

# THE AUTOMOTIVE ANGLE

BY Knobbe Martens Olson & Bear LLP

Intellectual Property Law  
Down to a Science



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*Don't miss the Automotive Aftermarket Seminar on Friday, September 29!*

## 1 Knock-offs from China

Catherine J. Holland of Knobbe Martens Olson & Bear LLP recently interviewed Russell Jura of Yamaha Motor Corporation, U.S.A., a subsidiary of Yamaha Motor Co. Ltd., Japan. Yamaha designs and manufactures a wide variety of motor vehicles and engines. These products include motorcycles, ATVs, snowmobiles, personal watercraft, golf carts and outboard motors. Russell Jura has been with Yamaha for over 30 years. He is currently Senior Vice President and General Counsel.

### How big is Yamaha's legal department, and how many attorneys are involved in IP?

Yamaha Motor Corporation, U.S.A. utilizes eight in-house attorneys. Three are involved in whole or in part with IP.

### How has the stream of knockoffs from Asia affected Yamaha's business?

Chinese copycat products are our most significant concern in the U.S. It is impossible to know the exact impact on our sales. We estimate that in the youth ATV market, for example, over 50% of the market is now in the hands of copycat producers. The impact of copycat producers is increasing, not only an increase in the number of such brands, but also in the number of products being copied.

### Other than sales, how do knock-offs impact Yamaha?

One significant concern in the U.S. has been with the visual look-alike products that impact the appearance and marketing of the product. The mechanical components may be different than our mechanical designs. However,

because the appearance is so similar it may lead to confusion. These products adversely affect our reputation with consumers who confuse poor quality copycat products with our name and reputation.

### Has there been copycat activity that went beyond your expectations?

There have been times when the copying goes beyond the product itself, to our technical and marketing support materials. We have had the look and wording of our website copied. We have had our manuals copied. We have had our name copied. All of these require us to take action to protect our IP. It is taking more time and effort as copycat products have spread to manufacture in more parts of the world.

### What successful legal strategies have you developed to deal with knockoff imports?

We have developed a number of strategies. The most inexpensive has been to prevent the copycat companies from utilizing our trade names, or identifying their products in a manner that is confusing to the customer as to their identity.

We have also initiated legal proceedings, which have been successful in protecting our name and reputation. However, such proceedings can be lengthy and expensive.

### How have you used intellectual property law in response to the problem?

We have found the most success with trademarks and copyrights. It is fairly easy to explain a trademark or copyright violation, and the copycat companies often will back down when directly confronted with an obvious violation. Patents are more difficult to use offensively. However, we are looking to a greater utilization of design patents to protect certain unique appearances in our products.

### Do you have any suggestions for the heads of other legal departments facing the same problem?

I believe that it is necessary to be aggressive from the start. The longer that the issue goes on without a strong response, the more the copycat companies will assume they can utilize your IP with impunity.

## 2 Maintain Your Markets and Guard Your Customer Base Via Design Patents

Today many American manufacturers face ever-increasing lower priced competition from overseas. To remain profitable, those manufacturers need to find ways to maintain their markets and guard their customer base. This competitive pressure is all too real in the aftermarket automotive industry, where overseas challengers with lower manufacturing costs can often quickly copy successful products and price the American originators of those products out of business.

In many instances, the difference between a successful and an unsuccessful aftermarket automotive product is its appearance. A significant portion of this industry is directed toward consumers who are buying accessories to alter and improve the appearance of their vehicles. Thus, the successful products often have unique ornamental features that consumers find desirable.



## 2 Maintain Your Markets, cont.

Fortunately, the patent system in the United States allows people to obtain design patents to protect objects that have a unique ornamental appearance. A design patent covers the non-functional ornamental appearance of an object. The protectable ornamental aspects of an object can arise from its surface ornamentation, its overall configuration, or both. Examples of products that are protected by design patents include uniquely shaped wheel spinners, aftermarket grills having unusual arrangements of lateral members, and components that display creative contouring or designs.

Critics sometimes argue that design patents are limited in the scope of the protection that they offer and, thus, that they are of less value than utility patents, which protect the unique func-



tional aspects of an invention. However, design patents can provide suitable and powerful protection for products that consumers buy specifically because of their aesthetic appearance.

A competitor infringes a design patent when it sells or offers a product that so closely resembles the patented article that an ordinary observer

Design patents can provide suitable and powerful protection for products that consumers buy specifically because of their aesthetic appearance.

would purchase the infringing product believing it to be the patented product. Accordingly, when a competitor copies the unique ornamental appearance of a product, precisely because its appearance appeals to customers, infringement can be relatively easy to establish. This is particularly true when a competitor blatantly counterfeits or knocks off another's product.

