



COUNTERFEITS & COPIES

Part 2 - The Legal Route

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As expected, our first installment of Counterfeits & Copies set off a firestorm of controversy but also a wave of positive response. Everyone who is a player in the aftermarket world wants to have their voice heard and wants to relay their experience of obstacles and triumphs surrounding the subject.

We've changed tactics slightly and we are continuing to conduct testing. In the meantime, we opted to involve those on the front lines who protect the intellectual property of the world. We consulted with Robert J. Roby, a patent lawyer from the law firm of Knobbe, Martens, Olson & Bear LLP in Irvine, CA, who wants to educate the public regarding intellectual property and to send a stern message to those who tread on the territory of others. We also spoke

with Paul Nadjarian from eBay Motors who touched on what the online auction giant has to say about their policies and how they protect genuine retailers, punish the violators yet keep the bottom line intact. As the SEMA show unfolded and the buzz spread about our report on counterfeits, it seemed some exhibitors present were under a microscope more than ever before. Apparently there have been serious repercussions for some undesirable members

There are two different types of patents available in the US that offer some protection against counterfeits and copies: utility patents and design patents.

and SEMA has enacted new powers of cease and desist for the show. Jason Tolleson of the SEMA Action Network will be addressing all of the questions and concerns we have about the issue and their long-term plan for success.

Now that the floodgates have opened, it seems there is no shortage of support for the effort to stem the tide of counterfeit products. Our aim from the beginning has always been to not target specific companies or individuals - that would be far too easy - but rather to give the enthusiasts and the industry a straight report on the state of the market. More than ever before, the high performance world has been the subject of many inexpensive and inferior products filtering into the marketplace, which poses many risks.

THE LEGALESE

After the sad realization that watching a few hours of courtroom drama on TV in no way made us legal experts, we had turn off Judge Judy and solicit information from a real attorney with experience in the automotive and power-sports industries. We turned to the intellectual property law experts at Knobbe Martens Olson & Bear, LLP (KMOB) for the facts.

KMOB represents and protects the intellectual properties of a full range of clientele, from industry-leading giants to small start up companies and garage inventors. Clients that you may have heard of include Oakley, Lexani Wheel Corporation, Racepak, Troy Lee Designs, Ohlins Racing AB and Yamaha Motor Corporation. KMOB handles all sorts of intellectual property matters for their clients. When eyewear giant Oakley's largest competitor introduced a line of eyewear that infringed upon their patented Iridium® lens coating just before the holiday shopping season, KMOB successfully obtained a restraining order on behalf of Oakley and forced the removal of the infringing products from over 1,000 sunglass stores nationwide. This is just one of many cases where proper



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<< There are over 1,000 eBay Trust and Safety soldiers battling it out for your protection an \$11-million program aimed at keeping your online eBay transactions safe.

intellectual property law representation saved a company millions in potential lost revenue.

When we made contact with Robert “Robb” Roby, a registered patent lawyer at KMOB, we knew there were many stories to be told. “We want to educate manufacturers and innovators on what types of intellectual property protection are available,” Roby said “and to deliver examples of the types of actions that can be taken by the companies once they have obtained the intellectual property.” From a manufacturer’s perspective, you have to weigh how successful, and how important to your bottom-line, you believe your product to be and how far you are willing to go to protect it. From a copyist standpoint, you need to understand that willfully knocking off a protected product is a serious offense.

We sat down with Roby for a hard lesson in intellectual property law. What we found did not exactly leave us with a warm and fuzzy feeling. Apparently, unscrupulous idea-stealing individuals are lurking throughout the aftermarket industry looking to make a quick payday on the backs of innovative companies and individuals. In fact, a friend of the firm once complained to Robb that “R & D” in the aftermarket industry means “Rip-off and Duplicate.” Because of the sensitive nature of his profession, and because many of the investigations are still ongoing, we can’t publish everything we discussed. But we walked away with a much deeper understanding of what the laws really state, and some of what can be done to counter the rash of illegitimate aftermarket parts flooding our (and many other) industries.

KMOB specializes in intellectual property law. Intellectual property law primarily involves patents, trademarks and copyrights. Each of these areas offers a different angle by which an innovative product can be registered and protected. Most products can be protected with more than one form of registration and the forms of registration can be overlapped to create a multifaceted zone of protection around the product.



TRADEMARKS

Most people in our industries are familiar with the © and TM symbols found next to various product and company names. The © means that the word or words before the © are the subject of a US trademark registration. The TM means that the word or words before the TM are considered by the owner to be a trademark but are not yet the subject of a US trademark registration.

You may have heard the words “trade dress” thrown around before and, basically, trade dress is the appearance of a product that functions as a trademark. The shape of a product itself also can be protected as a trademark if the shape is not functional and if the public associates the shape with a particular source company. Think of Coca Cola bottles – the shape of the bottle is not functional and when you see the bottle (even without any lettering), you know who made the contents of the bottle.

