

No Easy Task

By Joseph M. Hanna

Taking advantage of legal protections presents tough challenges to golf club manufacturers in the United States, and protecting their patents and trademarks abroad is nearly impossible.

Teeing-Off on Counterfeiters

The “knockoff” industry of counterfeit goods threatens a wide range of commercial markets. While counterfeiting is most synonymous with the high-end fashion industry, the “knockoff” market has expanded to goods that are not

offered on Canal Street. In recent years, counterfeiters have evolved by breaking into the sporting goods market. A pre-eminent example is China’s new “Uncle Martian” brand: a premium sports-clothing label that is eerily similar in name, logo, and product to the more commercially recognizable “Under Armor” brand. Under Armor—similar to many companies that came before it—vowed to take every available business and legal action to fight this infringement. Press coverage has only intensified as the counterfeit sporting goods industry grows. Yet, despite the rise in notoriety, one victim of the counterfeit sporting goods industry is dramatically under-discussed... the golf club industry.

With summer fast approaching, many will turn to golf. And consumers, looking to upgrade their gear with the latest technology and newest products, generate large revenues for the golf industry. In today’s increasingly global market, customers will likely traffic e-commerce sites for new golf products. But with the marketplace shift-

ing online come risks, and here, customers are at a heightened risk of purchasing counterfeit goods. It is those customers—those looking for a *real* deal—who are easy targets for counterfeiters. This disturbing trend of consumers purchasing goods that they believe to be authentic, but which actually are indistinguishable knockoffs, is growing. Counterfeiting intellectual property costs U.S. manufacturers \$6.5 billion a year and is one of the biggest sources of recent litigation in sports. In fact, in late 2010, the largest counterfeiting bust in the history of eBay involved a global crime ring dealing in counterfeit golf equipment.

The golf industry is at a crossroads. While manufacturers create increasingly technical—and successful—products, which generate large revenues, counterfeiters syphon off a sizable chunk of the market with counterfeit goods. In response, taking advantage of legal protections presents tough challenges to manufacturers in the United States, and if the counterfeiters operate beyond our borders, protecting



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patents and trademarks abroad is nearly impossible, even at great expense.

The Intellectual Property of Golf Clubs: How Valuable Is It?

In its genesis, golf was a game played with sticks and leather sacks. More than five centuries later, golf clubs are the products of highly specialized innovation. Through the use of technologically advanced materials and engineering, today's golf clubs are products of state-of-the-art design and testing programs. Today's golf club manufacturers are interested only in creating the best product on the market, in compliance with United States Golf Association (USGA) rules. Those able to find that "sweet spot" with a new golf club strike gold because a product that gives a golfer an advantage is a product that everyone wants in their bag.

As a result of industrialized golf club production, professional golfers are turning in historic results. Because of the success of these products, consumers generate a steady flow of revenue by purchasing those items. Golf club companies sustain an annual market worth nearly \$70 billion per year. This figure results from the 24.7 million people who golf, and who purchase golf equipment, in the U.S. alone. While that number has stayed consistent over the last few years, millennials headline a new class of beginners taking up the game, leading to higher overall revenue. Current trends indicate that these new demographics will contribute to massive industry growth in the future. A recent survey shows that the average golfer spends \$2,776 on his or her game annually, and in 2015, a total of \$3,429,000,000 was spent on golf equipment alone. The sheer size of the market, mixed with the amount of potential revenue, attracts counterfeiters. Thus, it is imperative that legitimate golf equipment companies protect their products to prevent forgeries from flooding the market.

Protecting Rights

The American tradition of protecting patents and trademarks has its roots in the Commerce Clause, Article I, Section VIII, of the United States Constitution. Patent protections went largely uncodified until Congress passed the Patent Act of 1952. This legislation provided three basic protections for patent owners: the act (1) estab-

lished the U.S. Patent and Trademark Office; (2) set out the central requirements and conditions for patentability, patent application, and issuance procedures and practices; and (3) provided patent owners with a federal cause of action for patent infringement. For many years, these protections provided the first line of defense for patent owners, that is, until President Barack Obama signed the Leahy-Smith America Invents Act (AIA) into law in 2011. In significantly amending the 1952 act, Leahy-Smith provided additional protections to patent owners, including expanding the prior commercial-use defense, eliminating the "failure-to-disclose" defense, and changing the United States to a first-inventor-to-file system by adjusting the definition of a "prior art."