For example, one common problem in the automotive aftermarket industry is that many unscrupulous competitors introduce new products by simply splashing the mold of an existing successful product. The infringer avoids the expense of designing and dimensioning the mold and, thus, enjoys a significant cost advantage over the creator of that product. However, when the original product is protected by a valid design patent, copies created by splashing a mold will almost always infringe the design patent.

One major advantage of design patents is they may entitle the patent holder to recover the infringer's profits. Utility patents, by contrast, only allow the patent holder to recover its own lost profits or a reasonable royalty. The design patent holder's ability to collect the infringer's profits may result in a higher recovery for the patent holder, because it is sometimes difficult to establish that the infringer's sales directly caused the patent holder to lose an equal number of sales.

The relatively low cost to obtain a design patent provides a further reason for companies in the automotive aftermarket products industry to seek that type of protection. According to the American Intellectual Property Law Association, the average design patent costs approximately \$1,500 – \$2,500 (including attorney's fees). That sum represents a considerable savings when compared to the average cost of approximately \$6,000 – \$10,000 to obtain a simple mechanical utility patent. Additionally, the U.S. Patent Office allows inventors to request an expedited examination of design patent applications, which can result in the issuance of the design patent more quickly than the time that it typically takes to obtain a utility patent.

Many aftermarket accessory products have a short product life span, so receiving a design patent quickly, at a lower cost, can provide a powerful tool to protect markets from competition. Therefore, if you are developing products that have a unique look, and you believe that consumers will buy your products based upon that look, then you should consider filing design patent applications to protect those products.

*By Michael Trenholm, Partner  
Knobbe Martens Olson & Bear LLP*

## 3 KNOCK-OFFS, COUNTERFEITS AND COPIES—WHAT'S THE DIFFERENCE?

Look up “counterfeit” in a thesaurus and you will likely find rather mundane-sounding synonyms that include copy, imitation and reproduction. You also will likely find less scrupulous-sounding words like fake, forgery, phony and sham. In the modern business world, you often encounter terms like knock-off, counterfeit and copy. Is there really a difference?

To your bottom line, there is likely no difference between a copy and a counterfeit: each of these terms has the same result – lost sales. What is different, however, is that some may be legal while others may be illegal; some may be stoppable while others may not. It all depends upon whether the original product is protected by valid intellectual property rights.

Registerable intellectual property protection can include patents, trademarks and copyrights.

In general, patents protect the functional aspects of products or the aesthetic design features of products. Utility patents protect the structure, use or process of manufacturing of a product, while design patents protect the ornamental appearance of a product. Patents can be used to stop competitive products if the patented aspects are copied.

Trademarks protect words, symbols or other source identifiers that are used to distinguish the goods or services of one company from those of another company. Trademarks also can include colors, shapes, and sounds, and even the design of the product itself. Trademarks can be registered with the federal government or with state governments. In some situations, common law trademark rights can inure to the owner

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### What's the Difference?, cont.

simply through use of the mark. Registration, however, has its rewards, and federally registered trademarks can be an effective weapon against competitive products that copy or imitate the registered trademark.

Copyright generally protects expression in artistic works and some aspects of software. A copyright exists in a work as soon as that work is put into a tangible medium. Copyrights can be registered with the U.S. Copyright Office and, again, registration has its rewards. If the copyright is registered prior to the commencement of the infringements, the copyright owner is entitled to both statutory damages and attorneys' fees.

Given an understanding of the basic forms of intellectual property registrations, the difference between copies and counterfeits can be more readily understood. A copy is a duplicate of an unprotected product or a product not able to be protected by intellectual property. A counterfeit, however, is a duplicate of a product that is protected by intellectual property. For instance, a duplicate product that is identical to the original product in all respects, including the use of a federally registered trademark, is a counterfeit.

U.S. Customs and Border Protection works to target, intercept, detain, and seize shipments of goods that violate intellectual property rights that have been recorded with Customs. In order for Customs to do its job, however, the targeted goods must be counterfeits and not simply legal copies. Thus, to protect the prized results from your research and development work, be sure to aggressively pursue all available forms of intellectual property protection. Once you have your registered intellectual property, you can work together with Customs to stem the tide of counterfeit products flowing into the United States, and cutting into your bottom line.

