MBHB *snippets* Alert **May 14, 2020**

Supreme Court Rules That Lucky Brand Is Not Precluded from Raising a Defense in a Later Suit for Failing to Litigate the Defense in an Earlier Suit

By Eric R. Moran

Today, the U.S. Supreme Court issued a unanimous opinion in a long-running trademark dispute: *Lucky Brand Dungarees, Inc., et al. v. Marcel Fashions Group, Inc.*, No.[1] The question presented to the Court was whether Lucky Brand's failure to litigate a defense in an earlier suit between the same parties barred Lucky Brand from invoking that defense in the later suit. The Court held that Lucky Brand was not barred from raising the defense in a later action, because the later action involved different marks, different legal theories, and different conduct, all occurring at different times. The Court specifically pointed out the risk in barring such claims in trademark cases, when "liability for trademark infringement turns on marketplace realities that can change dramatically from year to year."[2]

Background of the case:

The parties have been litigating similar trademark disputes nearly non-stop in three separate cases since 2001.

The first case in 2001:[3]

Marcel filed the first case in 2001 alleging that Lucky Brand's advertising using the term "Get Lucky" infringed Marcel's GET LUCKY trademark. The parties entered into a settlement agreement in which Lucky Brand agreed not to use the GET LUCKY mark and Marcel released Lucky Brand from its claims against it.

The second case in 2005:[4]

In 2005, Lucky Brand brought the second case alleging that designs and logos in Marcel's new clothing line infringed Lucky Brand's marks. Marcel counterclaimed, alleging continued use of the "Get Lucky" phrase by Lucky Brand, both in violation of the settlement agreement and in combination with other marks that infringed Marcel's GET LUCKY mark. Lucky Brand moved to dismiss the counterclaims, asserting that they were barred by the release provision of the settlement agreement. The district court denied Lucky Brand's motion. Lucky Brand raised the release provision in its answers to Marcel's counterclaims, although otherwise never raised the defense again in the 2005 case.

On a motion for summary judgment, the district court found that Lucky Brand violated the settlement agreement by using "Get Lucky." The court permanently enjoined Lucky Brand from use of the phrase, although the injunction did not include any other marks or phrases using the term "Lucky." At the conclusion of trial, a jury found for Marcel on its remaining counterclaims that Lucky Brand's use of the phrase "Get Lucky" along with Lucky Brand's own marks was an infringement.

The third case in 2011:

The third round of litigation, giving rise to the present decision, began in 2011 with Marcel filing suit against Lucky Brand alleging that Lucky Brand continued to infringe Marcel's GET LUCKY mark. Marcel specifically alleged that Lucky Brand's use of Lucky Brand's own marks, some of which included the term "Lucky," infringed the GET LUCKY mark. The district court granted summary judgment to Lucky Brand that Marcel's claims in the 2011 case were "essentially the same" as its counterclaims in the 2005 case.[5]

The Court of Appeals for the Second Circuit disagreed. The appeals court found Marcel's 2011 claims were distinct from those in 2005 because the 2005 claims were for earlier infringements. And the court further denied Marcel's request to hold Lucky Brand in contempt for violating the injunction from the 2005 case, reasoning that the 2011 case involved Lucky Brand using its own marks, not the "Get Lucky" phrase.[6]

On remand, Lucky Brand moved to dismiss "arguing—for the first time since its motion to dismiss and answer in the 2005 Action—that Marcel had released its claims by entering the settlement agreement." Marcel countered by arguing that Lucky Brand was precluded from raising the defense because Lucky Brand could have fully litigated the defense in the 2005 case but chose not to. The district court granted Lucky Brand's motion to dismiss.[7]

On appeal, the Second Circuit again disagreed[8] with the finding of the district court, "concluding that a doctrine it termed 'defense preclusion' prohibited Lucky Brand from raising the release defense" in the 2011 case. The appeals court found that "[a] defendant should be precluded from raising an unlitigated defense that it should have raised earlier," and held that "defense preclusion" precludes 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"; "(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."[9]

