

The Supreme Court Declines to Revamp Preclusion Law in *Lucky v. Marcel* Trademark Dispute

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PRACTICES Intellectual Property Litigation, Trademark and Advertising, Intellectual Property

In a unanimous opinion authored by Justice Sotomayor, the U.S. Supreme Court declined to redefine preclusion, reversing the Second Circuit’s decision in trademark dispute *Lucky Brand Dungarees Inc. v. Marcel Fashion Group Inc.* The Second Circuit’s opinion had attempted to expand res judicata beyond the well-recognized issue preclusion and claim preclusion, creating a new category it called “defense preclusion.” The Supreme Court determined that a defense will only be precluded if it meets the requirements of issue preclusion or claim preclusion. Thus, defendants need not litigate to finality all possible defenses, which could vastly increase the cost of litigation.

The dispute arises from three rounds of longstanding litigation between apparel companies Lucky and Marcel. The first round began in 2001 when Marcel sued Lucky for allegedly infringing Marcel’s GET LUCKY trademark. The parties signed a settlement agreement in 2003, in which Marcel released its claims of infringement.

But in 2005, Lucky initiated a second round of litigation, suing Marcel and Marcel’s licensees for allegedly infringing Lucky’s trademarks. Marcel counter-claimed, alleging that Lucky was again infringing Marcel’s GET LUCKY trademark. Lucky initially moved to dismiss Marcel’s counterclaim because Marcel had released its GET LUCKY claims in the 2003 settlement agreement. Yet, the District Court denied the motion. Lucky chose not to re-raise the defense at trial, and the jury found Lucky had infringed Marcel’s mark. The District Court entered a final judgment that enjoined Lucky from using the GET LUCKY mark but did not address Lucky’s use of any other mark that contained the word “Lucky.”

In 2011, Marcel filed the instant—and third—round of litigation. In this case, Marcel argued that Lucky’s use of its own marks containing the word “Lucky” infringed Marcel’s GET LUCKY mark. These allegations were different than those raised in 2005, which targeted Lucky’s use of the specific phrase “Get Lucky,” not merely the word “Lucky.” Lucky initially won summary judgment that Marcel’s 2011 claims were barred by the final judgment entered in the 2005 suit. The Second Circuit reversed, finding that the 2005 final judgment did not bar the 2011 claims because they were new—in other words, the infringement claimed in the 2011 suit arose after the infringement resolved by the final judgment.

On remand, Lucky moved to dismiss because Marcel’s arguments were barred by the 2003 settlement agreement. The District Court agreed, but the Second Circuit again reversed, finding that a defendant should be precluded from raising an unlitigated defense that it should have raised earlier when four criteria are met:

“(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.”

In reversing the Second Circuit, the Supreme Court re-recognized the traditional categories of res judicata: (1) issue preclusion, which prevents relitigating an issue actually decided in a prior case and necessary to the judgment, and (2) claim preclusion, which prevents parties from raising issues that could have been raised in a prior case but were not. Implicitly rejecting the Second Circuit’s “new” defense preclusion test, the Supreme Court required that “any such preclusion of defenses must, at a minimum, satisfy the structures of issue preclusion or claim preclusion.”

Lucky and Marcel agreed that issue preclusion did not apply, and the Court quickly dispensed with the argument that claim preclusion would prevent Lucky from raising the settlement agreement here. “At bottom, the 2011 Action involved different marks, different legal theories, and different conduct—occurring at different times.” Therefore, the 2005 suit did not arise out of the same nucleus of operative facts, and Lucky’s failure to raise the settlement agreement in 2005 did not preclude it from doing so here.

The Court’s opinion was not revolutionary, as it reaffirmed the current state of the law everywhere but the Second Circuit. However, the Court did question whether preclusion could ever apply to defenses at all, where considerations other than merits—costs, amount in controversy, etc.—may determine which defenses are raised. The Court saved this question for another day where the “identity of claims” prong of the preclusion test was met.

While the Court’s decision does not address substantive trademark issues, the Court notes that res judicata principles take 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.” So, while the Court’s opinion may have ended the parties’ two-decade-long dispute for now, there may still be future litigation between the parties.