

US Supreme Court Rejects ‘Defense Preclusion’ in Trademark Suit

Skadden

05 / 15 / 20

If you have any questions regarding the matters discussed in this memorandum, please contact the following attorneys or call your regular Skadden contact.

Anthony J. Dreyer

Partner / New York
212.735.3097
anthony.dreyer@skadden.com

Jordan Feirman

Counsel / New York
212.735.3067
jordan.feirman@skadden.com

David M. Lamb

Associate / New York
212.735.3421
david.lamb@skadden.com

Andrew K. Patrick

Associate / New York
212.735.3291
andrew.patrick@skadden.com

This memorandum is provided by Skadden, Arps, Slate, Meagher & Flom LLP and its affiliates for educational and informational purposes only and is not intended and should not be construed as legal advice. This memorandum is considered advertising under applicable state laws.

One Manhattan West
New York, NY 10001
212.735.3000

On May 14, 2020, the U.S. Supreme Court resolved a circuit split, finding that any preclusion of litigation defenses must comply with traditional *res judicata* principles, and ruling that Lucky Brand Dungarees, Inc. (Lucky Brand) was not precluded from asserting its defenses in its long-standing trademark litigation against Marcel Fashions Group, Inc. (Marcel). The Supreme Court’s decision in *Lucky Brand Dungarees, Inc., et al. v. Marcel Fashions Group, Inc.*, 590 U.S. ____ (2020), has substantial implications for all litigants, but, as the Court noted, it is particularly important in the trademark context, where the relevant facts supporting a claim or defense can change drastically in a short period of time.

Background

Marcel and Lucky Brand have been litigating against each other for nearly 20 years. Marcel first filed suit in 2001, alleging that Lucky Brand infringed Marcel’s “Get Lucky” trademark. The parties settled in 2003, with Lucky Brand agreeing to refrain from using the phrase “Get Lucky,” and Marcel releasing any claims regarding Lucky Brand’s use of other trademarks that included the word “Lucky” without being preceded by “Get,” including the “Lucky Brand” mark.

In 2005, Lucky Brand brought suit, alleging that Marcel had unlawfully copied Lucky Brand’s designs and logos. Marcel counterclaimed, alleging that Lucky Brand had continued to use the phrase “Get Lucky” in violation of the settlement agreement. The U.S. District Court for the Southern District of New York denied Lucky Brand’s motion to dismiss, rejecting the argument that Marcel had released its claims against Lucky Brand in the 2003 settlement agreement. The District Court ultimately granted partial summary judgment to Marcel in 2009, permanently enjoining Lucky Brand from using the phrase “Get Lucky,” and a jury subsequently found for Marcel on its remaining counterclaims.

In 2011, Marcel again sued Lucky Brand, alleging that Lucky Brand’s trademarks including the word “Lucky” infringed on the “Get Lucky” mark and violated the District Court’s order in the 2005 suit. Lucky Brand moved to dismiss, arguing that Marcel had released such claims in the 2003 settlement agreement. Granting the motion to dismiss, the District Court rejected Marcel’s argument that Lucky Brand was precluded from invoking the release defense because it did not fully pursue this defense in the 2005 suit.

In 2018, the U.S. Court of Appeals for the Second Circuit reversed, finding that Lucky Brand was precluded from asserting the release defense under a doctrine it called “defense preclusion.” The Second Circuit described this doctrine as a corollary to the well-known doctrine of issue preclusion that defendants may assert against plaintiffs, and noted that it bars a defendant from asserting an unlitigated defense that it should have raised earlier. In doing so, the Second Circuit created a split with prior decisions from the Ninth, Eleventh and Federal Circuits. In 2019, 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’s Ruling

In a unanimous decision, the U.S. Supreme Court found that Lucky Brand was not barred from asserting its defense because the 2011 suit and the 2005 suit did not share a common nucleus of operative facts.

Writing for the Court, Justice Sonia Sotomayor explained that the Supreme Court has never recognized “defense preclusion” as an independent principle. Rather, any preclu-

US Supreme Court Rejects ‘Defense Preclusion’ in Trademark Suit

sion of defenses must satisfy the requirements of either of the two *res judicata* doctrines: issue preclusion or claim preclusion. Because issue preclusion was not relevant in the case, the Court conducted a claim preclusion analysis.

The Court clarified that a defense can only be barred under claim preclusion if the “causes of action are the same in the two suits — that is, where they share a common nucleus of operative facts.” In this case, Lucky Brand was not barred from asserting its release defense because the two suits at issue were “grounded on different conduct, involving different marks, occurring at different times.”

The Court noted that in the 2005 suit, Marcel alleged that Lucky Brand had infringed on Marcel’s “Get Lucky” trademark by using the phrase “Get Lucky.” The 2011 suit, however, only alleged that Lucky Brand’s uses of its own marks containing the word “Lucky” were infringing. Thus, because the suits involved different trademarks, the Court found that there was no risk that “a different judgment in the second action would impair or destroy rights or interests established by the judgment entered in the first action.” The Court also observed that the allegedly infringing conduct in the 2011 suit occurred after the conclusion of the 2005 suit. Accordingly, because the 2011 suit and the 2005 suit lacked a common nucleus of operative facts, the Court found that claim preclusion could not bar Lucky Brand from asserting its defense that Marcel had released its trademark claims in the 2003 settlement agreement.

The Court also explained that claim preclusion does not prevent claims that are predicated on events that postdate the filing of the initial complaint, noting that this principle 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 suit were not barred by its claims in the 2005 suit. Accordingly, because “liability for trademark infringement turns on marketplace realities that can change dramatically from year to year,” the Court found that the 2005 suit could not bar Lucky Brand’s defenses in the 2011 suit.

Looking Ahead

Going forward, litigants who consider asserting an argument that the opposing party is precluded from putting forth a particular defense must be sure that the argument satisfies the requirements of issue preclusion or claim preclusion.

In the trademark context specifically, the Court’s discussion of the importance of claim preclusion on trademark infringement actions, and focus on the “extrinsic facts that change over time,” presents something of a double-edged sword for trademark owners. On one hand, this discussion reinforces the principle that trademark owners may bring subsequent suits against repeat infringers, even when the facts and circumstances surrounding the later-filed lawsuit appear, at first blush, similar to those in the earlier lawsuit. On the other hand, the Court’s ruling allows for the possibility that serial infringers can take multiple bites at the apple with respect to defenses in subsequent litigation, even when those same defenses may have been available in earlier lawsuits. To avoid this result, trademark owners may consider seeking broader injunctions in their initial suits or as part of a settlement agreement, as well as attempting to enforce prior judgments against repeat infringers, rather than filing new complaints that could be vulnerable to previously unasserted defenses.