Trademarks are another principal means of protecting brand prestige. The U.S. Patent and Trademark Office (USPTO) allows only the registrant of a trademark to use that name or logo—or a substantially similar one—on the registrant's product. A trademark protects a company's trade dress, including not only the brand name of the manufacturer, but also the name of the golf club, the lettering and style used, its packaging, and other aspects of its overall appearance. In other words, trademarks ensure that when a golfer purchases a manufacturer's club, he or she is paying for every process that led to the product's inception.

In kind, golf club manufacturers use patents and trademarks to protect their intellectual property assets. But golf takes innovation to the next level with near constant product overhaul on a seemingly week-to-week basis. As such, it is crucial that manufacturers protect their intellectual property by staying on par with the competition and by preventing counterfeiters from hurting their brands by stealing revenue. Although it may appear that patents and trademarks offer powerful legal protection, they have not deterred—or even prevented—the growing golf club counterfeiting industry.

Challenges that Counterfeiters Pose to Patent and Trademark Owners

Patent and trademark owners face serious risks if they fail to pursue counterfeiters aggressively. While U.S. law provides the legal framework for protecting the rights

of intellectual property owners, some of the available recourse can be hindered by nuance and ambiguity. Portions of the legal protections actually make protecting the integrity of golf products more difficult. Thus, golf club manufacturers are forced to devote massive resources to try and prevent parasitic counterfeiters from syphoning off additional revenue.

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Difficulties in Protecting Trademarks

We begin with first principles. In the United States, trademark owners can protect their interests by suing infringers under the counterfeiting provisions of the Lanham Act. Passed in 1946, the Lanham Act created a national system of trademark registration as well as protections for owners of federally protected trademarks. One of those protections is codified in section 32, which provides protections for federally registered marks by prohibiting a second mark that causes confusion, or mistake and deception, in the mind of a consumer. Because it is largely undisputed that major companies have valid and registered marks, liability rests on the "likelihood of confusion" issue. Traditionally, U.S. courts use an array of factors to determine whether a consumer will likely be confused by an infringing mark, including



(1) the strength of the mark (how famous it is); (2) the proximity of the goods (similarity of the goods or services); (3) the similarity of the marks themselves; (4) evidence of actual confusion; (5) the marketing channels used; (6) the types of goods and the degree of consumer care; (7) the defendant's intent; and (8) whether the mark is likely to enter the other parties'

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realm or industry. Of these factors, the three most important are similarity, actual confusion, and intent. In addition to being the most heavily weighted factors, these elements are easily arguable by counterfeiters. As a result, genuine trademark owners face increased difficulty in fighting counterfeiters.

Similarity between marks is an extremely subjective factor; it takes into account the spelling, sound, meaning, context, and style of the competing marks. The problem for manufacturers is that a similar spelling or name, alone, is not sufficient to create confusion among consumers. So when you see a Footjoy "Weathersof" golf glove, (compared to a "WeatherSoft" golf glove), or a "Tailormade" driver (compared to a "TaylorMade" driver), courts require more to establish trademark infringement. Similarly, marks that are not visually complex—a highly ambiguous standard—receive little sympathy from courts when they are compared to a similar mark because, typically, only a high level of sophistication warrants protection by a court.

Actual confusion is another difficult standard for golf club companies to meet. Courts use an objective, preponderance of the evidence standard, typically met by witness testimony, surveys, misdelivered mail, or incorrectly addressed customer service complaints, to determine whether a golf product manufacturer has properly demonstrated the actual confusion element. While this element may appear to impose a low bar to meet, considering the sheer volume of people who buy counterfeit clubs, manufacturers have difficulty making the argument because the production of evidence is increasingly difficult. Golf product manufacturers rely on consumers realizing that the equipment that they bought was fake and then contacting the legitimate manufacturer. This process is also becoming more difficult as counterfeiters come to produce better and more exact knockoffs. In some instances, counterfeiters actually replaced counterfeit equipment and provided a refund before a consumer could contact the legitimate trademark owner. In these rare cases, potential evidence of counterfeit goods was silenced by the counterfeiters themselves. But even in spite of increasingly creative counterfeit operations, golf manufacturers have had some success demonstrating actual confusion. In turn, it has become a critical factor in ending counterfeit schemes.

