

Preclusion In Trademark Cases After High Court Lucky Ruling

By Jennifer Lee Taylor and Eoin Connolly

(May 20, 2020, 2:38 PM EDT) - Can a defendant's failure to litigate a defense in one suit prevent it from invoking that defense in a later suit?

While recognizing that defenses can be precluded, the U.S. Supreme Court held that it may occur only when the requirements of issue or claim preclusion are met.

Because neither issue nor claim preclusion applied to the facts presented in Lucky Brand Dungarees Inc. v. Marcel Fashions Group Inc., the court reversed the U.S. Court of Appeals for the Second Circuit's decision precluding Lucky from raising a release defense.



Jennifer Lee Taylor

Furthermore, in a move that seems to create some tension with its 2015 decision in B & B Hardware Inc. v. Hargis Industries Inc., the court noted that the principles that counsel against preclusion of later-arising claims take on particular force in the context of trademarks.[1]

History of the Parties' Dispute

Marcel and Lucky both sell jeans and other apparel. Their dispute concerning their respective uses of the word "Lucky" as part of their trademarks for clothing stretches back almost two decades to 2001, when Marcel first sued Lucky. In that case, Marcel alleged that use of the phrase "Get Lucky" by Lucky infringed Marcel's registered "Get Lucky" mark.

The parties settled in 2003, with Lucky agreeing to stop using "Get Lucky," and Marcel releasing certain claims relating to other marks used by Lucky as of the date of the agreement. At the time, Lucky owned a number of registrations for marks that included the word "Lucky," including the registered "Lucky Brand" mark.

The quarrel continued, and in 2005, Lucky went on the offensive and sued Marcel for trademark infringement. Marcel filed counterclaims, alleging that Lucky's continuing use of "Get Lucky" and other marks containing the word "Lucky" infringed Marcel's "Get Lucky" mark, which Lucky moved to dismiss. Lucky argued that Marcel had released all claims relating to Lucky's "Lucky"-formative marks, while Marcel claimed that the settlement released only claims of past infringement, not future infringement.

The dispute over the scope of the release was not resolved because the district court denied the motion to dismiss as premature.[2] Other than invoking a release defense in its answer, Lucky did not pursue

the defense after its motion was denied.

Following a 2010 trial in that case, the jury found in favor of Marcel on its infringement counterclaims. The trial court then issued an order, drafted by the parties, finding that Lucky's use of "Get Lucky" and "Lucky"-formative marks infringed Marcel's "Get Lucky" trademark.[3] The court had already issued a permanent injunction prohibiting Lucky from continuing to use "Get Lucky" following a motion for partial summary judgment. That injunction was incorporated into the final judgment but was not expanded to other "Lucky"-formative marks.[4]

Things did not end there, however. Marcel sued again in early 2011, this time focusing on Lucky's continuing use of its "Lucky"-formative marks, which Marcel claimed infringed its "Get Lucky" trademark. Lucky moved for summary judgment, asserting that Marcel's claims were precluded by the 2005 action while Marcel argued that its claims related only to acts of infringement that occurred after the judgment in the 2005 action. The district court granted Lucky's motion, but the Second Circuit reversed, holding these were new claims that could not have been previously raised.[5]

Following the Second Circuit's decision, and a subsequent amended complaint, Lucky filed a motion to dismiss. For the first time since 2005, Lucky argued that Marcel had released all claims relating to its "Lucky"-formative marks in the 2003 settlement agreement. Marcel countered that res judicata should prevent Lucky from raising a defense that could have been litigated in the previous 2005 action. The district court granted Lucky's motion. Marcel appealed, and the Second Circuit reversed, relying on what it called "defense preclusion."

The Second Circuit developed a four-part test for determining when defense preclusion should apply and found that the elements of were met in this instance because: (1) the 2005 action involved the same parties; (2) it was decided on the merits; (3) Lucky could have asserted the release defense; and (4) it would not be unfair to preclude Lucky from raising the defense now.[6]

The Issues Before the Supreme Court

Lucky sought Supreme Court review, which the court granted to resolve a circuit split regarding when, if ever, claim preclusion applies to defenses raised in a later suit. Lucky argued that the Second Circuit's defense preclusion rule was inconsistent with the principles of res judicata, which is limited to claim preclusion and issue preclusion. It asserted that claim preclusion could not apply because Marcel's claims relate to conduct occurring after the previous judgment and that issue preclusion could not apply because it requires that the issue have been decided on the merits in a prior action.

Marcel, on the other hand, argued that res judicata can preclude both claims and defenses and that defense preclusion is appropriate where a defense could have been asserted in a prior action for a claim with a common nucleus of operative facts, but was not.

