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Phone: +1 646 783 7100 | Fax: +1 646 783 7161 | customerservice@law360.com

# Clutch-Maker Sues Off-Road Vehicle Co. For Stalled Royalties

By **Hayley Fowler**

Law360 (November 14, 2024, 6:54 PM EST) -- An off-road vehicle maker in North Carolina has shortchanged a Canadian manufacturer on royalty payments for a clutch and is otherwise tarnishing the supplier's reputation by selling vehicles that frequently malfunction, according to a newly filed federal lawsuit in the Tar Heel State.

Defendant Speed UTV LLC allegedly fell behind on royalty payments for the patented clutch, prompting plaintiff Tapp Manufacturing Inc. to call off the licensing deal in April. But that didn't stop Speed from continuing to sell utility terrain vehicles, or UTVs, that contain the clutch, Tapp said in a **complaint** filed Wednesday in the Middle District of North Carolina.

To make matters worse, Tapp said, the vehicles are allegedly riddled with mechanical failures, which has threatened plaintiff Tapp's goodwill with customers.

"Defendant's reputation has been dealt some significant blows, which have had a corresponding inverse impact on plaintiff's own reputation — guilt by association," Tapp said.

By continuing to make and sell UTVs with its clutch, Tapp alleges Speed has been infringing its patent since at least Oct. 1, when its patent application was approved by the U.S. Patent and Trademark Office. The patent specifically covers a "continuously variable transmission primary clutch" designed for off-road vehicles, Tapp said.

According to the complaint, British Columbia-based Tapp designs components for the automotive industry, most notably clutches. Tapp said its clutches are largely designed for off-roading and can withstand harsh environments like extreme heat and cold, dust, mud, ice and snow.

Speed allegedly invited Tapp to present a prototype of a clutch for side-by-side vehicles in October 2020, after which the two parties started negotiating a licensing deal. They ultimately reached a contract in November that year, under which Speed agreed to pay a \$15 royalty fee on each secondary clutch and a \$30 fee on each primary clutch, the suit states. Speed also allegedly promised to manufacture 5,000 units of each clutch annually.

In September 2023, Tapp said, Speed started making and importing its UTV vehicles. The complaint alleges the use of Tapp's clutches was a "major selling point" for Speed's UTVs, with Tapp's founder even helping promote the vehicles as part of a media campaign for Speed.

But Speed ultimately fell behind on both its royalty payments and manufacturing commitment under the terms of the licensing agreement, Tapp said. At the same time, Speed came under fire for allegedly failing to deliver the vehicles on time and breaching contracts with vendors and suppliers.

The UTVs have otherwise suffered from "mechanical failures" that "threaten to injure customers" and "have caused fires" — troubles that have been wrongly blamed on the clutches, Tapp said.

"Plaintiff, fearing that its reputation would continue to deteriorate by virtue of its association with defendant, combined with defendant's unwillingness to make the minimum royalty payments owed under the license agreement, decided, around March 2024, that it must take action," the suit states.

Tapp said it sent a letter threatening to cancel the licensing deal if Speed didn't cough up more than

\$675,000 in unpaid royalties. When Speed allegedly failed to take action, Tapp said it terminated the arrangement on April 6.

In the months since, Tapp said Speed has continued to make "some nominal payments" toward paying down the debt. But Tapp alleges those payments were not going toward an ongoing license to use its clutches.

Speed, however, has at least 700 vehicles in stock containing the allegedly infringing clutch that it continues to try and sell, Tapp said.

According to the complaint, Tapp has intentionally not accepted any payments from Speed since Oct. 1 to make clear that the licensing deal is not in effect. Tapp said Speed has otherwise been on notice since April 6 that it couldn't keep selling the UTVs.

The suit asserts claims for patent infringement, breach of contract, violations of the North Carolina Unfair and Deceptive Trade Practices Act and unfair competition under state law.

The patent-at-issue is U.S. Patent No. 12,104,695.

Counsel for Tapp and a representative from Speed did not immediately respond Thursday to requests for comment.

Tapp is represented by Tom BenGera and Samuel Alexander Long Jr. of Shumaker Loop & Kendrick LLP.

Counsel information for the defendants wasn't immediately available Thursday.

The case is Tapp Manufacturing Inc. v. Speed UTV LLC, case number 1:24-cv-00944, in the U.S. District Court for the Middle District of North Carolina.

--Editing by Andrew Cohen.