



ARE Trademark Law Alert: Supreme Court Rejects Defense Preclusion Argument

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In a unanimous decision on May 14, 2020, the U.S. Supreme Court held that, in a later trademark action challenging different conduct and raising different claims from an earlier trademark action between the parties, Defendant Lucky Brand was not precluded from raising new defenses. *Lucky Brand Dungarees, Inc. v. Marcel Fashions Grp.*, No. 18–1086, slip op. at 1 (2020).

The decision reverses a Second Circuit decision that barred Lucky Brand from raising a defense that it allegedly “could have” raised in an earlier phase of the almost twenty-year dispute between the parties under the doctrine of *res judicata*. The Court stressed the importance of the decision 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.” *Id.* at 9.

Background

Plaintiff Marcel and Defendant Lucky Brands both sell jeans and other apparel using the word “Lucky” in their trademarks on clothing. Marcel received a federal trademark registration for “Get Lucky” in 1986, while Lucky Brand began selling apparel using the trademark “Lucky Brand” (and other marks that include the word “Lucky”) in 1990. These trademarks led to nearly twenty years of litigation between the parties proceeding in three phases beginning in 2001.

In the initial conflict between the parties, Marcel sued Lucky Brand alleging trademark infringement and unfair competition by Lucky Brand’s use of the phrase “Get Lucky.” The parties settled in 2003 with Lucky Brand agreeing to “desist henceforth from the use of ‘Get Lucky’ as a trademark” and to pay Marcel \$650,000. In exchange, Marcel agreed to release any claims it had or might have arising out of or relating to Lucky’s right to “use, license and/or register” the trademark “Lucky Brand” or any other marks that it “owned, registered, and/or used” at the time.



The next round of litigation began in 2005. This time Lucky Brand was on the offensive, alleging that Marcel and its licensee infringed its trademarks by copying its designs in a new line of clothing. Marcel filed several counterclaims in response based on Lucky Brand's continued use of the "Get Lucky" phrase. Marcel also asserted counterclaims based on the Settlement Agreement's release of "any and all claims arising out of or in any way related to [Lucky's] right to use, license and/or register the trademark "Lucky Brand" and/or any other trademarks, trade names, brands, advertising slogans or tag lines owned, registered and/or used by [Lucky] as of the date of this Agreement." On the face of Marcel's counterclaims, it appeared that some of Lucky Brand's allegedly infringing marks were not registered until after the Settlement Agreement. The district court accordingly denied Lucky's motion to dismiss. Lucky Brand did not renew its "release" defense in the 2005 action and the case proceeded to trial, which resulted in a final order and judgment under which Lucky Brand was permanently enjoined from using the "Get Lucky" mark. However, the final judgment did not address the question of whether the Settlement Agreement barred some or all of Marcel's counterclaims in the 2005 action.

The third round of litigation began in 2011 with Marcel suing Lucky Brand again for trademark infringement. This time Marcel sought a new injunction prohibiting Lucky from "using the Lucky Brand marks," which Marcel claimed Lucky Brand had continued to use after the final judgment in the 2011 action. Notably, the 2011 action did not involve any alleged use of the "Get Lucky" slogan. Lucky moved for summary judgment on the ground that the final judgment barred Marcel's new claims. The district court granted the motion, concluding that Marcel's claims in the 2011 action were essentially the same as its counterclaims in the 2005 action. However, the Second Circuit vacated and remanded the decision, holding that Marcel's counterclaims in the 2005 action were for "infringements that occurred 'after May 2003' but prior to" the 2011 action, which meant that they could not have been raised in the 2005 action.

