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Will Lucky Get Lucky This Time Around?

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On Friday, June 28, 2019, the U.S. Supreme Court agreed to consider whether, in cases where a plaintiff asserts new claims, federal preclusion principles bar a defendant from raising defenses that were not actually litigated and resolved in any prior case between the parties. *Lucky Brand Dungarees Inc., et al. v. Marcel Fashion Group Inc.,* No. 18-1086.

Claim preclusion bars "successive litigation of the very same claim" by the very same parties. N*ew Hampshire v. Maine, 532 U.S.* 742, 748 (2001). Issue preclusion, which applies "in the context of a different claim," "bars successive litigation of an issue of fact or law actually litigated and resolved in a valid court determination essential to the prior judgment." T*aylor v. Sturgell, 553 U.S.* 880, 892 (2008). In the petition, Lucky Brand Dungarees Inc. and related companies (collectively, Lucky) argue that the Second Circuit conflated these two principles when it held that Lucky was barred from raising any defense to new claims raised by Marcel Fashion Group Inc. (Marcel) that could have been adjudicated in the earlier cases between the parties.

This case arises from almost two decades of litigation between Lucky and Marcel. Lucky is an apparel company that sells jeans, among other things. Lucky owns the trademark "LUCKY BRAND" and other "Lucky" formative marks. Marcel owns the trademark "GET LUCKY." Marcel first sued Lucky for trademark infringement and unfair competition in

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2001 in the Southern District of New York, alleging trademark infringement, false designation of origin, and unfair competition under the Lanham Act, for Lucky's use of the phrase GET LUCKY. The case ended in a settlement (2003 Settlement Agreement), in which Lucky agreed to stop using the GET LUCKY mark and Marcel agreed to release "any and all claims arising out of" Lucky's right to the trademark LUCKY BRAND as of the date of the agreement in exchange for $650,000.

In 2005, Lucky sued Marcel for infringement of the "LUCKY BRAND" trademark and Marcel counterclaimed. In 2009, a jury found that Lucky infringed the "GET LUCKY" mark by using "GET LUCKY, the LUCKY BRAND" and "any other marks including the word 'LUCKY' after May 2003." In a June 2010 Final Order and Judgment, Lucky was enjoined from using the "GET LUCKY" mark. Lucky was also required to pay monetary damages.

In April 2011, Marcel again sued Lucky, alleging continued infringement, this time in the Southern District of Florida. The case was transferred to the Southern District of New York, where Judge Swain granted Lucky's motion for summary judgment on res judicata grounds. *Fashions Grp., Inc. v. Lucky Brand Dungarees, Inc.,* 2012 WL 4450992, at *1 (S.D.N.Y. Sept. 25, 2012), aff'd in part, vacated in part, 779 F.3d 102 (2d Cir. 2015).

In February 2015, the Second Circuit reversed and remanded, finding that Judge Swain erred in finding that the 2011 claims could have been raised in the 2005 case. See *Marcel Fashions Grp., Inc. v. Lucky Brand Dungarees, Inc.,* 779 F.3d 102 (2d Cir. 2015). The Second Circuit explained that the Final Order and Judgment "did not bar [Marcel] from instituting a second suit seeking relief for alleged further infringements that occurred subsequent to the earlier judgment."

Thereafter, Marcel filed a second amended complaint. The new complaint clarified that,

although the alleged acts of infringement postdate the 2005 case, the marks at issue do not. All twelve of the marks either were registered prior to the 2003 Settlement Agreement or were combinations of the pre-2003 marks. Lucky moved to dismiss on the ground that the 2003 Settlement Agreement – where Marcel released "any and all claims arising out of" Lucky's right to the trademark LUCKY BRAND as of the date of the agreement – barred Marcel's claims. The district court granted Lucky's motion and dismissed the action.

