

High Court May Lean Away From 2nd Circ. In 'Lucky' TM Case

By **Robert Potter and Forrest Flemming** (January 15, 2020)

On Monday, the U.S. Supreme Court heard oral arguments in a long-standing trademark infringement dispute between Lucky Brand Dungarees Inc. and Marcel Fashion Group Inc., two competing apparel companies.

Lucky seeks reversal of the U.S. Court of Appeals for the Second Circuit's application of res judicata to bar Lucky from raising a defense it failed to raise in a prior action between the two companies. Lucky argues that, because the claims in the current and prior action are not the same for preclusion purposes, the defense at issue cannot be the same and thus cannot be precluded.

At oral arguments, the court appeared skeptical of the Second Circuit's creation of a new four-part test for "defense preclusion." The justices did not question whether, as a threshold matter, res judicata can be applied to block claims and defenses alike,[1] but they seemed cognizant of the unique nature of this case, and seemed to favor the application of existing legal precedent over the creation of a new one.

The justices therefore focused much of their questioning on the specific and convoluted facts in this litigation and whether, under current doctrine, the defense at issue should be precluded.

The trademark dispute between Marcel and Lucky is lengthy and tortured. Marcel first sued Lucky in 2001 over Lucky's use of Marcel's registered Get Lucky mark. After protracted litigation, in 2003 the parties reached a settlement under which Lucky agreed not to use the Get Lucky mark, and Marcel agreed to release any claims related to "any other trademarks ... used by Lucky Brand ... as of the date of this Agreement." [2]

Two years later, in 2005, Lucky went on the offensive and this time sued Marcel for infringement of Lucky's marks. Marcel counterclaimed, alleging infringement based not only on Lucky's continued use of the Get Lucky mark, but Lucky's use of other trademarks containing the word "Lucky" as well. Lucky moved to dismiss these counterclaims, and argued that the 2003 release barred Marcel's claims as to the other Lucky-formative marks that Lucky had been using at the time of the settlement. The district court denied Lucky's motion.

Lucky never again asserted its 2003 release defense in the 2005 action, a strategy about which the Supreme Court questioned Lucky at oral arguments. Lucky maintained that, because the Get Lucky mark was the "primary thrust" of the 2005 action and the other Lucky-formative marks were more ancillary, the release defense "would not have been dispositive" in that action and litigating it would not have been cost-effective.[3]

Marcel prevailed at trial in the 2005 action, with the jury finding that Lucky's use of Get Lucky and other Lucky-formative marks infringed Marcel's trademark rights. Although Marcel obtained a permanent injunction as to the Get Lucky mark specifically, the parties negotiated a joint proposed final order and judgment that did not include a permanent injunction against the other Lucky-formative marks generally.



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The Supreme Court pressed Marcel on this apparent discrepancy at oral arguments, and Marcel explained that, when the parties negotiated the “jointly stipulated” final order and judgment for the 2005 action, Lucky made clear that it would never agree to the broad injunctive relief Marcel sought, and so Marcel apparently compromised to avoid further dispute.[4]

Thus, at the end of the 2005 action — and as per the parties’ own proposal — Marcel was awarded \$650,000 in damages and a permanent injunction against Lucky’s use of the Get Lucky mark only.

Perhaps unsurprisingly, Lucky continued to use other Lucky-formative marks. Had Marcel obtained an injunction against these marks in the 2005 action, it could have simply sought an order finding Lucky in contempt.[5] Without any such prior injunction, Marcel was forced to file a new action in 2011 against Lucky’s alleged continued infringement.[6]

In the 2011 action, Lucky prevailed at summary judgment on res judicata grounds, after the district court held that Marcel’s claims in the 2011 action were the same as those in the 2005 action because they involved the same marks, conduct, and parties and were thus barred by claim preclusion.

The Second Circuit reversed, however, holding that Marcel’s claims in 2011 were not the same as those in 2005 because the 2011 claims arose solely from Lucky’s conduct after the 2005 judgment was entered. Accordingly, the court reasoned, Marcel’s 2011 claims could not have been brought in the 2005 action and thus could not be the same as the claims in that action.[7]

On remand, after Marcel amended its complaint to confirm absolutely that its claims arose solely from post-2005 activities, Lucky moved to dismiss on the ground that the 2003 release barred Marcel’s 2011 claims (all of which concerned Lucky-formative marks predating the 2003 settlement). The district court agreed, but the Second Circuit reversed yet again, and it is that second reversal that led to Lucky’s Supreme Court appeal.

In reversing the district court, the Second Circuit held that, as to Lucky’s release defense, the 2005 and 2011 actions were the same because that defense could have been adjudicated in 2005.

More specifically, the Second Circuit articulated a new four-part test for determining whether claim preclusion can be applied to a defense and found that, here, it could: (1) the prior action was decided on the merits; (2) the prior action involved the same parties; (3) the defense could have been asserted in the prior action; and (4) the court determines in its discretion that efficiency concerns outweigh any unfairness to the party asserting the defense.[8]

In briefing, Lucky primarily argued that the Second Circuit’s two opinions in the 2011 action are irreconcilable. In Lucky’s view, how could the two cases be the same as to Lucky’s defenses but not the same as to Marcel’s claims? At oral arguments on Monday, certain of the justices — including Justices Elena Kagan and Neil Gorsuch — appeared somewhat receptive to the argument that new claims should allow for new defenses and questioned Marcel extensively as to the commonalities and differences in its 2005 and 2011 claims. [9].