Justice Sonia Sotomayor authored the court's unanimous decision, issued on May 14. The court began its analysis by noting that it had never explicitly recognized a standalone category of "defense preclusion." Instead, its decisions indicate that any preclusion of defenses "must, at a minimum, satisfy the strictures of issue preclusion or claim preclusion." [7] Further, issue preclusion could not be invoked here because it requires that the issue have been litigated and actually decided in a prior case, which the parties and the court agreed had not happened here.

The question before the court, therefore, was whether claim preclusion could prevent Lucky from raising an affirmative defense. Claim preclusion prevents a party from raising a claim that could have been raised and decided in a prior action and can only be asserted where the claims arise from the same transaction or share a common nucleus of operative facts.[8]

Because the court concluded that the 2005 and 2011 actions filed by Marcel "were grounded on different conduct, involving different marks, occurring at different times," it held that they "did not share a 'common nucleus of operative facts.'"[9]

The court first distinguished the claims in the 2005 and 2011 actions by looking at the conduct and marks at issue. It found that:

In the 2005 Action, Marcel alleged that Lucky Brand infringed Marcel's "Get Lucky" mark both by directly imitating its "Get Lucky" mark and by using the "Get Lucky" slogan alongside Lucky Brand's other marks.[10]

The court found that the 2011 action, on the other hand, involved use of those other marks alone, not their use in combination with the "Get Lucky" phrase.

This is perhaps a fair reading of both parties' briefs. Marcel stated, for example, that:

The confusion-based liability assessed by the jury in the 2005 action ... arose principally out of Lucky's continued use of the "get lucky" slogan alongside its other marks.[11]

It seems, however, to be a narrow reading of the pleadings, briefs and judgment in the 2005 action. Those documents do not appear to indicate that the complained-of conduct was limited to the use of "Lucky"-formative marks in combination with "Get Lucky," but rather the use of any of those marks whether alone or in combination with "Get Lucky." [12]

The court further distinguished the claims in the 2005 and 2011 actions because the conduct at issue in the 2011 action occurred after the conclusion of the 2005 action, and "[c]laim preclusion generally 'does not bar claims that are predicated on events that postdate the filing of the initial complaint.'"[13]

Interestingly for trademark practitioners, the court separately noted that the application of claim preclusion to later-arising claims would be particularly misguided in the context of trademarks, where ever-changing market realities can affect questions of validity and infringement.[14]

This statement is a little surprising following the court's decision in *B & B Hardware Inc. v. Hargis Industries Inc.*, in which it held that a Trademark Trial and Appeal Board finding of no likelihood of confusion between marks could preclude a party from asserting likelihood of confusion in a later action for infringement,[15] particularly when parties are constrained in introducing evidence of market realities in board is proceedings.[16]

While nothing in *Lucky Brand Dungarees* contradicts the holding of *B & B Hardware*, one might wonder why changing market conditions would not also make trademarks a particularly unsuitable target for

issue preclusion, particularly when the issue was previously litigated in a Board proceeding with limited evidence of market conditions.

Ultimately, the court found that "the 2011 Action involved different marks, different legal theories and different conduct — occurring at different times." Because the claims lacked a "common nucleus of operative facts," Lucky could not be precluded from raising its release defense.[17]

Lessons From the Decision

It follows, of course, that if the claim in a later suit is based on the same nucleus of operative facts, the claim itself will be precluded. Any preclusive effect on defenses then becomes a moot point.[18] Thus, in practical terms, the court's decision appears to limit "defense preclusion" to two scenarios.

First, issue preclusion will still prevent a defendant from raising a defense that was actually litigated and decided in an earlier action.[19]

And second, a defendant will still be precluded from raising new defenses to nullify an existing judgment. For example, a defendant will still be precluded from mounting a collateral attack on an existing judgment and from raising a new defense in an action to enforce a judgment.[20]

Outside of these scenarios, it is difficult to imagine a previously unlitigated defense being precluded. In the future, litigants may find additional situations in which defenses can be precluded even when the underlying claim is not, but for now, the lesson for defendants appears to be that, on occasion, they may be given a second chance.

The case also provides an important lesson for plaintiffs when requesting relief. Plaintiffs should ensure that any permanent injunction, or other form of ongoing relief such as a reasonable royalty, extends to all of the conduct for which a defendant is found liable. If Marcel had secured a broader injunction in the 2005 action, one that extended to Lucky's "Lucky"-formative marks, the 2011 action could have become merely an action to enforce a prior judgment. In that case, Lucky would have been precluded from raising its release defense.

