Supreme Court Changes Lucky Brand's Luck in 20-Year Trademark Dispute

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On May 14, 2020, the Supreme Court of the United States issued its opinion in the latest round of a 20-year long trademark dispute between Lucky Brand Dungarees, Inc. and Marcel Fashion Group, Inc. over the use of "Lucky." In Lucky Brand Dungarees, Inc. v. Marcel Fashions Group, Inc., a unanimous Supreme Court rejected the Second Circuit Court of Appeals' application of "defense preclusion" to bar Lucky Brand's defense.

Although the Supreme Court did not hold that the doctrine of claim preclusion may be used to bar defenses, it noted that ***if*** a defense could be barred by claim preclusion there must at least be a "common nucleus of operative facts" between the prior action and the later action. In this case, the Supreme Court held that, while the primary issue permeating this twenty-year feud centered around the use of the term "Lucky," each lawsuit between Lucky Brand and Marcel Fashions involved different conduct and different marks at different times under different market conditions, therefore claim preclusion would not apply.

While having potential implications in all civil litigation, the Supreme Court was careful to identify the particular difficulties the application of claim preclusion may have in trademark litigation due to the importance of changing market conditions and consumer confusion that are central to trademark infringement claims.

Noteworthy is that the impact of COVID-19 does not appear to have distracted the Supreme Court's attention away from intellectual property matters. This is the third intellectual property decision issued by the Supreme Court since the COVID-19 outbreak. On April 23, 2020, the Supreme Court held in *Romag Fasteners, Inc. v. Fossil Group, Inc.* that a trademark owner is not required to prove that the infringer's conduct was willful in order to be awarded defendant's profits. On April 27, 2020, the Supreme Court held in *Georgia v. Public.Resource.org, Inc*. that the annotations to Georgia's code of laws are not eligible for copyright protection pursuant to the government edicts doctrine. In addition, on May 4, 2020 the Supreme Court held its first remote oral argument in history in the trademark case of *U.S. Patent and Trademark Office v. Booking.com B.V.* which may decide the fate of many ".com" trademarks.

The Twenty-Year Feud Over "Lucky"

Lucky Brand uses its "Lucky Brand" and other marks containing the word "Lucky" in connection with apparel, including denim apparel. Marcel Fashion uses the mark "Get Lucky" in connection with its own line of apparel, including denim apparel. These respective uses of the word "Lucky" led to three rounds of trademark infringement litigation between the parties in 2001, 2005, and 2011.

The 2001 action resulted in the parties reaching a settlement agreement in 2003, whereby Lucky Brand agreed to stop using "Get Lucky" and Marcel Fashion agreed to release all claims against Lucky Brand for the use of Lucky Brand's own "Lucky" family of trademarks.

In 2005, Lucky Brand sued Marcel Fashion for infringing the "Lucky Brand" trademarks. In response, Marcel Fashion asserted counterclaims against Lucky Brand claiming that Lucky Brand's use of "Get Lucky" violated the 2003 settlement agreement and that such use of "Get Lucky" alongside Lucky Brand's own marks constituted trademark infringement. Importantly, the Supreme Court noted that "[n]one of Marcel's counterclaims alleged that Lucky Brand's use of its own marks alone—*i.e.*, independent of any alleged use of 'Get Lucky'—infringed Marcel's 'Get Lucky' mark." Although Lucky Brand moved to dismiss the counterclaims on the grounds that Marcel Fashion released such claims in the 2003 settlement agreement (the "release defense"), the district court denied Lucky Brand's motion without prejudice and Lucky Brand did not pursue the defense further. Ultimately, the district court found Lucky Brand to be in breach of the 2003 settlement agreement and permanently enjoined Lucky Brand from using "Get Lucky." The jury subsequently found that Lucky Brand's use of "Get Lucky" alongside its own marks infringed Marcel Fashion's "Get Lucky" trademark.

In 2011, Marcel Fashion sued Lucky Brand for infringing the "Get Lucky" mark. This time, however, Marcel Fashion claimed that Lucky Brand's use of Lucky Brand's own marks were confusingly similar to the "Get Lucky" mark, not that Lucky Brand was using "Get Lucky." Lucky Brand moved to dismiss, asserting the release defense. Marcel Fashion argued that Lucky Brand's release defense was barred because it could have, but failed to, pursue this defense in the 2005 action. The District Court rejected Marcel Fashion's argument and allowed Lucky Brands to assert the release defense. On appeal, however, the Second Circuit disagreed, finding that "defense preclusion" barred Lucky Brand from raising the release defense.

The Supreme Court disagreed, finding that "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.'"

The Doctrine of Claim Preclusion

Justice Sotomayor, writing for the unanimous Supreme Court, explained the well-settled principle of *res judicata*, which comprises "two distinct doctrines regarding the preclusive effect of prior litigation": issue preclusion and claim preclusion. As explained by the Supreme Court, issue preclusion "precludes a party from relitigating an issue actually decided in a prior case and necessary to the judgment," while claim preclusion "prevents parties from raising issues that could have been raised and decided in a prior action—even if they were not actually litigated." The Supreme Court, quoting an oft-applied standard from the Restatement (Second) of Judgements, noted that claim preclusion applies when the prior action and the current action "involve a 'common nucleus of operative facts.'" The Supreme Court acknowledged that there is disagreement among the courts whether claim preclusion may bar a defense.

In this case, the parties agreed that issue preclusion did not apply, leaving only the question whether claim preclusion could bar Lucky Brand's release defense. The Supreme Court concluded

that it did not need to decide the issue because the 2005 action and 2011 action did not share a "common nucleus of operative facts" and therefore claim preclusion—even if it could apply to defenses—would not apply in this case, and rejected the Second Circuit's "defense preclusion" theory.

Supreme Court Acknowledges Particular Importance Trademark Infringement Issues Play in Claim Preclusion Analysis

While this decision may lend guidance to the issue of whether claim preclusion can apply to defenses asserted in civil litigation generally, it is particularly impactful in the trademark infringement context. The 2005 action alleged that Lucky Brand's use of "Get Lucky" created a likelihood of consumer confusion. By contrast, the 2011 action occurred six years later and did not allege any use of "Get Lucky" by Lucky Brands. The Supreme Court recognized the importance of this distinction in the context of assessing relevant market conditions and consumer confusion—issues that are central to claims of trademark infringement:

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. … At bottom, the 2011 Action involved different marks, different legal theories, and different conduct—occurring at different times.

Whether the Supreme Court's *Lucky Brand* decision will open the door to the use of claim preclusion to bar defenses in civil litigation remains to be seen. In the context of trademark litigation, however, the Supreme Court's attention to market conditions and the passage of time may make it more difficult to apply claim preclusion generally in trademark cases.

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