For its part, Marcel argued that the Second Circuit’s decisions are not inconsistent and maintained that there can be no claim preclusion where the second claim involves conduct

occurring after the first claim was decided, but that defense preclusion would apply in that situation if the two claims involve a “common nucleus of operative fact.”[10]

In making this point at oral arguments, Marcel’s counsel — while maintaining that the Second Circuit’s four-part test “is exactly right in every particular ”— conceded that that the Second Circuit “could have been more clear” in noting that a common nucleus of fact is required for defense preclusion to apply.[11]

To better understand Marcel’s argument, compare Marcel’s 2011 infringement claims with Lucky’s release defense. Marcel’s 2011 claims arose solely from alleged and continued infringement occurring after the judgment in the 2005 action. Marcel obviously could not have brought a claim against continued post-judgment infringement in the 2005 action.

Lucky’s release defense, on the other hand, could have been raised in the 2005 action, because that action (and Lucky’s defense) involved the same Lucky-formative trademarks at issue in the 2011 action.

Notwithstanding this context, Lucky asked the Supreme Court to make the “simple” ruling that where the claims are different for preclusion purposes, so are the defenses.[12] The Second Circuit had eschewed any such simple rule in favor of its new four-factor test, and though the justices at oral arguments did not seem to appreciate the creation of a new sui generis test, the Supreme Court also appeared skeptical of fully endorsing Lucky’s approach.

Instead, certain of the justices seemed to believe that existing legal doctrine could have been applied to resolve this case. For example, Justices Samuel Alito, Stephen Breyer and Sonia Sotomayor cited existing Supreme Court precedent (also mentioned in Marcel’s briefing) involving installment contracts or landlord-tenant disputes where serial litigation was required; e.g., a landlord sues a tenant for unpaid rent and wins, then later brings a second lawsuit for subsequent unpaid rent and the tenant only then attempts to raise a defense that the lease is invalid.[13]

In such cases, the tenant is precluded from raising the defense in the second lawsuit. Such an already-established doctrine, the justices appeared to suggest, could have been applied by the Second Circuit without the need to create any new law.

This apparent reluctance to endorse a brand new four-factor test for defense preclusion may stem, in part, from the fact that such a test would seem to have limited applicability. Lucky and Marcel’s lengthy dispute presents a unique fact pattern that is unlikely to appear with any frequency.

Had Marcel obtained a permanent injunction in the 2005 action not just as to Get Lucky, but as to Lucky’s other Lucky-formative marks, the 2011 action itself would have been unnecessary. Marcel could have simply filed a motion for contempt instead, and no new claims would have been asserted and Lucky’s cries of inconsistency would not exist.

To the extent there is a practical lesson here for defendants to assert potentially viable defenses early and consistently, there seems to be an equally valuable lesson for prevailing plaintiffs to insist upon sufficiently broad injunctive relief.

In light of these facts, and regardless of whether the Supreme Court upholds the application of res judicata to Lucky’s 2003 release defense (either under existing law or the Second Circuit’s new four-part test), the court’s decision is unlikely to impact day-to-day litigation in

the normal course.

Defense preclusion would appear primarily to apply only in instances of serial litigation between the same parties, involving ongoing post-judgment conduct and only where the defendant later seeks to raise a defense it chose not to raise in an earlier action.

While such circumstances can certainly arise — as the *Lucky v. Marcel* case demonstrates — they are extremely uncommon, and the court’s decision will presumably not impact typical litigation strategy at all.

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[1] Res judicata encompasses both claim preclusion and issue preclusion, with claim preclusion preventing “successive litigation of the very same claim” and issue preclusion preventing “successive litigation of an issue of fact or law.” *New Hampshire v. Maine*, 532 U.S. 742, 748 (2001).

[2] *Marcel Fashions Group, Inc. v. Lucky Brand Dungarees, Inc.*, 898 F.3d 232, 234 (2018) (“*Marcel II*”).

[3] Transcript of Oral Argument at 5, *Lucky Brand Dungarees, Inc., et al. v. Marcel Fashions Group, Inc.*, No. 18-1086 (U.S. Jan. 13, 2019), https://www.supremecourt.gov/oral_arguments/argument_transcripts/2019/18-1086_1b7d.pdf (hereinafter, “*Oral Argument Transcript*”).

[4] *Id.* at 52.

[5] See, e.g., *Young v. ex rel. Vuitton et Fils, S.A.*, 481 U.S. 787, 795 (1987) (upholding contempt proceedings in trademark case for violation of a permanent injunction, and recognizing the “longstanding acknowledgment that the initiation of contempt proceedings to punish disobedience to court orders is a part of the judicial function”).

[6] Notably, *Marcel* later argued—unsuccessfully—to the Second Circuit that the 2005 final order and judgment should be read broadly enough to construe this 2011 action as a contempt proceeding. *Marcel Fashions Group v. Lucky Brand Dungarees*, 779 F.3d 102, 109 (2d Cir. 2015) (“*Marcel I*”).

[7] *Id.* at 109-10.

[8] *Marcel II*, 898 F.3d 232, 241 (2018).

[9] *Oral Argument Transcript* at 31-33.

[10] *Id.* at 31, 40, 42.

[11] Id. at 40.

[12] Brief of Petitioner at 17. Lucky Brand Dungarees, Inc., et al. v. Marcel Fashions Group, Inc., No. 18-1086 (U.S. Sep. 11, 2019), https://www.supremecourt.gov/DocketPDF/18/18-1086/115452/20190911160509459_18-1086%20ts%20Lucky%20opening%20brief.pdf.

[13] Oral Argument Transcript at 42-45, 61-64.