What may have a larger impact on future litigation, however, is the court's statement that preclusion is particularly unsuited to trademark issues due to ever-changing market realities. It would not be surprising to see this language cited with some frequency in the future. Parties who lose in opposition or cancellation proceedings before the board will likely point to this as a reason why claims or defenses should not be precluded in later infringement actions.

Parties to an action for infringement in district court may similarly point to this as a reason not to preclude claims or defenses in a later action directed at ongoing post-judgment conduct. This is not necessarily limited to a defendant who was previously found to infringe. The owner of a mark who alleges infringement but fails may be tempted to bring a later second suit arguing that market conditions have since changed and, therefore, claims relating to essentially identical conduct following the first judgment should not be precluded.

It remains to be seen how successful these arguments will be, but Lucky Brand Dungarees has raised interesting questions on the finality of trademark decisions.

Jennifer Lee Taylor is a partner and chair of the trademark group at Morrison & Foerster LLP.

Eoin Connolly is an associate at the firm.

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[1] Lucky Brand Dungarees, Inc. v. Marcel Fashions Group, Inc., No. 18-1086 (U.S. May 14, 2020).

[2] Marcel Fashions Grp. Inc. v. Lucky Brand Dungarees, Inc., 898 F.3d 232, 235 (2d Cir. 2018).

[3] Final Order and Judgment at 5-6, Lucky Brand Dungarees, Inc. v. Ally Apparel Resources LLC, No. 1:05-cv-06757 (S.D.N.Y. Jun 1, 2010), ECF No. 248.

[4] *Id.* at 2-3, 5.

[5] Marcel Fashions Grp., Inc. v. Lucky Brand Dungarees, Inc., 779 F.3d 102, 107 (2d Cir. 2015).

[6] Marcel Fashions, 898 F.3d at 241-42.

[7] Lucky Brand Dungarees, No. 18-1086, slip op. at 7.

[8] *Id.* at 6.

[9] *Id.* at 8.

[10] *Id.* (emphasis added).

[11] Brief for Respondent at 52, Lucky Brand Dungarees, No. 18-1086 (emphasis added).

[12] In its counterclaims to the 2005 action, for example, Marcel alleged that "Lucky Brand used and continues to use the 'Lucky Brand' mark on and in connection with the promotion, marketing and sale of its product line." Defendants' Answer, Affirmative Defenses, and Counterclaims at 34, Lucky Brand Dungarees, No. 1:05-cv-06757 (S.D.N.Y. Sept. 13, 2005), ECF No. 40. It further alleged that "Lucky Brand's use of the GET LUCKY and Lucky Brand marks on identical or closely related products . . . is likely to cause confusion . . ." *Id.* at 35. And, it requested that the court enjoin Lucky from "using the accused trademark 'GET LUCKY' or any other designation, service mark, or trademark similar to counter-plaintiffs' GET LUCKY trademark . . . including the confusingly similar use of 'Lucky Brand' or 'Lucky.'" *Id.* at 42. Lucky also appeared to believe that Marcel was alleging infringement based on its use of any of its LUCKY-formative marks: "Only now, after Lucky Brand has grown into a billion dollar brand, do Defendants suddenly claim that the LUCKY Family of Marks infringes the GET LUCKY mark." Memorandum of Law in Support of Plaintiffs' Motion to Dismiss at 3, Lucky Brand Dungarees, No. 1:05-cv-06757 (S.D.N.Y. Oct. 6, 2005), ECF No. 44. And finally, the court specifically found that the "Lucky Brand Parties infringed Marcel Fashion's GET LUCKY trademark . . . by using GET LUCKY, the LUCKY BRAND trademarks, and any other trademarks including the word 'Lucky.'" Final Order and Judgment at 5-6, *supra* note 3.

[13] Lucky Brand Dungarees, No. 18-1086, slip op. at 9 (quoting *Whole Woman's Health v. Hellerstedt*, 136 S. Ct. 2292, 2305 (2016) (emphasis added)).

[14] *Id.*

[15] *B & B Hardware, Inc. v. Hargis Industries, Inc.*, 575 U.S. 138, 160 (2015).

[16] By way of example, Board proceedings consider only the specific marks and goods and services that are set forth in applications and registrations, not the marks as they are used in the marketplace, or whether the party offers only a narrow category of the goods and services identified in the applications or registrations. Thus, the Board might find confusion based upon similar standard character marks in registrations or applications, even though the marks are presented very differently in the marketplace, or it might find overlap in broadly defined goods and services that are not related, let alone competing in the marketplace.

[17] *Lucky Brand Dungarees*, No. 18-1086, slip op. at 10.

[18] See *id.* at 11 n.3.

[19] *Id.* at 6.

[20] *Id.* at 10-11.