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Lucky Brand Gets Lucky in Trademark Fight: SCOTUS Unanimously Strikes Opponent's Novel Defense Preclusion Theory

Competitors with similar trademarks can find themselves in long-running trademark disputes, making for bitter rivals. Multiple rounds of litigation are not only contentious, but also expose litigants to procedural pitfalls. On May 14, 2020, the Supreme Court of the United States considered whether, in one such long-running trademark fight, the novel theory of “defense preclusion” could prohibit a litigant from asserting a defense it had failed to raise earlier.

The Court's Holding

In *Lucky Brand Dungarees, Inc. v. Marcel Fashions Group, Inc.*, No. 18-1806, slip op. (May 14, 2020), the United States Supreme Court held that when the trademark action at issue challenges different conduct—and raises different claims—from an earlier action between the parties, the plaintiff cannot preclude the defendant from raising new defenses, including a defense that it failed to press fully in the earlier action.

Another Round in a Decades-Long Fight

For nearly two decades, Lucky Brand Dungarees, Inc. (“Lucky Brand”) and Marcel Fashions Group, Inc. (“Marcel”)—competitors in the apparel industry—have fought over their rights in trademarks using the term “Lucky.” In 1986, Marcel obtained federal trademark registration for GET LUCKY for certain items of apparel. Four years later, Lucky Brand received registration for LUCKY BRAND for apparel items, and started using the mark and other marks including the word “Lucky” on its apparel. *Id.* at *1-2. Litigation ensued.

The first round of their trademark fight started in 2001. Marcel sued Lucky Brand alleging that its use of the phrase “Get Lucky” in advertisements infringed Marcel’s trademark.

Id. In 2003, the parties entered into a settlement where Lucky Brand agreed to stop using the phrase “Get Lucky” and Marcel agreed to release any claims regarding Lucky Brand’s use of its other “Lucky”-based trademarks. The 2003 settlement is at the heart of the current dispute.

The second round of their trademark fight started in 2005. That year, Lucky Brand sued Marcel and its licensee for violating its trademarks. Marcel countersued, claiming that Lucky Brand continued to unlawfully use its GET LUCKY trademark. *Id.* Lucky Brand moved to dismiss the counterclaims, arguing that they were barred by the 2003 settlement and release. The Court denied its motion without prejudice, and the case proceeded to trial. A jury found against Lucky Brand on Marcel’s counterclaims, and the court permanently enjoined Lucky Brand from copying or imitating Marcel’s GET LUCKY trademark.

The third round of their trademark fight started in 2011. Marcel sued Lucky Brand alleging that Lucky Brand continued to infringe its GET LUCKY trademark. This time, however, Marcel did not assert that Lucky Brand used its actual GET LUCKY trademark, but rather, that use of Lucky Brand’s trademarks—some of which included the word “Lucky”—infringed

on Marcel's GET LUCKY trademark. *Id.* at *3-4. The district court initially granted Lucky Brand summary judgment, finding that Marcel's claims in the current action were essentially the same as its counterclaims from the 2005 action and should be precluded. The Second Circuit, however, disagreed. It found that Marcel's claims in the current action alleged new infringing conduct that occurred after the 2005 action was resolved, and held that a plaintiff in a trademark infringement suit is not deprived of the right to sue the defendant for "subsequent similar violations." *Id.* at *4. Therefore, the Second Circuit vacated and remanded for further proceedings.

On remand before the district court, Lucky Brand moved to dismiss, alleging for the first time that in the 2003 settlement Marcel had released its claims against Lucky Brand. The district court granted Lucky Brand's motion to dismiss. The Second Circuit, however, disagreed again. This time, it concluded that the novel doctrine of "defense preclusion" prohibited Lucky Brand from raising the 2003 settlement and release as a defense in the current action. In doing so, it held 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; (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." *Id.* at *5 (citation and internal quotations omitted). The Supreme Court granted certiorari to determine whether the novel theory of "defense preclusion" was valid.

The Court's Reasoning

The Supreme Court's ruling was simple, yet far reaching. It rejected the Second Circuit's novel "defense preclusion" theory of res judicata in any context. *Id.* at *10.

Res judicata is a common law doctrine that includes both issue preclusion and claim preclusion. It is aimed at discouraging repetitive litigation, preserving the finality of judgments and conserving judicial resources. Although general principles govern, courts also consider the facts of a given case in deciding whether a party should be precluded from relitigating a particular claim or issue.

Here, the Supreme Court explained that the novel "defense preclusion" was not a "standalone category of res judicata," but instead would have to fit within the general principles of issue preclusion or claim preclusion to be valid. *Id.* at *7. The parties agreed that issue preclusion did not apply, so the Court considered whether the Second Circuit's theory satisfied the principles of claim preclusion. It did not.

For claim preclusion to apply, the claim—or in this case, the 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 facts." *Id.* at *7-8 (internal citations and brackets omitted). Here, however, the Court found that the 2005 action and the 2011 action did not share a common nucleus of operative facts. The 2005 action concerned Lucky Brand's infringing use of the GET LUCKY trademark. But the 2011 action focused on whether Lucky Brand's use of *other "Lucky"-based trademarks* infringed on Marcel's GET LUCKY trademark *after* the 2005 action was resolved. "Put simply, the two suits here were grounded on different conduct, involving different marks, occurring at different times." *Id.* at *8. Thus, they did not share a common nucleus of operative facts and "defense preclusion" (or claim preclusion) did not bar Lucky Brand from raising the 2003 settlement and release as a defense. *Id.* *8, 10.

Although the Supreme Court's ruling applies to res judicata in any case, it "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." *Id.* at *9. "[L]iability for trademark infringement turns on marketplace realities that can change dramatically from year to year." *Id.* While almost two decades of trademark fighting—and a Supreme Court opinion—would have been impossible to predict, this case is an important reminder to trademark owners of potential long-term issues with clearance and enforcement.

Guidance for Trademark Owners

The decades-long fight between Lucky Brand and Marcel provides trademark owners, and potential litigants, with several lessons on how to strategically protect their rights while simultaneously preserving their resources. Trademark owners should:

- Pay careful attention to the initial clearing of marks and consider the possibility of protracted disputes.
- Develop contingency plans for handling third-party objections.
- Strategically enforce trademark rights (When? Against whom? What claims? Etc.).
- Strategically develop claims and defenses to trademark infringement actions early in the dispute to prevent preclusion issues, paying particular attention to requests for injunctive relief.

- Carefully draft settlement agreements, especially release clauses and temporal triggers.
- Remain vigilant, keep track of enforcement decisions and settlements, and be prepared to articulate how changed circumstances may give rise to a later enforcement that was not pursued earlier, even if it could have been.

Practically speaking, long-running trademark fights like Lucky Brand's are difficult to predict. But with concerted efforts, and with the above guidance in mind, trademark owners can strategically protect their rights and preserve their resources.

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