Judge Swain disagreed with Marcel's argument that the res judicata or collateral estoppel effect of the Final Order and Judgment from the 2005 action precluded Lucky from relying on the 2003 Settlement Agreement here, because Lucky could have raised the same defense to the earlier claims in the 2005 Action. The district court explained that issue preclusion did not apply because the applicability of the "[2003] Settlement Agreement's release provision was not actually litigated and resolved in the 2005 Action." The court further reasoned that "claim preclusion does not apply" either, because Lucky "is not asserting a claim against Marcel," and Marcel's claims against Lucky were different claims than those litigated in the 2005 Action, which is why the Second Circuit also held claim preclusion did not apply against Marcel. *Marcel Fashions Grp., Inc. v. Lucky Brand Dungarees, Inc.*, 2016 WL 7413510, at *3 (S.D.N.Y. Dec. 22, 2016), vacated and remanded, 898 F.3d 232 (2d Cir. 2018).

A different Second Circuit panel heard Marcel's second appeal, and the panel again agreed with Marcel. The Court held that Lucky was precluded by res judicata from asserting its release defense and again vacated and remanded. The Court reasoned that Lucky – "a sophisticated party" – could have argued in the 2005 Action that the 2003 Settlement Agreement barred the claims at issue there, but "decided to forego the [settlement] defense at summary judgment." The new panel did not explain

how its holding could be reconciled with the prior Second Circuit decision that the claims in the current lawsuit were not the same as (and thus not precluded by) the claims at issue in the 2005 action. See *Marcel Fashions Grp., Inc. v. Lucky Brand Dungarees, Inc.,* 898 F.3d 232 (2d Cir. 2018), cert. granted sub nom. *Lucky Brand Dungarees, Inc. v. Marcel Fashion Grp., Inc.,* No. 18-1086, 2019 WL 826028 (U.S. June 28, 2019).

Lucky filed a *certiorari* petition and seeks reversal of the Second Circuit's ruling. The petition presents the following question:

> In serial litigation between two parties, time-tested principles of claim preclusion and issue preclusion govern when parties may—and may not—litigate issues that were, or could have been, litigated in a prior case. This Court has held that, in a subsequent case between the same parties involving *different claims* from those litigated in the earlier case, the defendant is free to raise defenses that were not litigated in the earlier case, even though they could have been. The Federal Circuit, Eleventh Circuit, and Ninth Circuit have all held the same in recent years. Their reasoning is straightforward: *Claim preclusion* does not bar such defenses, because the claims in the second case arise from different transactions and occurrences from the first case, and *issue preclusion* does not bar them either, because they were never actually litigated. The Second Circuit, however, has now held the opposite. Under the Second Circuit's "defense preclusion" rule, defendants are barred from raising such defenses even if the plaintiff's claims are distinct from those asserted in the prior case and the defenses were never actually litigated.
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> The question presented is:
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> Whether, when a plaintiff asserts new claims, federal preclusion principles can bar a defendant

> from raising defenses that were not actually litigated and resolved in any prior case between the parties."

In its petition, Lucky argues that the Second Circuit's ruling conflicts with rulings from the Ninth (e.g., *Orff v. United States*, 358 F.3d 1137 (9th Cir. 2004), *aff'd on other grounds*, 545 U.S. 596 (2005)), Eleventh (e.g., *McKinnon v. Blue Cross & Blue Shield of Alabama*, 935 F.2d 1187 (11th Cir. 1991)) and Federal (e.g., *Nasalok Coating Corp. v. Nylok Corp.*, 522 F.3d 1320, 1327 (Fed. Cir. 2008)) circuits. Lucky also argues that claim preclusion does not bar defenses that were not litigated in an earlier case, even though they could have been, where "the claims in the second case arise from different transactions and occurrences."

Lucky further contends that issue preclusion also does not bar such defenses "because they were never actually litigated." Additionally, Lucky argues that the Second Circuit's holding is inconsistent with Rule 13(a) of the Federal Rules, which provides that only the compulsory counterclaims must be raised at the first opportunity. Finally, Lucky argues that the "defense preclusion" rule as applied by the Second Circuit is particularly prejudicial to defendants in trademark cases because trademark rights change over time and successive litigation is very common.
