order to prevent inconsistent outcomes and avoid relitigation.

In particular, the district court below found that it had the power to consider "on its own motion that a preclusion defense is appropriate in this matter." Pet. App. 25a (noting that, pursuant to *Arizona*, a court may raise a preclusion defense *sua sponte* if "special circumstances" exist). It relied on the fact that there were "several lawsuits filed by Plaintiff [in different courts] attempting to litigate the same core question." *Id.* And, it considered that courts in two other circuits had ruled against GP in such cases involving "the same core of operative facts" and the same legal issues. *Id.* at 27a-28a. The Fourth Circuit, however, found that the district court abused its discretion in relying on these considerations to consider preclusion defenses under its own authority.

In contrast, other circuits have recognized that district courts have broad powers to consider preclusion defenses and that doing so avoids re-litigation of issues and prevents inconsistent outcomes. See *Doe* v. *Pfrommer*, 148 F.3d 73, 80 (2d Cir. 1998) ("the strong public policy" of "economizing the use of judicial resources by avoiding relitigation" justified district court's *sua sponte* consideration and application of preclusion defense); *Carbonell* v. *La. Dep't of Health & Human Res.*, 772 F.2d 185, 189 (5th Cir. 1985) (recognizing that the "demands of comity, continuity in the law, and essential justice mandate judicial invocation of the principles of res judicata") (citing *Amer. Furniture Co.* v. *Int'l Accommodations Supply*, 721 F.2d 478 (5th Cir. 1981)); *Boone* v. *Kurtz*, 617 F.2d 435, 436 (5th Cir. 1980) (per curiam) (district court's *sua sponte* dismissal on res judicata grounds was "permissible in the interest of judicial economy" where prior action was before the same court); *Holloway Constr. Co.* v. *U.S. Dep't of Labor*,

891 F.2d 1211, 1212 (6th Cir. 1989) (per curiam) (same).

Recognizing that federal courts can raise preclusion *sua sponte* in order to promote consistency in legal rules and outcomes furthers the core purposes of preclusion doctrines, which are to maintain "nation-wide uniformity," avoid "'forum-shopping,'" *Semtek Int'l Inc.* v. *Lockheed Martin Corp.*, 531 U.S. 497, 508 (2001), and "minimiz[e] the possibility of inconsistent decisions," *Montana* v. *United States*, 440 U.S. 147, 154 (1979). Indeed, for this reason, other courts have recognized the importance of maintaining harmony among circuits in the application of preclusion itself. See, *e.g.*, *Foster* v. *Hallco Mfg. Co.*, 947 F.2d 469, 475 (Fed. Cir. 1991) (examining the "need for uniformity and certainty" in assessing whether res judicata principles apply); see also *id.* (noting that if there were regional variation about whether res judicata applied, "a split would instantaneously result and forum shopping . . . would be encouraged").

More broadly, courts of appeals have long recognized "the importance of maintaining harmony among the Circuits on issues of law." *Wong* v. *PartyGaming Ltd.*, 589 F.3d 821, 828 (6th Cir. 2009). Accordingly, courts "'routinely look[] to . . . sister circuits for guidance when [they] encounter a legal question [they] have not previously passed upon.'" *United States* v. *Washington*, 584 F.3d 693, 698 (6th Cir. 2009). The fundamental importance of maintaining uniformity and of considering the outcomes in sister circuits has secured widespread support.[8]

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[8] *See, e.g.*, *United States* v. *Auginash*, 266 F.3d 781, 784 (8th Cir. 2001) ("we adhere to the policy that a sister circuit's reasoned decision deserves great weight and precedential value" and "strive to maintain uniformity in the law among the

Indeed, courts have held "that the interest in 'uniformity' in application of principles and in decisionmaking [among circuits] might constitute a 'special reason for disturbing [the] repose and finality . . .' of an earlier adjudication." *Am. Iron & Steel Inst.* v. *EPA*, 560 F.2d 589, 597 (3d Cir. 1977) (omission and second alteration in original) (granting motion for recall of mandate and amendment of judgment).

In contrast, under the Fourth Circuit's approach, special circumstances do not exist even when one party has litigated and lost on the same issues and facts in multiple other courts in ongoing, national litigation. Under other circuits' approach, which permits district courts to address preclusion defenses *sua sponte* in order to avoid relitigation and promote comity, that would pose a classic instance where consideration of preclusion is merited, to maintain uniformity and conserve resources among the circuits, and also to discourage claim-splitting and forum-shopping.

The further rationale employed by the Fourth Circuit only underscores and confirms the existence of a conflict. The panel reasoned that this case was "ill-suited for sua sponte consideration of preclusion defenses" because the trademark issue "already had been decided by the jury" – resulting in the district

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circuits") (internal quotations omitted); *Int'l Soc'y for Krishna Consciousness, Inc.* v. *Lee*, 925 F.2d 576, 580 (2d Cir. 1991) ("creation of . . . a circuit conflict must be ba[s]ed on an abiding conviction that the view of several other courts is unreasonable, lest the Supreme Court's ability to resolve conflicts among the circuits be impaired by the sheer number of such conflicts"), *aff'd*, 505 U.S. 672 (1992), 505 U.S. 830 (1992); *Mayer* v. *Spanel Int'l Ltd.*, 51 F.3d 670, 675 (7th Cir. 1995) ("We do not create conflicts among the circuits without strong cause").

court's having "actually wasted judicial resources, rather than sparing them." Pet. App. 17a. While other circuits appropriately focus on respecting the results reached in other cases and forums and on preventing inconsistent outcomes, see *supra* pp. 22-23; *Dussouy*, 660 F.2d at 598; *Lone Star Motor Import*, 288 F.2d at 75, the Fourth Circuit's contrary approach considers the operation of the doctrine on only the case at hand. This approach improperly ignores the system-wide efficiencies created by exercise of the courts' power to consider preclusion defenses *sua sponte*. In addition, the Fourth Circuit's rationale disregards the broad discretion district courts have to consider and resolve legal issues after a jury's verdict. Here, von Drehle moved to amend its defenses well before the trial, and the district court's own determination to delay ruling on the motion does not undermine its inherent authority.