What many people don’t know, however, is that registered trademarks can be used to stop imported products. If US Customs knows where to find them, all counterfeit products that feature a federally registered trademark can be seized. People also can be subject to criminal sanctions for trafficking in counterfeit goods using federally registered trademarks.

COPYRIGHTS

Copyrights are used to protect artistic expression and you often find copyrighted materials bearing the © symbol. Registration with the US Copyright Office is not required to have a copyright in your artistic expression but registration is required before you can sue based upon a copyright – it is best to register early and often (it’s really inexpensive). Also, if you



register your copyright within three months of the material being created, you could be entitled to statutory damages (you don't have to prove your damages) and you could be entitled to have the infringer pay your attorney fees for enforcing your copyright against the infringer.

PATENTS

Sure, we've all seen stuff that says "Patent Pending" or US Patent 8,675,309, but what does it mean? Essentially, it's a warning that the product is protected, or that the product may soon be protected, by a patent. A patent is a right granted to its holder by the US government that makes it illegal for anyone to make, use, sell, offer for sale or import the covered invention. Note that importing a patented product is covered by a US patent so the US patent will cover a product made in the US and the US patent also will cover a product made in far away lands and shipped into the US once the product hits US soil.


There are two different types of patents available in the US that offer some protection against counterfeits and copies: utility patents and design patents (there's a third, but it deals with plants, and the last we looked, no one is growing knock-off parts ... yet). Utility patents cover inventions and discoveries - think functional features and methods. This type of patent is generally good for 20 years from the date the patent is filed with the government and includes a written description of the product and drawings of it as well. Design patents cover non-functional ornamental designs, which are shown in the drawings of the design patent. They are typically good for 14 years from the day they are issued by the government.


Applying for a patent is where things get

a bit tricky. First, a bit of a warning: a patent has to be applied for before the invention is first offered for sale or first disclosed to the public or within the first year of that first offer for sale or first disclosure to the public. Timing is important. In order to obtain a patent, the

invention must be new and non-obvious to a person of ordinary skill in the field of the invention. Because this elusive "person of ordinary skill in the field" is often sought but rarely seen, the US Patent Office has people called "examiners" that play the role for us. Basically,

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>> Finding a qualified manufacturer overseas is not difficult but there are still thousands of knock-offs produced in China being sold internationally.



if you want to patent a new exhaust system, you need to have a patent application prepared and sent to the US Patent Office, where the examiner will compare the exhaust system that you want to protect with prior exhaust systems that the examiner identifies by searching through old patents (both United States and foreign) and various publications. The examiner will decide if your exhaust system is new and not obvious. While you could show your new exhaust system to us here at Modified, we consider ourselves to be of “extraordinary skill in the field of the invention,” which is more than required by the patent system so we probably wouldn’t be able to help your cause. The examiner will conduct a battery of tests and a bunch of research before deciding whether or not to issue a patent. The process usually takes three or more years from start to finish. Altogether, in the last 200 years, the US government has issued nearly seven million patents.

Once your patent is issued, you then can mark the product with a number referring to the patent you have obtained. If you don’t mark the product, even though you’ve obtained a patent for it, you will be hard-pressed to collect damages if your patent is infringed until after you have sent a letter to the infringer and, even then, you will likely only get damages for actions occurring after you sent the letter. When an item is marked Patent Pending, this means a patent has been applied for but not issued as of yet. No infringement can occur unless and until the patent actually issues – the maker of the product just wants you to be aware that a patent may be issued at any time that could cover the product. Patent laws have become much easier to enforce over the past 20 years and many foreign

countries are beginning to respect the role patents play in inspiring and protecting innovation.

PUTTING IT ALL TOGETHER

Getting your product protected, whether by one form or all three forms of intellectual property, may seem like a lot of legwork, but it is essential to protect your investment. If you have no protection, good luck stopping illegitimate products from copiers (and even variations from your competition) that will steal your market share. Although the initial costs to get the protection may seem high (hey, when was the last time the government did something for free, and you’re going to need a lawyer (or two) along the way, who also doesn’t work for free – except maybe when they work for us), you have to consider what is at stake. Counterfeiting is a \$450-billion industry annually. If you can protect just a portion of your turf, it is well worth the pain, suffering and investment.

Also, if you get protection, sometimes you can work out arrangements with other companies that will actually PAY you so they can make what you have protected. Texas Instruments reportedly earned \$600 million over four years in patent royalties alone! At IBM, they consistently report more than \$1 billion (yes, that’s billion with a “B”) a year in patent royalties!

IN THE E-TRENCHES

eBay Inc. is the world’s largest online auction site with a market cap of over \$60 billion. With 100 million registered users, eBay has quite the task of monitoring all activity on its servers.