The U.S. Supreme Court granted *certiorari* to resolve a circuit split as to "when, if ever, claim preclusion applies to defenses raised in a later suit."[10]

The Court's opinion:

Justice Sotomayor wrote the unanimous opinion of the Court and began the Court's analysis by framing the question in terms of "two distinct doctrines" addressing potential preclusive effects of prior litigation. The first, issue preclusion (sometimes referred to as collateral estoppel), "precludes a party from relitigating an issue actually decided in a prior case and necessary to the judgment." The second, claim preclusion (sometimes referred to as *res judicata*), "prevents parties from raising issues that could have been raised and decided in a prior action—even if they were not actually litigated."

The Court almost immediately dismissed the Second Circuit's use of "defense preclusion" as a viable preclusive doctrine, finding that "our case law indicates that any such preclusion of defenses must, at a minimum, satisfy the strictures of issue preclusion or claim preclusion." Finding that, of the two, claim preclusion was the only potentially appropriate form of preclusion, the Court determined that the asserted defense can be barred only if "the 'causes of action are the same' in the two suits—that is, where they share a '"common nucleus of operative fact[s]."'

The Court had no trouble finding that the 2005 and 2011 causes of action were not the same:

> Put simply, the two suits here were grounded on different conduct, involving different marks, occurring at different times. They thus did not share a "common nucleus of operative facts."

First, the Court noted that the 2005 case involved allegations that Lucky Brand infringed Marcel's GET LUCKY mark by Lucky Brand's use of the term "Get Lucky," while the 2011 case involved only Lucky Brand's alleged use of the term "Lucky"—not "Get Lucky." Second, the complained-of conduct by Lucky Brand in the 2011 case "occurred after the conclusion" of the 2005 case, and claim preclusion generally does not apply to activities that occur after "the filing of the initial complaint."

Of particular interest to the trademark community, the Court specifically noted the importance of its holding to trademark disputes:

> This principle takes on particular force 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. As Lucky Brand points out, liability for trademark infringement turns on marketplace realities that can change dramatically from year to year.

The Court thus concluded that the 2005 case could not bar Lucky Brand's defenses in the 2011 case.

Decided: May 14, 2020.

The opinion can be found at https://www.supremecourt.gov/opinions/19pdf/18-1086_5ie6.pdf.

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[1] *Lucky Brand Dungarees, Inc. v. Marcel Fashions Grp., Inc.*, No. 18-1086 (S. Ct. May 14, 2020).
[2] *Id.*
[3] *Marcel Fashions Grp., Inc. v. Lucky Brand Dungarees, Inc.*, 779 F.3d 102, 105 (2d Cir. 2015).
[4] *Id.* at 105-06.
[5] *Marcel Fashions Grp., Inc. v. Lucky Brand Dungarees, Inc.*, No. 11 CIV. 5523 LTS, (S.D.N.Y. Sept. 25, 2012), *aff'd in part, vacated in part,* 779 F.3d 102 (2d Cir. 2015).
[6] *Marcel Fashions Grp., Inc. v. Lucky Brand Dungarees, Inc.*, 779 F.3d 102 (2d Cir. 2015).
[7] *Marcel Fashions Grp., Inc. v. Lucky Brand Dungarees, Inc.*, No. 11 CV 5523-LTS, (S.D.N.Y. Dec. 22, 2016), *vacated and remanded,* 898 F.3d 232 (2d Cir. 2018), *rev'd and remanded,* No. 18-1086.
[8] *Marcel Fashions Grp., Inc. v. Lucky Brand Dungarees, Inc.*, 898 F.3d 232 (2d Cir. 2018), *cert. granted,* 139 S. Ct. 2777, and *rev'd and remanded,* No. 18-1086.
[9] *Id. at* 241.
[10] *Lucky Brand Dungarees, Inc. v. Marcel Fashions Grp., Inc.*, 139 S. Ct. 2777 (2019).