

A Lucky Day at the Supreme Court for Lucky Brand

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by Kaleb McNeely



Lucky Brand has emerged victorious in the latest skirmish of its nearly 20-year trademark litigation battle with Marcel Fashions, a competitor in the apparel business. In *Lucky Brand Dungarees, Inc. v. Marcel Fashions Group, Inc.*, its second trademark decision of this term, the Supreme Court unanimously reversed the U.S. Court of Appeals for the Second Circuit, holding that Lucky Brand is not precluded from raising a defense that it could have raised in a previous lawsuit between the same parties. The *Lucky Brand* opinion, however,

rested on narrow grounds and left for another day the questions of whether there is such a thing as “defense preclusion” and, if so, when it is appropriate.

The first round of this war began in 2001, when Marcel sued Lucky Brand, alleging that Lucky Brand’s use of the phrase “Get Lucky” infringed Marcel’s registered trademark for GET LUCKY. That case ended in a settlement, whereby Lucky Brand agreed to cease using the phrase “Get Lucky,” and Marcel released certain claims regarding Lucky Brand’s use of its own trademarks (which included various marks containing the word “Lucky”). In the second round (commenced in 2005), Lucky Brand sued Marcel for violating certain of its trademark rights, and Marcel in turn filed several counterclaims based on Lucky Brand’s alleged continued use of the phrase “Get Lucky.” While Lucky Brand initially argued that the counterclaims were barred by the prior settlement agreement, it did not pursue that defense and the court in the 2005 Action permanently enjoined Lucky Brand from copying or imitating Marcel’s “Get Lucky” mark.

In 2011, Marcel again sued Lucky Brand for continuing to infringe the “Get Lucky” mark, though the allegations involved different marks used by Lucky Brand claimed to be infringing and different conduct than in the 2005 Action. After extended litigation, Lucky Brand moved to dismiss, arguing—for the first time since early in the 2005 Action—that Marcel had released its claims in the 2001 Action settlement agreement. Marcel

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countered that Lucky Brand could not invoke the release defense because it could have pursued that defense in the 2005 Action, but did not. The U.S. Court of Appeals for the Second Circuit agreed with Marcel, holding that the doctrine of “defense preclusion” prohibited Lucky Brand from raising the release defense in the 2011 Action when it had failed to do so in the 2005 Action. In a decision authored by Justice Sotomayor (who practiced in the field of trademarks and intellectual property law prior to ascending to the bench), the Supreme Court reversed and remanded the case to the Second Circuit.

The Supreme Court framed the key issue as whether “defense preclusion” is a valid application of *res judicata*, a term that encompasses both issue preclusion (also known as collateral estoppel) and claim preclusion. Issue preclusion, which precludes a party from re-litigating an issue actually decided in a prior case and necessary to the judgment, did not apply here because the scope of the settlement release was never actually litigated in the 2005 Action. The related doctrine of claim preclusion prevents parties from raising issues that *could* have been raised and decided in a prior action—even if they *were not actually litigated*. The question at issue here was whether claim preclusion barred Lucky Brands from asserting its settlement defense in the 2011 Action.

The Supreme Court noted at the outset that “[t]here may be good reasons to question any application of claim preclusion to defenses.” It did not need to resolve this more general question, however, because for claim preclusion to bar a defense in a later action, the two suits must arise from the same transaction or involve a “common nucleus of operative facts.” In *Lucky Brand*, the Supreme Court held that the two suits “were grounded on different conduct, involving different marks, occurring at different times” and “[t]hey thus did not share a ‘common nucleus of operative facts.’” Specifically, in the 2005 Action, Marcel’s claims were based on a combination of Lucky Brand trademarks and the use of the phrase “Get Lucky,” while the 2011 Action did not involve any use of the “Get Lucky” phrase. Moreover, the 2011 Action concerned conduct that occurred *after* the conclusion of the 2005 Action. The Supreme Court noted that this principle is particularly salient in the trademark context, “where the enforceability of a mark and likelihood of confusion between marks often turns on extrinsic facts that change over time” and “liability for trademark infringement turns on marketplace realities that can change dramatically from year to year.”

The *Lucky Brand* decision underscores what all legal practitioners take for granted: the facts matter. Here, because the two actions involved different facts and claims, the Supreme Court found that Lucky Brand’s failure to invoke its release defense in the 2005 Action did not bar it from raising that defense in the 2011 Action. As noted, however, the Supreme Court left undecided the larger issue of whether it is ever appropriate to apply claim preclusion to bar defenses, and there are compelling policy considerations for either position. On the one hand, one of the goals of claim preclusion is to resolve issues at the earliest opportunity – and this principle would seem equally applicable to defenses. On the other hand, requiring defendants to litigate every possible defense at every stage in litigation might have the deleterious effect of increasing litigation time and costs – which preclusion doctrines seek to minimize. It will be interesting to see how this issue plays out and whether the Supreme Court eventually resolves it definitively. In the

meantime, litigators (particularly in the trademark field) would be well-advised to carefully analyze the relevant facts in order to determine whether a defense is required – or could potentially be barred – by the doctrine of “defense preclusion” since that doctrine appears to have survived for possible future application under the proper factual circumstances.