While you sit at your computer scrolling through eBay, there are over 1,000 Trust and Safety soldiers battling it out for your protection. The eBay

Trust and Safety department, also known as SafeHarbor, is an \$11-million program aimed at keeping your online eBay transactions safe and free from all forms of fraud. These behind-the-scenes online agents are constantly hard at work ensuring your eBay experience is a safe and more importantly, profitable. Although the department was formed just over two years ago, they have already made sweeping implementations to protect eBay users. The selling of counterfeits, unauthorized replicas, unauthorized items (such as counterfeit watches, handbags, or other accessories) or unauthorized copies (such as copies of software programs, video games, music albums, movies, television programs, or photographs) are not permitted on eBay. Violators run the risk of immediate cancellation of their listing, loss of account privileges, total account suspension, forfeiture of eBay fees and loss of Power Seller status. The Trust and Safety wing uses a ‘Fraud Engine’ which automatically flags suspected fraudulent transactions to operations staff where they are investigated personally. While the Trust and Safety department works tirelessly rooting out frauds and knock-off artists, the most powerful tool at their disposal is you. With literally millions of transactions to oversee, eBay can’t be everywhere at all times. Savvy internet crooks will find a way to circumvent any laws or barriers that stand in their way - they are professionals. If you’ve bought or seen a counterfeit item for sale, alert them immediately. eBay keeps data on all its users indefinitely, so no one is in any way anonymous.

THE BIG DOG

There are laws in place, and there are steps being taken in the marketplace to weed out

the violators, but what can be done within our own industry? Thankfully, in our industry, we have quite possibly the biggest dog in the neighborhood guarding our front porch. SEMA has its members covered. Late last year they participated in the Chamber of Commerce-sponsored "Anti-Counterfeiting and Piracy Summit: STOPing the Theft" in Washington DC. The conference was a round table discussion for industry members and the government to discuss anti-counterfeiting efforts and to figure out how to best forge a partnership to stop knock-off artists in their tracks. While it may seem like an insignificant problem of a few automotive knock-off parts filtering in, we have heard reports of entire crate motors copied from Honda's motors that are being imported from China. Clearly, the knock-off threat is expanding along with the engineering capabilities.

At the summit, Carlos Gutierrez, Secretary of the Department of Commerce announced the government has launched a China Intellectual Property Rights Advisory program which will offer free, 1-hour consultations with an experienced volunteer attorney to learn how to protect and enforce intellectual property rights in China. The Commerce Department has also set up a special unit to track down intellectual property thieves around the world and take action. If your product has been pirated, you are encouraged to contact the government through their Strategy Targeting Organized Piracy (STOP!) program. By calling their toll free hotline at 866-999-HALT (4258) they will set you up with everything you need to put an end to it.

SEMA also offers a trademark, patent and copyright information database through their www.sema.org website. This information is invaluable to any individual looking to protect their intellectual property. The material is also peppered with links to the US Patent and Trademark Office and other government agencies. SEMA recommends securing the assistance of a qualified attorney to assist in planning and protecting your company's intellectual property rights.

The folks at SEMA were also vigilant at this year's show shutting down vendors or forcing them to remove disputed items from display. They are working very hard to get the message across that counterfeiting will not be tolerated in their organization. But there's only so much an organization can do. Without help from enthusiasts in flushing out these knock-offs, we may never stem the flow of cheap, ill-fitting, questionable parts flooding the market.

We strongly recommend that your business joins SEMA in the fight to bring honesty and

fair business practice back to the automotive industry before it is too late.

TEST PHASE

Whatever the public sentiment on the counterfeit and copy situation gripping our industry, the simple fact remains – there are intellectual property laws on the books. Breaking the law is breaking the law, no matter which way you word it. Under the patent laws, using a patented invention is still infringement of the patent – so sticking that counterfeit pop-off valve under your hood makes you an infringer if the valve is covered by a patent. If the law was rewritten to make possession of a single piece of stolen intellectual property a criminal offense (i.e., you can get charged for possessing even a single counterfeit), we're sure there would be a sharp decline in the trade of illegal duplicates. Hopefully, Congress will take a long hard look at this issue.

The fact remains, knock-off products can be a legitimate threat to your health. Considering that counterfeit medications and medical equipment are surfacing in the US, a very dire situation for the public is growing. A mechanical failure of a knock-off suspen-

sion part, or brake component on a car could cause a serious accident and the knock-off safety equipment will not improve the chance of survival. Furthermore, failing electrical systems and fuel components could cause an explosion or fire creating a dangerous situation while on the road. In our next installment, we take our sample parts through the paces to determine if and why they fail because, as they say, "if you're not part of solution, you are part of the problem." ■

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