The consideration of intent—in adopting or using a similar mark—has been argued by many sporting goods companies in recent trademark litigation, yielding unsuccessful results. Courts consistently hold that intent to refer to, or make a "play" off of, a mark, is *not* the same as the intent to cause confusion. On the rare occasions in which counterfeiters show up to court, they have skirted the intent requirement by having sales staff point out and explain the differences between the products, in an attempt to eliminate evidence of confusion and disprove intent. This creates a hearsay issue that can cloud a court's judgment. Thus, proving intent can be very difficult for many of the same reasons as proving the element of actual confusion.

Trouble in Protecting Patents

In the United States, a golf club manufacturer—or anyone for that matter—can apply and receive a patent if their prod-

uct complies with the Federal Patent Act. To do so, a product must meet four criteria: (1) the product must be in a subject matter category; (2) the product must be "useful"; (3) the product must be novel in relation to the prior art; and (4) the product must be obviously different from the prior "art" to a person of ordinary skill in the "art" at the time that the invention was made. The golf industry uses both utility and design patents to protect each product's integrity. Design patents protect the "exact shape for the club head" and any additional unique features, whereas utility patents protect the specific playability features that the same club head may evoke. If the process for receiving a patent were not arduous enough, holding onto it—when challenged in court—has proved to be even more difficult.

Major golf club companies, including production-giant Callaway, have had difficulty protecting their "art" in recent litigation. In 2010, Callaway was sued for allegedly infringing a patent established for a putter. In defending its actions, Callaway claimed that its "RAM Little Z" putter qualified as "obvious prior art," as set forth in the Federal Patent Act, and was therefore not infringing on a patent. The district court employed a multi-prong analysis to determine whether a patent was infringed. At the outset, the court outlined that a patent has a presumption of validity. To overcome such a presumption, a litigant must show that the patent was invalid because it was "obvious in light of the prior art [original patent]." To determine validity, the court conducts four factual inquiries: (1) "the scope and content of the prior art"; (2) "the level of ordinary skill in the prior art" (3) "the differences between the claimed invention and the prior art"; and (4) "objective evidence of nonobviousness [sic]." In demonstrating evidence of "obvious prior art," Callaway hired an expert to demonstrate how the putter was distinct from the plaintiff's patent and to demonstrate that the putter was available for sale prior to the plaintiff's patent application. But despite the compelling evidence presented, the court found that because Callaway could not provide any further corroborating evidence of what the expert testified to, its motion for judgment as a matter of law was denied.

In so ruling, the court established yet another hurdle for golf club producers to clear to protect their patents, adding time and expense to pursuing or defending against patent infringement actions. It was not until four years after the district court's decision in *Colucci*, that another golf manufacturer, Cobra, successfully presented enough evidence to survive the court's scrutiny. In *Nassau Precision Casting*, the Federal Circuit found the copious amount of evidence submitted—including charts, photos, and diagrams—sufficient to demonstrate that there was no alleged infringement.

In the future, golf club manufacturing companies should look to the Federal Circuit's opinion in *Nassau Precision Casting* and present voluminous evidence to demonstrate that an alleged patent was not infringed. While this method of protecting patents, and avoiding costly penalties for infringing on the patents of others, has inherent expenses, it has proved to be a successful way to protect a golf club's brand and products.

The International Threat

Any discussion of counterfeiting must include the international spectrum. Countries including Vietnam, the Philippines, and China have become hotbeds for golf's billion dollar "Black Market." These countries have laws similar to Western countries, protecting personal naming rights, rights of reputation, and specific marks from being confused with similar marks in commerce. Further, membership in the World Trade Organization requires observance of strong intellectual property laws. However, even if those laws are present, *enforcement* is much less intense than in the United States. In other words, Chinese law, for example, may reflect all of the protections of U.S. trademark and patent law, but China does not enforce that law with the same zeal as the United States does. As such, sustaining claims of international trademark infringement against golf equipment counterfeiters is difficult, given that the vast majority of infringers are based in countries where trademark law enforcement is markedly different.

The most notable difference is that most countries, except the United States and the United Kingdom, award trademarks

based on a "first-to-file system," conferring protection to the person who files for the trademark first, instead of a "first-to-use system," protecting those who use the mark first in commerce. The effect of this difference is that when, for example, a golf club company looks to file suit for trademark infringement, it may be surprised to learn, on filing suit, that it is not even the true owner of its own trademark in that country, simply because a counterfeiter filed for protection first. This pattern is especially rampant in the international arena. Abroad, a near strict exactness standard exists for a mark to be found confusing because even simple nuanced changes, due to language and cultural barriers, can be sufficient to find that consumer confusion could not possibly exist. With this difference, a window exists during which counterfeiters can file papers to own the trademarks of golf equipment manufacturers. As a result, victory for American companies abroad, in general, can be rare.

