

## Brand Protection Alert

May 2020

# Supreme Court Rules Defense Not Barred in Subsequent Action Involving Different Trademarks, Conduct and Claims

### Key Takeaways:

- A trademark owner may face new or previously litigated defenses in a subsequent action against the same defendant for infringement of the same mark because events that occur after the initial action may give rise to new material operative facts.
- The U.S. Supreme Court resolved differences among the circuits regarding when, if ever, claim preclusion applies to defenses raised in a later suit, holding that “defense preclusion” is not a stand-alone category of res judicata but must satisfy the requirements of issue preclusion or claim preclusion.
- Claim preclusion generally does not bar claims based on events occurring after the initial complaint, which events often give rise to new operative facts and new claims for relief. This is particularly relevant in the trademark context, where likelihood of confusion and liability for infringement depend on extrinsic facts and marketplace realities that change over time.
- The Court held that the failure to litigate a defense in a prior action does not preclude assertion of the defense in a subsequent action challenging different conduct occurring at different times and raising different legal theories.

*Lucky Brand Dungarees, Inc., et al. v. Marcel Fashions Group, Inc.*, No. 18-1086, 2020 U.S. LEXIS 2642 (Argued Jan. 13, 2020, Decided May 14, 2020)

In an opinion delivered by Justice Sotomayor, the U.S. Supreme Court ruled that a defendant is not precluded



from raising a defense that it failed to litigate in an earlier suit where the two suits do not assert the same claim to relief. The unanimous decision resolved a circuit split as to when, if ever, claim preclusion applies to defenses raised in the later suit.

This decision is the latest in a 20-year trademark infringement battle between apparel companies Marcel Fashions Group and Lucky Brand Dungarees involving Marcel's “Get Lucky” mark, Lucky Brand's “Lucky Brand” mark, and other “Lucky” marks owned by Lucky Brand.

In 2001, Marcel sued Lucky Brand claiming infringement of Marcel's registered trademark “Get Lucky.” That action was resolved in 2003 by a settlement agreement pursuant to which Lucky Brand agreed to stop using the phrase “Get Lucky” and Marcel released any claims regarding Lucky Brand's use of its own trademarks.

In 2005, Lucky Brand sued Marcel alleging infringement of Lucky Brand's designs and logos as part of a new clothing line. Marcel asserted counterclaims alleging that Lucky Brand infringed Marcel's “Get Lucky” mark by (1) continuing to use “Get Lucky” in violation of the parties' settlement and (2) using the slogan “Get Lucky” together with Lucky Brand's other marks in a manner

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that created consumer confusion. Lucky Brand moved to dismiss the counterclaims as barred by the release in the parties' settlement agreement, which motion was denied. In its answer to the counterclaims, Lucky Brand raised the release defense but did not litigate that defense. The district court found that Lucky Brand's continued use of "Get Lucky" violated the settlement agreement, and permanently enjoined Lucky Brand from using or copying Marcel's "Get Lucky" mark. A jury found in favor of Marcel on its counterclaims for infringement based on Lucky Brand's use of the phrase "Get Lucky" in conjunction with its own marks.

In 2011, Marcel commenced another infringement action against Lucky Brand, this time asserting that Lucky Brand's use of its own marks incorporating the term "Lucky"—not any use of "Get Lucky"—infringed Marcel's "Get Lucky" mark in violation of the injunction issued in the 2005 action. The district court initially granted summary judgment in favor of Lucky Brand, finding that Marcel's claims were essentially the same as its counterclaims in the 2005 action. The Second Circuit vacated the judgment, finding that Marcel's claims were distinct from those in the 2005 action "for earlier infringements," and that Lucky Brand's use of its own marks containing the word "Lucky" did not violate the 2005 injunction prohibiting use of "Get Lucky."

On remand, Lucky Brand moved to dismiss on the ground that Marcel had released its claims by entering the settlement agreement. Marcel argued that Lucky Brand was precluded from raising the release defense because Lucky Brand could have pursued that defense fully in the 2005 action. The district court granted Lucky Brand's motion to dismiss, holding that the release defense was not precluded, and Marcel's claims were barred by the settlement agreement. On appeal, the Second Circuit vacated the district court's judgment, holding that defense preclusion barred Lucky Brand from raising the release defense in the 2011 action. The Second Circuit reasoned that, similar to the doctrine of claim preclusion, a defendant should be precluded from raising an unlitigated defense that it should have raised in a prior action.

The Supreme Court reversed the judgment of the Second Circuit, 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." The Court held that where, as here, issue preclusion is inapplicable, a defense can be barred only if the "causes of action are the same"

in both suits, meaning that they share a "common nucleus of operative facts."

As applied to the 2005 and 2011 suits at issue, the Supreme Court concluded that they did not share a "common nucleus of operative facts" because they were based on "different conduct, involving different marks, occurring at different times." The claims in the 2005 action were based on Lucky Brand's alleged use of "Get Lucky," whereas the 2011 action did not allege any use of "Get Lucky" and was based on conduct occurring post-2010. The Court explained that a different judgment in the 2011 action would not impair judgment of the 2005 action because the suits involved different conduct and different marks.

Furthermore, claim preclusion generally "does not bar claims that are predicated on events that postdate the filing of the initial complaint," which often give rise to new "material operative facts" that create a new claim to relief. The Court noted that "[t]his principle takes on particular force 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," and "liability for trademark infringement turns on marketplace realities that can change dramatically from year to year." The conduct alleged in the 2011 action occurred after 2005 action was resolved. Thus, neither the claims nor the defenses in the 2011 action were barred by the 2005 action.

The Supreme Court concluded: "At bottom, the 2011 Action involved different marks, different legal theories, and different conduct—occurring at different times. Because the two suits thus lacked a 'common nucleus of operative facts,' claim preclusion did not and could not bar Lucky Brand from asserting its settlement agreement defense in the 2011 Action."

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## Related Professionals

Melanie Howard . . . . . mhoward@loeb.com  
Sara Crisafulli . . . . . scrisafulli@loeb.com

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6345 REV1 05-27-2020