On remand to the district court, Lucky Brand moved to dismiss Marcel's amended complaint, arguing—for the first time since its motion to dismiss and answer in the 2005 action—that all of the marks at issue in the current action were "registered and/or used by [Lucky] . . . as of the date of th[e Settlement] Agreement," and thus covered by the agreement's release. In response, Marcel argued that "the res judicata or collateral estoppel effect" of the final judgment in the 2005 action precluded Lucky Brand from relying on the Settlement Agreement in the current action because the same defense could have been resolved in the 2005 action with respect to different claims. The district court disagreed, stating that "[i]ssue preclusion does not apply, because the applicability of the Settlement Agreement's release provision was not actually litigated and resolved in the 2005 action." The district court also held that claim preclusion did not apply because Marcel's claims in the 2011 action were different from its



claims in the 2005 action.

The Second Circuit vacated and remanded the decision, concluding that a doctrine called “defense preclusion” barred Lucky Brand from raising the release defense in the 2011 action. The Second Circuit reasoned that a defendant should be precluded from raising a defense where: “(i) a previous action involved an adjudication on the merits”; “(ii) the previous action involved the same parties”; “(iii) the defense was either asserted or could have been asserted, in the prior action”; and “(iv) the district court, in its discretion, concludes that preclusion of the defense is appropriate.” 898 F. 3d, at 241. The Supreme Court granted certiorari to resolve the differences among Circuits regarding “when, if ever, claim preclusion applies to defenses raised in a later suit.”

The Supreme Court’s Unanimous Decision

Justice Sotomayor delivered the unanimous opinion of the Court.

The Court began by noting that it has never explicitly recognized “defense preclusion” as a standalone category of *res judicata*, “unmoored from the two guideposts of issue preclusion and claim preclusion.” Slip op. at 7. Further, any preclusion of defenses must, at a minimum, meet the same requirements of issue preclusion or claim preclusion. *Id.*

The decision turned significantly on the finding that the 2005 action and the 2011 action were grounded in different conduct, involved different marks, and occurred at different times, and thus, did not share a “common nucleus of operative facts.” *Id.* at 8. For example, the 2005 action alleged that Lucky Brand infringed Marcel’s “Get Lucky” mark by using the phrase to create consumer confusion. However, the 2011 action did not involve any alleged use of the “Get Lucky” phrase. Instead, Marcel alleged in the 2011 action that Lucky Brand’s infringement was based only on the use of Lucky Brand’s own marks containing the word “Lucky.”

The Court also wholly rejected Marcel’s claim preclusion argument, stating that “[e]vents that occur after the plaintiff files suit often give rise to new ‘[m]aterial operative facts’ that ‘in themselves, or taken in conjunction with the antecedent facts,’ create a new claim for



relief.” *Id.* at 9 (quotation omitted). Importantly, the Court agreed that this principle carries considerable weight in trademark context because “liability for trademark infringement turns on marketplace realities that can change dramatically from year to year.” *Id.* at 9. The Court accordingly held that claim preclusion did not and could not bar Lucky Brand from asserting its settlement agreement defense in the 2011 action.

In its briefing, Marcel argued that a version of “defense preclusion” should apply to the facts of its case. However, the Court dismissed the argument, finding that the authorities referenced by Marcel likely did not stand for anything other than traditional claim- or issue-preclusion principles that may bar defenses raised in a subsequent suit. The Court pointed to a hypothetical involving judgment enforcement, where a party takes action to enforce a prior judgment already issued against another. If a different outcome in the second action “would nullify the initial judgment or would impair rights established in the initial action,” preclusion principles would apply. *Id.* at 10. However, a court would still simply apply claim or issue preclusion in that scenario to bar a claim or defense that would attack a previously decided claim. Because the Court held that Lucky Brand’s defense in the 2011 action did not threaten the judgment of the 2005 action, the judgment enforcement principles would not apply to the case anyway.

Practical Effect

Lucky Brands resolves a split between the circuits regarding the existence of the so-called “defense preclusion” principle. Instead, the Court has limited judicial preclusions to traditional claim and issue preclusion doctrines as the guideposts for barring certain defenses in trademark cases.

We will continue to monitor cases regarding this and similar trademark issues. Please feel free to contact us if you have any questions about how this decision may impact your rights.

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