Remedies and Solutions

Counterfeiters pose a serious risk to product integrity, and companies looking to put them out of business face a tough task. Even the most reputable brands have had significant trouble fighting counterfeit-good producers. Nike, perhaps the most notorious brand in the world, recently challenged a Chinese manufacturer over claims of trademark infringement. The manufacturer, known as "Qiaodan," which translates literally to "Jordan," carried the same silhouetted "jumpman" logo and the number "23" on its products. Despite an otherwise clear-cut case of trademark infringement, a Chinese court dismissed the Nike suit. Other world-renowned companies have had a similarly difficult time taking down counterfeiters. Satisfactory remedies are difficult to come by for many companies, but golf manufacturers have two avenues through which they can recover lost revenue and end counterfeit production.

First, golf club companies can expand their intellectual property enforcement departments. Today, many of golf's top equipment companies employ numerous attorneys specializing in counterfeiting and intellectual property litigation. With additional legal counsel, golf product com-

panies have taken it upon themselves to enforce their own intellectual property rights. For example, Callaway has become a leader in combating counterfeiting by increasing enforcement. Callaway employs a legal and security team that travels the globe to purchase infringing products, to coordinate raids, and to seize millions of dollars' worth of counterfeit clubs. During one raid

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in March of 2013, legal and security representatives from Acushnet, Callaway, and Srixon/Cleveland Golf worked with law enforcement and private investigators to disrupt counterfeit operations. While this sort of in-house enforcement may offer modest results, it clarifies trademark confusion and identifies knockoffs, increasing disruption in counterfeit operations.

Second, today's technological advancements in online shopping platforms yield increased amounts of consumer protection. One of the ways that golf equipment companies can provide additional safeguards is by participating in buyer-protection programs. For example, eBay's Verified Rights Owner Program is a great way for a brand owner to protect its trademarks and prevent counterfeiting. Fake golf products are prominent on eBay, targeting unwitting buyers who have little opportunity to inspect the product before purchase. Under its procedural protections, eBay constantly monitors listings of golf products, and if

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an auction is suspicious, the trademark owner is provided with notice of possible infringement, and eBay may remove the item within 24 hours. Under this process, the seller may file a counter notice to be relisted. Most infringers, however, simply hope that nothing else comes of the discovery. Because of these internal procedures, eBay is gaining a reputation as a successful aid in combating counterfeiting, particularly in the golf industry.

Many remedies for infringement will remain moot unless the tests for infringement become clearer globally. Because the likelihood-of-confusion standard is so subjective, international courts have applied it much more narrowly than in the United States. This is exacerbated by the fact that in Asia, trademark disputes are an entirely new concept, resulting in narrow standards for infringement claims and little guidance to companies looking to take legal action. Abroad, strong evidence of confusion, along with the near exactness in mark design, will typically result in a successful claim, whereas in the United States, defeating a counterfeiter depends merely on evidence that a consumer is likely to be confused. Despite the fact that many countries have similar language and trademark and patent protections, the subjective nature of the infringement tests makes them difficult to enforce. Thus, a firmer and more defined standard would help to eliminate the counterfeit golf equipment industry by giving companies an avenue to seek redress and enforce their intellectual property rights aggressively. In the United States, claims of intellectual property theft against counterfeiters could be brought in an easier manner for legitimate golf equipment manufacturers by expanding the means by which brands could demonstrate counterfeit production.

Conclusion

Correcting the problems that counterfeiters impose on the golf industry is not an easy task. Despite the work that goes into golf equipment innovation, and the efforts made to protect intellectual property, golf companies are constantly losing revenue to counterfeiters exploiting golf's popularity. U.S. trademarks offer minimal protection in the United States, and taking

counterfeiters to court is a difficult hurdle for golf manufacturers to rise above. What is more, the current protections granted in the United States are significant compared with the protections offered abroad, where most counterfeit golf equipment is manufactured. Due to the subjectivity of trademark standards and the differences in the enforcement of trademark law internationally, golf manufacturers' intellectual property remains exposed. Thus, golf companies must continue to build their intellectual property enforcement teams, encourage stronger e-commerce protection, and push for stricter enforcement abroad. At the moment, though, consumers must be wary and diligent in making purchases until a more effective remedy can reassure consumer confidence. 