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International report - Lucky Brand cannot assert release defence in trademark infringement suit

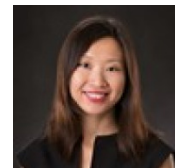
[Baker Donelson](#) - USA

Not so luckily for apparel maker Lucky Brand Dungarees Inc the Second Circuit recently ruled that *res judicata* bars it from asserting a defence against a trademark infringement claim by competitor Marcel Fashions Group Inc. The court said that this defence should have been raised in an earlier action between the parties, but the failure to do so rendered it subject to claim preclusion (specifically, defence preclusion) under the doctrine of *res judicata*. This is the first time that the court has applied defence preclusion to bar a party's litigation defence (*Marcel Fashions Group, Inc v Lucky Brand Dungarees, Inc*, Case 17-0361 (2 August 2018)).

The parties have been fighting over their LUCKY marks for nearly two decades, including three separate battles:

- In 2001 Marcel first sued Lucky Brand for allegedly infringing Marcel's GET LUCKY mark. The parties reached a settlement agreement in 2003 but disagreed on the scope of its release provision. Marcel claimed that it had only released infringement claims occurred prior to the agreement, but Lucky Brand viewed the release far more broadly, which released any future claims Marcel might have relating to trademarks registered before the agreement.
- In 2005 Lucky Brand sued over a licence for GET LUCKY issued by Marcel. Marcel counterclaimed against Lucky Brand for infringement and violation of the 2003 settlement agreement. While Lucky Brand initially asserted the 2003 release in its motion to dismiss and its answer, it switched strategy shortly after and never raised

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the release defence again. The 2005 suit concluded in favour of Marcel. Lucky Brand did not appeal.

- In 2011 Marcel filed the current suit over Lucky Brand's LUCKY BRAND mark to enforce the 2005 favourable judgment. Lucky Brand again did not raise the release defence in the summary judgment proceeding and the following appeal. It was not until the case was remanded that Lucky Brand finally raised this defence and moved to dismiss. Marcel argued that the defence should be barred by claim preclusion. However, the district court granted the dismissal, holding that claim preclusion does not apply because Lucky Brand was not asserting a claim. Marcel appealed.

The court disagreed with the district court. It held that claim preclusion encompasses "defense preclusion". The court sought guidance from the Supreme Court's analysis in *Parklane Hosiery Co v Shore* (439 US 322 (1979)) in allowing a plaintiff to invoke "issue preclusion", which was historically prohibited. In *Parklane* the Supreme Court evaluated two factors – judicial efficiency and fairness – before ruling in favour of this expansion. The court believed that the same analysis could apply here to allow "claim preclusion" to bar a party's litigation defence in limited cases where efficiency concerns outweigh any unfairness to that party.

The court stated that this was the perfect case to apply defence preclusion, based on the following analysis.

First, this case plainly shows the inefficiencies if defence preclusion were to be prohibited. Assuming *arguendo* that Lucky Brand interpreted the release correctly (which the court chose not to address), "the court system will have been unnecessarily burdened with seven-plus years of litigation, involving 179 district court docket entries and two appeals to this Court". All of these would have been avoided had Lucky Brand successfully litigated and not cast aside its release defence in the 2005 suit.

Also, any unfairness to Lucky Brand would be substantially outweighed by efficiency concerns. The court acknowledged that certain applications of defence preclusion could be unfair to defendants, such as when they are economising in litigation in order to save costs, or are defending a civil case *pro se*. Here, however, the court found "no conceivable justification" for "a sophisticated party" like Lucky Brand, armed with able counsel and litigating over its "core trademarks", not to fully litigate the release defence in the 2005 suit.

Finally, this case's judgment-enforcement context makes defence preclusion especially suitable. The court commented that unfairness hardly exists in such circumstances, and that a defendant cannot raise a defence that it previously could have raised in order to resist enforcement of the previous judgment.

The court therefore vacated the district court's decision and remanded the case; and on remand, Lucky Brand cannot assert the release defence.

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