

IP Alert | Third Time Not a “Lucky” Charm for Marcel in SCOTUS’ Decision on Defense Preclusion

By Evi T. Christou and Anna L. King

On May 14, the U.S. Supreme Court unanimously decided in *Lucky Brand Dungarees v. Marcel Fashions Group*, No. 18-1086, 590 U.S. ____ (2020), that principles of federal claim preclusion do not prevent a party from asserting a settlement agreement as a defense against trademark infringement merely because it was not raised in an earlier suit between the parties. In so holding, the Court resolved a circuit split on the issue of when (if ever) claim preclusion applies to defenses in a later suit.

Background

The nearly 20-year trademark dispute between Florida-based clothes wholesaler Marcel Fashion Group, Inc. (“Marcel”) and denim company Lucky Brand Dungarees, Inc. (“Lucky Brand”) started when Marcel sued Lucky Brand for violating its “Get Lucky” trademark. In 2003, the parties settled the case, whereby Lucky Brand agreed to stop using the “Get Lucky” trademark, and Marcel agreed to dismiss the case and also release certain trademark claims it might have against Lucky Brand in the future.^[1]

The parties were back in court when, in 2005, Lucky Brand sued Marcel alleging that Marcel and Marcel’s licensee used the “Get Lucky” trademark in a way that resembled Lucky Brand’s logos and designs. Marcel counterclaimed, alleging that Lucky Brand continued to use the “Get Lucky” trademark in violation of the 2003 settlement agreement. Lucky Brand moved to dismiss the counterclaims citing the settlement agreement release terms. Denying Lucky Brand’s motion, the district court instead enjoined it from using the “Get Lucky” trademark and Lucky Brand never again raised the release defense again in the case.

In 2011, Marcel again sued Lucky Brand, this time focusing on Lucky Brand’s use of marks other than “Get Lucky,” but that still contained the word “Lucky.” Lucky Brand moved to dismiss, again pointing to Marcel’s 2003 release. Marcel countered that Lucky Brand could not invoke the release defense because Lucky Brand could have pursued the release defense in the 2005 action but did not do so. The district court granted Lucky Brand’s motion to dismiss, but on appeal, the U.S.

Court of Appeals for the Second Circuit vacated and remanded, concluding that Lucky Brand was precluded from raising the defense because it could and should have raised the defense in the 2005 action under “defense preclusion.”

Discussion

Before this case, the Supreme Court had never explicitly recognized “defense preclusion” as an independent category of preclusion separate and apart from the general doctrines of issue and claim preclusion. The parties agreed that issue preclusion — which precludes a party from relitigating an issue actually decided in a prior case — did not apply, so the Court’s opinion, authored by Justice Sonia Sotomayor, focused on whether a defense can be barred under claim preclusion. Claim preclusion requires that the prior action was (i) adjudicated on the merits, (ii) involved the same adverse parties and (iii) that the asserted claims were or could have been raised in the prior action. The issue before the Court pertained to the third element of the test, namely, whether Lucky Brand’s failure to raise the release defense in the 2005 action precluded it from raising it in the 2011 action.

The Court reversed the Second Circuit’s decision and held that claim preclusion did not, and could not, bar Lucky Brand from asserting its settlement agreement defense in the 2011 action because the 2005 and 2011 actions “involved different marks, different legal theories, and different conduct —occurring at different times.” Slip Opinion, at 10. The trademarks differed because the 2005 action involved Lucky Brand’s use of the “Get Lucky” mark while the 2011 action involved different “Lucky” marks. The type and timing of conduct between the two suits also differed in that Lucky Brand’s allegedly infringing conduct in the 2011 action occurred after the 2005 action concluded. As the Supreme Court noted, claim preclusion does not generally preclude claims that are predicated on events that postdate the filing of the initial complaint because subsequent events create a new claim to relief.

Key Takeaways

While the Court’s decision on defense preclusion applies to all types of civil cases, it has particular significance in trademark cases “where the enforceability of a mark and likelihood of confusion between the marks often turns on extrinsic facts that change over time.” Slip. Op., at 9.

For example, descriptive marks may acquire trademark protection by gaining secondary meaning through marketplace use over time or once distinctive marks may become generic through common use over time. While the strength of a plaintiff’s mark may “wax and wane” due to changes in consumer recognition, the similarity of the marks may also change due to marketplace conditions and the context in which the marks are found. This implicates a host of likelihood of confusion factors, including changes in the relative similarity of marks over time and the presence of other branding, the expansion or contraction of trade channels or product lines, instances of actual confusion, the sophistication level of consumers, and changes in the quality of products. [Petitioner’s Brief](#), at 44.

The Court's decision also highlights the importance of carefully drafting releases in settlement agreements, especially between parties with contentious and longstanding trademark disputes.

For more information about the content in this alert or if you have questions about the implications of the Court's decision, please contact a Banner Witcoff attorney.

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[1] The release provided that: "Marcel hereby forever and fully remises, releases, ... and discharges [Lucky] from any and all actions, causes of action ... claims, demands or other liability or relief of any nature whatsoever, whether known or unknown, foreseen or unforeseen, ... that Marcel ever had, now has or hereafter can, shall or may have, by reason of or arising out of any matter, cause or event occurring on or prior to the date hereof, including but not limited to ... any and all claims arising out of or in any way relating to [Lucky's] rights 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] in the United States and/or in any foreign country as of the date of this Agreement. " [Petitioner's Brief](#) at 7-8.

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