*By Robb Roby, Partner  
Knobbe Martens Olson & Bear LLP*



## TIPS FOR DEALING WITH COUNTERFEITERS

Counterfeiting is a multi-billion dollar industry in the United States. Experts have estimated that counterfeiting costs the automotive industry over \$12 billion annually. Counterfeit products can pose safety risks and can harm the reputation of the targeted company. Thus, action must be taken if counterfeiting is a significant problem for a company.

With the increasing sophistication of the counterfeiters, what can companies do to reduce the amount of counterfeit products? The following are a few tips:

- **Protect yourself.** Aggressively pursue protection of your intellectual property, including patents, trademarks and copyrights. It cannot be stressed enough that, without protection, you have nothing to enforce against counterfeit products. Be prepared to enforce your rights.
- **Instill urgency.** Educate your employees and your business partners, including manufacturing companies or supply companies, about the value of protecting your intellectual property. Your company and its business partners must feel a sense of urgency about protecting your intellectual property, and follow company policies regarding the protection of intellectual property. For instance, the company should have a zero-tolerance policy for business partners found to be supplying information or products to counterfeiting operations. Be especially proactive about production overruns and consider using available tracking technologies to monitor product flows from production to retail.
- **Know what you own and use it.** You should understand the scope of your patent, trademark and copyright protection, and monitor patent and trademark filings by your competition and known infringers. Integrate your rights to maximize protection. For example, use a registered trademark on your products so that copies which incorporate your registered trademark would be considered counterfeits. Educate the public that legitimate products feature the registered trademark, and decrease the possibility of a consumer purchasing a look-alike product that does not feature the registered trademark. Police e-commerce sites and be vigilant in enforcing your rights.
- **Get U.S. Customs and private investigators involved.** You can put Customs on notice regarding your registered trademarks and copyrights. Customs can seize counterfeit goods at the border if they are spotted during importation. Utilize private investigators to identify the source of shipments and to identify the manufacturers of the counterfeit products. Leads developed by private investigators can be used to help U.S. Customs identify and detain illegitimate shipments.

Counterfeiting is a vast problem requiring a multi-prong approach. Before implementing a plan, companies should carefully weigh the impact to their bottom line against the efforts involved in combating the problem.

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**THE AUTOMOTIVE ANGLE**

IP PERSPECTIVES

## Save the Date!

### **Automotive Aftermarket Seminar:**

*Place roadblocks and speed bumps in the paths of potential counterfeiters and copyists!*

**>> Friday, September 29, 2006 at the Sheraton Suites Fairplex in Pomona from 1:00pm to 6:00pm**

*Learn from industry experts, including corporate counsel at Oakley, Inc., who will share their insight and personal experiences as to how you can help your company protect its intellectual property rights and enforce them against its competitors.*

*The seminar will teach you the forms of intellectual property protection available to your company, how your company can reap the benefits of this protection, and how to utilize your intellectual property to limit counterfeits.*

*You will also discover the best practices for registering your products with U.S. Customs.*

**>> Register today by calling Sara Lona (949) 760-0404 or by e-mail [Sara.Lona@kmob.com](mailto:Sara.Lona@kmob.com)**

MCLE credit will be available for corporate counsel.



## Knobbe Martens Olson & Bear LLP

Knobbe Martens Olson & Bear LLP was founded in 1962. With more than 175 lawyers who specialize in intellectual property law, the firm is one of the largest intellectual property law firms in the United States. We serve clients around the globe in all areas of intellectual property law. Our clients include public and private companies at various stages of growth from start-up to Fortune 500.

The firm offers extensive collective experience in a wide variety of legal services for the automotive and power sports industries. Our services in these areas include patent, trademark and copyright prosecution in the United States and worldwide; counseling and negotia-

tion regarding licensing and strategic alliances; and all aspects of enforcement litigation. Of our lawyers and patent scientists, 42 have a degree in mechanical engineering or a closely related field, and 10 have advanced mechanical engineering degrees. Many also have work experience in the automotive and mechanical engineering industries.

The firm's lawyers frequently assist clients with identification of their intellectual property assets as well as evaluation and prioritization of such assets for purposes of seeking protection or enforcing existing rights.

For example, the firm works closely with developers and managers to identify potentially patentable

aspects of a product or service prior to its release and to develop a strategy for seeking protection for the product or service. The firm also counsels clients and conducts seminars to train clients on such topics as how to avoid losing patent, trademark and trade secret rights, how to avoid infringement liability and how to manage an intellectual property portfolio.

Our expertise is recognized in international surveys in which we have repeatedly been voted number one in all aspects of intellectual property law. In addition, several members of the firm have been voted among the world's leading intellectual property lawyers.

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