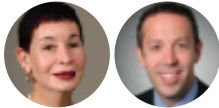


## US: TRADE MARKS

**Undue prejudice in an acquiescence defence**

**Katten Muchin Rosenman LLP**  
New York



Karen Artz Ash and Bret J Danow

When faced with a claim of trade mark infringement, a defendant might avoid or minimise liability if it can establish the equitable defence of acquiescence. A defensive claim of acquiescence may be available where the trade mark owner has affirmatively represented to the defendant that the mark at issue may be used and the defendant relies on that representation to its prejudice. In general, an acquiescence defence requires that a defendant satisfy three elements, namely: (1) it received assurances from the plaintiff that the defendant could use the mark; (2) it relied on such assurances; and (3) it would experience undue prejudice if it now had to cease use of the mark.

Recently, in *Pennzoil-Quaker State Co v Miller Oil and Gas Operations et al*, the US Court of Appeals for the Fifth Circuit clarified the role that “undue prejudice” plays in the determination of whether a defendant can establish a claim of acquiescence. In *Pennzoil*, the district court had ruled that the defendant successfully asserted an acquiescence defence based on its reliance on Pennzoil’s representations. The Court of Appeals, however, reversed, holding that the defendant’s reliance on representations alone was not sufficient to satisfy the test for acquiescence; and finding that there had been no evidence that Miller Oil had suffered undue prejudice because of its reliance on statements made by Pennzoil regarding the use of its trade mark.

In doing so, the Court of Appeals provided a definition of when a defendant has demonstrated undue prejudice. Specifically, the Court ruled that “undue prejudice means that the defendant has taken steps such as making significant investment decisions or building the bulk of its business based on the reasonable assumption that it had permission to use the plaintiff’s mark, and that such invest-

ment or capital would be lost if the defendant could no longer use the mark”. The ruling emphasised that it was not sufficient that the defendant incur expenses in removing the mark at issue such that the costs of producing infringing products or the incidental effects arising from the creation of such products did not constitute undue prejudice. Moreover, the Court noted that the key component to a finding of prejudice was that there be some form or realised economic investment rather than potential investment made in reliance on the representations of the trade mark owner. In effect, the Court equated undue prejudice with some form of “business building”.

The Court closed its opinion by providing a significant qualification on its definition of undue prejudice. Specifically, the Court noted that although a defendant may be prejudiced if it relies on a trade mark owners’ assurance to expand its business, it will not be deemed to be prejudiced simply because the defendant has used the mark at issue in commerce or spent money on products bearing the mark. As a practical matter, if prejudice could consist merely of incurring expenses in promoting an allegedly infringing mark, then a claim for relief would need to be denied in practically every case where an equitable defence was raised.

The *Pennzoil* case is instructive in that it gives potential defendants guidance on what they will need to demonstrate in order to avail themselves of the equitable defence of acquiescence.