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## Analysis and takeaways as defence preclusion is considered in US Supreme Court hearing

This week the US Supreme Court held hearing on a decades-long trademark dispute between Lucky Brand Dungarees and Marcel Fashions Group, the session focusing on defence preclusion.

In this guest analysis, K&L Gates partner [Susan Kayser](#) charts the litigation back-and-forth that led up to the highest US court accepting *certiorari* for the case, reports on the Supreme Court hearing and outlines what is at stake.

### Guest analysis

A nearly 20-year dispute between two competitors in the apparel industry was heard by the Supreme Court on Monday 13 January, centred on the legal issue of claim preclusion and highlighting the practical pitfalls of releasing trademark infringement claims in settlement agreements between parties that continue to use the marks at issue. The case is *Lucky Brands Dungarees v Marcel Fashion Group* (Case No. 18-1086).

The specific issue before the Supreme Court as phrased by Lucky is whether, when a plaintiff asserts new claims, federal preclusion principles can bar a defendant from raising defences that were not actually litigated and resolved in any prior case between the parties.

There was a long road of litigation that led these parties to the Supreme Court with three separate lawsuits. Two were brought in 2001 and 2011 by smaller apparel maker Marcel, which as senior rights owner has a federal registration for GET LUCKY and had long-accused jeans maker Lucky Brand of infringing its trademarks. The third was brought by Lucky in 2005 against Marcel, which Marcel counter claimed. The 2011 suit filed by Marcel included two visits to the Second Circuit before ending up at the Supreme Court.

### A near decade of litigation

In 2001, Marcel sued Lucky and the parties settled in 2003, with Lucky agreeing not to use 'Get Lucky', and Marcel agreeing to release certain claims it might have in the future arising out of its trademarks. Lucky and Marcel disagree on the scope of the release in the 2003 settlement - Marcel contends that it only released infringement claims occurring prior to the execution of the 2003 agreement, while Lucky contends that Marcel released any future claim Marcel may have related to any registered trademark as of the execution of the 2003 agreement.

In 2005, Lucky sued Marcel based on a license Marcel issued for use of the GET LUCKY mark. Marcel counterclaimed for trademark infringement and violation of the settlement agreement. Lucky then filed a motion to dismiss arguing that the 2003 release barred the counterclaims, which was denied as premature to determine which claims were subject to release in the 2001 agreement. Lucky raised the 2003 release as an affirmative defence in its answer but did not raise it again in the 2005 action. The case went to trial and the jury ruled in Marcel's favor on its counterclaim. The court entered an injunction against Lucky to not use the GET LUCKY mark, and Lucky did not appeal.

In 2011, Marcel then sued Lucky arguing its use of certain trademarks violated the injunction from the 2005 action. Lucky did not raise the 2003 release as a defence in either its answer or in its summary judgment motion. However, the district court granted Lucky's summary judgment motion and argued that Marcel's claims were barred by claim preclusion. The Second Circuit reversed and remanded reasoning that the alleged infringement occurred after the 2005 action ended so Marcel could not have raised these claims earlier.

On remand, Marcel filed an amended complaint and Lucky moved to dismiss Marcel's claims as barred by the 2003 release that released Lucky from further liability. In 2017, the district court ruled in Lucky's favor rejecting Marcel's arguments that Lucky was precluded from raising the 2003 release as a defence.

In 2018, the Second Circuit overturned that decision, finding that the prior judgment did not preclude Marcel from raising new claims, but that Lucky was *barred from arguing* that the 2003 release released it from any further liability, because Lucky “could have” raised this defence in the 2005 case, and therefore could not assert it in the later 2011 case.

### **What is at stake**

Claim preclusion prevents a party from relitigating the same claim, between the same parties, when an earlier action resulted in an adjudication on the merits. Lucky argues the claims are not the same because it concerns infringement after the 2005 litigation concluded. Marcel argues that the claims are from the same “series of transactions” because Lucky’s current infringement is a continuation of prior wrongful conduct.

Whether there is claim preclusion here depends on how the test is applied to the facts, which differ based on each parties’ interpretation of the 2003 release language. Marcel argues that Lucky is not entitled to a “rematch” because it continued infringing Marcel’s trademark in the identical manner for which it was held liable in the prior suit. Lucky argues that the claims are not the same because it is alleged infringement post-release. Both parties rely on public-policy arguments – promoting efficiency and preserving judicial resources.

### **What happened at the Supreme Court hearing**

Chief Justice Roberts started the questioning to Marcel’s counsel noting “the most serious difficulty with your case that cries out for an answer before getting to the judgment is that it does require counsel to put forth, in the first case, every conceivable defence that he or she might have”, noting that is a particular problem in trademark law when dealing with ongoing disputes between two parties.

Justice Ginsburg noted that the claim Marcel brought in the second action is not the same “claim” but rather a different claim because it involves events that occurred after judgment so there should not be claim preclusion. Before the court was the new issue of “defence preclusion” to that new claim. Marcel argued that it was a “continuing course of conduct” of the trademark infringement claims from the 2005 litigation so that it was not a new claim, but defence preclusion should still apply to Lucky Brands not raising the release defence since it failed to raise it earlier.

Justice Kagan, in seeking support from Marcel for its position, noted that the Supreme Court has not seen a prior decision such as the Second Circuit’s ruling that there was defence preclusion in the context of new claims and that the reason Marcel could bring a second infringement claim was because it was a different transaction or occurrence.

### **Takeaways**

The practical lessons to draw from this dispute are numerous: the importance of initially clearing marks and implementing a plan to handle potential third party objections; strategic enforcement as to when, and against whom, to enforce trademark rights; careful drafting of what claims are released in the context of future use of the same or similar trademarks; and, squarely on point with the issue before the Supreme Court, when a party is required to raise and litigate a defence to claims that may be continuing or recurring, such as trademark infringement claims.

The legal issue of whether claim preclusion should apply to defences is relevant to all parties involved in any litigation. This case in particular highlights the importance of precise crafting of release language particularly when both parties anticipate continued use of similar trademarks at issue. The Supreme Court’s ruling will provide important guidance on when is there a new claim and how aggressively defences need to be litigated.

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