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SUPREME COURT CLARIFIES CONCEPT OF DEFENSE PRECLUSION THROUGH LUCKY BRAND TRADEMARK BATTLE

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On Thursday, May 14, 2020, the U.S. Supreme Court, in a unanimous ruling, found in favor of clothing and jean manufacturer Lucky Brand Dungarees, Inc. (Lucky Brand) and against Marcel Fashions Group, Inc. (Marcel) in the most recent phase of a series of trademark lawsuits between the parties which have spanned nearly two decades.

Specifically, the Supreme Court overturned what was considered by many to be a novel decision by the Second Circuit Court of Appeals which held that Lucky Brand was barred by the doctrine of res judicata from raising a defense that it had not fully pursued in one of its earlier lawsuits with Marcel – in essence, "defense preclusion." The Supreme Court, however, rejected the Second Circuit's holding, concluding instead that because Marcel's current claim was based on different conduct than that at issue in the earlier suit, "Marcel [could not] preclude Lucky Brand from raising new defenses" under federal preclusion principles. The Court noted that it had never explicitly recognized "defense preclusion" as a standalone category of res judicata, explaining that "any such preclusion of defenses must, at a minimum, satisfy the strictures of issue preclusion or claim preclusion."

In 1986, Marcel received a federal trademark registration for "Get Lucky;" a few years later, in 1990, Lucky Brand began selling apparel using the registered trademark "Lucky Brand" and other marks that include the word "Lucky." The parties' 20-year trademark battle centers over the trademark rights to the phrase "Get Lucky" and has unfolded in three rounds:

- The first round, which commenced in 2001, resulted in a 2003 settlement agreement in which Lucky Brand agreed to stop using the phrase "Get Lucky" and Marcel agreed to release any claims regarding Lucky Brand's use of its trademarks.
- In the second round (the 2005 Action), Lucky Brand sued Marcel for violating its trademarks. Marcel filed several counterclaims turning on Lucky Brand's alleged continued use of "Get Lucky," but it did not claim that Lucky Brand's use of its marks infringed the "Get Lucky" mark. In both a motion to dismiss the counterclaims and an answer to them, Lucky Brand argued that the counterclaims were barred by the 2003 settlement agreement, but it did not invoke or otherwise press that defense later in the proceeding.
- In the third round (the 2011 Action), Marcel sued Lucky Brand for continuing to infringe the "Get Lucky" mark, but it did not repeat its 2005 allegation about Lucky Brand's use of the "Get Lucky" phrase. After prolonged litigation, Lucky Brand moved to dismiss, arguing (for the first time since the 2005 Action) that Marcel had released its claims in the 2003 settlement agreement. Marcel countered that Lucky Brand could not invoke the release defense because it could have pursued that defense in the 2005 Action but did not.

The District Court granted Lucky Brand's motion to dismiss. The Second Circuit vacated and remanded, concluding that "defense preclusion" prohibited Lucky Brand from raising an un-litigated defense that it should have and could have pursued earlier.

The Supreme Court, however, found that “Marcel’s 2011 Action challenged different conduct—and raised different claims—from the 2005 Action.” The Supreme Court explained that “[u]nlike issue preclusion [which precludes a party from relitigating an issue actually decided in a prior case and necessary to the judgment], claim preclusion prevents parties from raising issues that could have been raised and decided in a prior action—even if they were not actually litigated.” The Supreme Court elaborated that if a later suit advances the same claim as an earlier suit between the same parties, the earlier suit’s judgment “‘prevents litigation of all grounds for, or defenses to, recovery that were previously available to the parties, regardless of whether they were asserted or determined in the prior proceeding.’” “Suits involve the same claim (or cause of action’) when they ‘aris[e] from the same transaction,’ . . . or involve a ‘common nucleus of operative facts.’” Yet, “‘[i]f the second lawsuit involves a new claim or cause of action, the parties may raise assertions or defenses that were omitted from the first lawsuit even though they were equally relevant to the first cause of action.’”

Here, the parties agreed that issue preclusion did not apply. Accordingly, “a defense could be barred only if the ‘causes of action are the same’ in the two suits—that is, where they share a ‘common nucleus of operative fact[s].’” The Supreme Court concluded: Put simply, the two suits here were grounded on different conduct, involving different marks, occurring at different times. They thus did not share a common nucleus of operative facts.

The Supreme Court explained that the 2011 Action “did not imperil the judgment of the 2005 Action because the lawsuits involved different conduct and different trademarks.” It added that the complained-of conduct in the 2011 Action occurred after the conclusion of the 2005 Action, and “‘claim preclusion generally does not bar claims that are predicated on events that post-date the filing of the initial complaint.’”

Although Justice Sotomayor, writing for the Supreme Court, points to the importance of the doctrine’s principles in the trademark context, the Court’s ruling applies to res judicata in any lawsuit. Indeed, the Supreme Court’s decision makes clear that traditional principles of res judicata apply equally to both defenses and claims, precluding litigation where the later-filed lawsuit involves a common nucleus of operative facts, trademark-related or otherwise.

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