

Blog Post

After Almost 20 Years of Litigation, “Lucky” Finally Gets Lucky

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On May 14, 2020, the United States Supreme Court held in *Lucky Brand Dungarees Inc., et al. v. Marcel Fashion Group Inc.*, that a party is not precluded from raising new defenses, when a subsequent lawsuit between the same parties challenges different conduct and raises different claims.

As explained in our previous [posts](#), Lucky Brand Dungarees Inc. and related companies (collectively, “Lucky”) and Marcel Fashion Group Inc. (“Marcel”) both use the word “Lucky” as part of their marks on jeans and other apparel. Marcel received a trademark registration for the phrase “GET LUCKY,” and Lucky uses the registered trademark “LUCKY BRAND” and other “Lucky” formative marks. This has led to almost 20 years of litigation, proceeding in three rounds. The first round resulted in a 2003 settlement agreement (“2003 Settlement Agreement”) in which Lucky agreed to stop using the phrase “GET LUCKY,” 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 the second round (“2005 Action”), Lucky sued Marcel for violating the “LUCKY BRAND” trademark. Marcel counterclaimed and alleged that Lucky infringed Marcel’s “GET LUCKY” mark both by directly imitating its “GET LUCKY” mark and by

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using the “Get Lucky” slogan alongside Lucky’s other marks in a way that created consumer confusion. However, Marcel did not claim that Lucky’s use of its own marks alone infringed the “GET LUCKY” mark. While Lucky argued, in both a motion to dismiss the counterclaims and an answer, that the counterclaims were barred by the 2003 Settlement Agreement, it did not invoke that defense later in the proceedings. In the 2005 Action, the court permanently enjoined Lucky from using Marcel’s “GET LUCKY” mark, and Lucky was also required to pay monetary damages.

In the third round (“2011 Action”), Marcel sued Lucky for continuing to infringe the “GET LUCKY” mark, but it did not repeat its 2005 allegation about Lucky’s use of the “Get Lucky” phrase. After protracted litigation, Lucky moved to dismiss, arguing—for the first time since early in the 2005 Action—that Marcel had released its claims in the 2003 Settlement Agreement. Marcel countered that Lucky could not invoke the release defense because it could have pursued that defense in the 2005 Action but it did not. Lucky moved to dismiss and the District Court granted Lucky’s motion and dismissed the action.

The Second Circuit vacated and remanded, concluding that “defense preclusion” (*res judicata*) prohibited Lucky, “a sophisticated party,” from raising the release defense that it could have raised earlier—that is, in the 2005 Action— but decided to forgo. The Second Circuit’s decision created a split with prior decisions from the Ninth, Eleventh, and Federal circuits. The Supreme Court granted *certiorari* to resolve this split regarding “when, if ever, claim preclusion applies to defenses raised in a later suit.”

The Supreme Court, by Justice Sotomayor, unanimously reversed the Second Circuit. The Court first noted that any so-called “defense preclusion” must satisfy the requirements of one of the two doctrines related to *res judicata*: (1) *issue preclusion*,

which precludes a party from relitigating an issue actually decided in a prior action and necessary to the judgment, or (2) *claim preclusion*, which precludes parties from raising issues that could have been raised and decided in a prior action when the later suit advances the *same claim*. The Court explained that suits involve the same claim when they “arise from the same transaction” or involve a “common nucleus of operative facts.”

Here, the parties and the Court agreed that because the release defense was not actually decided in the earlier litigation or necessary to the judgment, issue preclusion did not apply. Thus, the Court focused on claim preclusion. The Court rejected claim preclusion because the two suits were grounded on different conduct, involving different marks, occurring at different times and, thus, they did not share a “common nucleus of operating facts.” The Court explained that in the 2005 Action, Marcel alleged that Lucky infringed Marcel’s “GET LUCKY” mark by using the phrase “Get Lucky.” By contrast, the 2011 Action, did not involve any alleged use of the “Get Lucky” phrase. Instead, Marcel alleged that Lucky infringed Marcel’s “GET LUCKY” mark by using Lucky’s own marks containing the word “Lucky.” Additionally, the Court noted that the conduct at issue in the 2011 Action occurred after the conclusion of the 2005 Action. Accordingly, because the 2011 Action and the 2005 Action did not arise from the same transaction and lacked a common nucleus of operative facts, the Court found that claim preclusion could not bar Lucky from asserting its defense that Marcel had released its trademark claims in the 2003 Settlement Agreement.

The Court also explained that claim preclusion generally does not bar claims that are predicated on events that postdate the filing of the prior complaint. The Court pointed out that this principal is particularly important 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. The Court further noted

that the Second Circuit found that Marcel's claims in the 2011 Action were not barred by its claims in the 2005 Action. Accordingly, because "liability for trademark infringement turns on marketplace realities that can change dramatically from year to year," the Court found that the 2005 Action could not bar Lucky's defenses in the 2011 Action.

The Court, therefore, reversed and remanded the judgment of the Second Circuit. Absent a long overdue agreement between Marcel and Lucky on the uses of "Lucky" by each party, the Lucky/Marcel saga may be far from over.

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