III. THE FOURTH CIRCUIT'S DECISION CREATES CONFLICTING RESULTS AMONG THE COURTS OF APPEALS REGARDING THE SAME ONGOING, NATIONAL COMMERCIAL PRACTICE.

Three courts of appeals have now issued decisions addressing the same dispute between the same or closely related parties regarding the same ongoing, national commercial practice. Two circuits, as well as the district court below, held for von Drehle and its privies – both on the merits and to give effect to the decisions of other courts and assure harmony among the different federal courts addressing GP's claims. The Fourth Circuit, in contrast, has directed that judgment be entered in GP's favor on identical claims and has done so on the ground that the district court

improperly gave effect to the contrary decisions of sister circuits.

Only this Court can reconcile the decisions of the federal courts below in these circumstances, and it has granted certiorari in a range of similar cases in order to accomplish just that result. This Court has long emphasized that "uniformity among federal courts is important," *Thompson* v. *Keohane*, 516 U.S. 99, 106 (1995), and has exercised its certiorari power, and ensured the operation of res judicata and collateral estoppel principles, to protect that interest. For example, in *Blonder-Tongue Laboratories, Inc.* v. *University of Illinois Foundation*, 402 U.S. 313 (1971), the Court granted certiorari to resolve a split among courts of appeals regarding the construction of the same patent, as well as to address related claims that collateral estoppel should operate to create the appropriate uniformity among courts addressing a common commercial dispute. The Court concluded, as it is asked to do here in a different area of intellectual property law, that collateral estoppel was appropriately applied to bar further litigation of a previously resolved dispute, because the result otherwise would have been multi-front litigation that would have encouraged gamesmanship, raised litigation expenses, and distorted settlement dynamics. *Id.* at 328, 338-39, 342.

In many other cases, this Court has exercised its certiorari jurisdiction to address conflicting results in closely related cases – particularly, as here, where ongoing disputes involving a single course of conduct, undertaken in many states or nationally, have produced inconsistent outcomes in different circuits. See, *e.g., Cherokee Nation* v. *Leavitt*, 543 U.S. 631, 636 (2005) (granting certiorari "[i]n light of the

identical nature of the claims in the two cases and the opposite results that the two Courts of Appeals have reached" regarding claims for payment under certain federal contracts); *Nicholas* v. *United States*, 384 U.S. 678, 681 (1966) (granting certiorari because two circuits "reached the opposite result" as to whether a bankruptcy trustee is liable for certain interest and penalties on federal taxes); *Helvering* v. *Or. Mut. Life Ins. Co.*, 311 U.S. 267, 268 (1940) ("certiorari was granted because the [courts] had reached . . . opposite result[s] on the same question" of whether certain tax deductions were allowable). This case presents a classic instance of "opposite" results reached by different circuits that warrants this Court's review.

Moreover, if the Fourth Circuit's decision below is allowed to stand, the resulting conflict between the Fourth Circuit and the Sixth and Eighth Circuits will spawn additional litigation and substantial commercial uncertainty. Dueling judgments will be invoked to shape the conduct of the hundreds of distributors of paper products and their thousands of customers who use the paper dispensers across the nation. The Fourth Circuit's divergence from its sister circuits has implications that extend beyond its boundaries: GP has already begun seeking to use the Fourth Circuit's decision to unwind the results of the judgments of other courts of appeals and to pressure distributors in yet other circuits. It is seeking an injunction against von Drehle in the district court that would apply in the Sixth and Eighth Circuits, where the courts of appeals have deemed the conduct at issue to be lawful and rejected GP's claims. Absent this Court's intervention, there will be further inconsistency, uncertainty, and forum-shopping

regarding this important area of law and commercial practice.

* * * * *

The court of appeals in this case rewarded one of the nation's largest companies for its unwillingness to take no for an answer, even though that emphatic "no" came from two separate judicial proceedings that led two separate courts of appeals to hold that respondents' trademark claims have no merit. It has rewarded the abusive litigation tactics that only a market-dominating conglomerate has the incentive and ability to pursue. In any rational judicial system, two prior adjudications of the same fundamental dispute would be at least one too many. But now the Fourth Circuit, by distorting basic rules of procedure that clearly command this litigation to come to an end, has given respondents' claims new life and thus made a mockery of the core value that each litigant is entitled to his or her day in court, but only once. Giving GP the opportunity for three bites at the same litigation apple, the Fourth Circuit has created the most unseemly situation of all – outcome by geography. Clearly, if this matter had arisen in either the Sixth or Eighth Circuits, it would have been dismissed summarily. Because it was litigated in the Fourth Circuit, however, respondents' claim for damages and other relief survives and the judicial system faces years of additional wasted resources dealing with a matter that should be over. Only this Court can both reconcile the conflict among the circuits on the issue of whether preclusion bars respondents' abusive third bite at the apple and halt what is otherwise an embarrassment to the judicial system caused when the Fourth Circuit rewarded respondents' serial litigation tactics.

CONCLUSION

For the foregoing reasons, the petition for a writ of certiorari should be granted.

Respectfully submitted,

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July 8, 2013