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In Lucky Trademark Ruling, Justices Avoid Preclusion Mess

By **Bill Donahue**

Law360 (May 15, 2020, 2:28 PM EDT) -- The U.S. Supreme Court's ruling this week in favor of Lucky Brand in a long-running trademark battle was hardly earth-shattering, but it avoided a messy new approach to preclusion that would have been particularly annoying for trademark litigants.

The ruling, issued Thursday by a unanimous court, overturned a novel decision by the Second Circuit that said Lucky Brand was precluded by the doctrine of res judicata from raising a defense that it "could have" raised in an earlier phase of the trademark fight.

For court-watchers, the decision was more of an expected outcome than a new legal landmark — a return to the status quo after an unusual approach that even the Second Circuit had acknowledged was something of a new creation.

"The court was really just rejecting an outlier approach that the plaintiff had gotten lucky with in the Second Circuit," said Cynthia Walden, the head of the trademark group at Fish & Richardson PC.

Thursday's ruling followed more than 18 years of litigation between Lucky and Marcel Fashions, a small apparel maker that operates under the name "Get Lucky" and has long accused Lucky of infringing its trademarks.

In 2018, the Second Circuit ruled that Lucky was not allowed to defend itself from Marcel's latest claims by citing a settlement agreement, struck in an earlier case, that had been intended to release Lucky from further liability.

Citing res judicata and its subset of "claim preclusion," the appeals court said at the time that Lucky was required to have raised its settlement defense in an earlier stage of litigation.

"Under certain conditions, parties may be barred by claim preclusion from litigating defenses that they could have asserted in an earlier action, and ... the conditions in this case warrant application of that defense preclusion principle," the Second Circuit wrote at the time.

Appealing the ruling to the Supreme Court, Lucky warned that it would force litigants to raise every possible defense early in litigation, for fear of later being unable to use them. At oral arguments in January, several justices seemed to share those concerns.

"It seems to me that perhaps the most serious difficulty with your case that cries out for an answer ... is that it does require counsel to put forth in the first case every conceivable defense that he or she might have," Chief Justice John Roberts said. "And I can't imagine a rule that would make sense."

After the high court rejected that approach Thursday, experts echoed those concerns and applauded the justices for nipping a new doctrine in the bud.

"It would have made litigation less efficient," said Monica Riva Talley, the head of the trademark group at Sterne Kessler Goldstein & Fox PLLC. "Defendants would have been forced to litigate every defense all the way to judgment in every case, no matter how peripheral, just so that particular argument would be available in a later case where it might make a difference."

Monday's ruling will apply to res judicata in any lawsuit, but the justices made a point to mention that the doctrine's principles were especially important in trademark cases.

"The enforceability of a mark and likelihood of confusion between marks often turns on extrinsic facts that change over time," the court wrote. "As Lucky Brand points out, liability for trademark infringement turns on marketplace realities that can change dramatically from year to year."

As the dust settled on Thursday's ruling, that was a sentiment shared by trademark practitioners. Talley stressed that the factors at play in a trademark dispute are "constantly in flux," meaning a weak defense in an earlier case might be a strong one in a later battle.

"Brands themselves evolve over time, changing fonts and imagery and even spelling, to capture consumer attention in a crowded market," Talley said. "This constant evolution makes it all the more difficult to predict with any certainty what sorts of defenses may be relevant to keep in play for future causes of action."

Walden, the Fish & Richardson attorney, said something as fundamental as the strength of a particular trademark can change significantly as the market evolves.

"In light of the ever-changing nature of the marketplace and the important difference that this can make to the evaluation of the merits of a trademark case, holding parties to an evaluation of relevant facts or defenses set at a fixed point in time could lead to nonsensical results," Walden said.

The case is Lucky Brand Dungarees Inc. et al. v. Marcel Fashions Group Inc., case number 18-1086, in the U.S. Supreme Court.

--Editing by Kelly Duncan.