

ANDERSON KILL'S

# Inside Brand Integrity

AUTUMN 2009

## Defending Your Brand

Knocking Out the Knock-Offs

**PHILLIP ENGLAND**



### **INSIDE**

How to Get Your Counterfeiters Prosecuted

Intellectual Property Audits are Valuable Aids for Brand Equity Management

Managing Reputational Risk: A Practical Guide to Protecting Your Business from Counterfeit



ANDERSON KILL  
& OLICK, P.C.

# Contents

**Defending Your Brand: Knocking Out the Knock-Offs** ..... 1

**How to Get Your Counterfeiters Prosecuted**  
Cynthia M. Monaco ..... 4

**Intellectual Property Audits are Valuable Aids for Brand Equity Management**  
Kanishka Agarwala ..... 8

**Managing Reputational Risk: A Practical Guide to Protecting Your Business from Counterfeit**  
Pamela D. Hans ..... 11

ANDERSON KILL'S

## **Inside Brand Integrity**

INSIDE BRAND INTEGRITY is published by Anderson Kill & Olick, P.C.

### CONTRIBUTORS

Kanishka Agarwala  
Pamela D. Hans  
Cynthia M. Monaco

### DESIGN

Publishing Resources Inc.

Please contact Carol Ueckerman at [cueckerman@andersonkill.com](mailto:cueckerman@andersonkill.com) with inquiries.

Subscriptions are complimentary for clients, for friends of the firm and for those interested in protecting their brand.

Copyright 2009 by Anderson Kill & Olick, P.C. All rights reserved. The articles in *Inside Brand Integrity* do not constitute legal advice or opinion. Such advice and opinion are provided by the firm only upon engagement with respect to specific factual situations. The firm has offices in New York, NY; Newark, NJ; Philadelphia, PA; Greenwich, CT; Ventura, CA; and Washington, DC.



ANDERSON KILL  
& OLICK, P.C.

[www.andersonkill.com](http://www.andersonkill.com)

# Defending Your Brand

## Knocking Out the Knock-Offs

**A** company's balance sheet has no line item for the value of a company's brand. This obscures a critical fact, according to Phillip England, senior shareholder and head of the Anti-Counterfeiting & Brand Integrity Group at Anderson Kill & Olick, P.C.

"There is an enormous value inherent in brands and trademarks," says England. "On the other hand the world is filled with unscrupulous people who will try, in effect, to steal a company's brand by producing a knock-off that may be poorly made and meant to mislead a consumer."

Companies need a considered, broad-ranging strategy to protect their brand identities. Many large companies have spent substantial time and resources

to produce such a strategy. Others are stunned to learn that they need one.

### Origins of a Legal Career

A circuitous path brought England to focus his efforts on helping companies protect their brand identities. England grew up in South Carolina and earned his bachelor's degree and J.D. at the University of North Carolina before heading north for further study



#### PHILLIP ENGLAND

Senior shareholder and head of the Anti-Counterfeiting & Brand Integrity Group at Anderson Kill & Olick, P.C.

at New York University Graduate School of Law, where he earned an LL.M in taxation. England then joined the air force and served in the Judge Adjutant General's

office for four years, achieving the rank of captain. This stint in the military left him with a detailed knowledge of military history. "I thought for a while that I might do that professionally. But I was stationed in New Jersey, and, like a lot of Southerners who get a taste of the Big Apple, I wondered if I could make it in New York."

**The world is filled with unscrupulous people who will try to steal a company's brand by producing a knock-off that may be poorly made and meant to mislead a consumer.**

England met his wife in New York and started his legal career as an associate with Cadwalader, Wickersham & Taft in the city. Soon, however, he planted his "tar heels" back in North Carolina, joining R.J. Reynolds in Winston-Salem. As senior international tax counsel for RJR, he created an international tax group. During that time, the seeds of his anti-counterfeiting practice were sown.

Working for RJR was a "marvelous thing," says English. "They had superb management and I learned what it was to be a steward of other people's investments. I learned to take in a personal way what a company sold and what it meant for a company to have a respected brand. Over time, I learned that fighting counterfeiting is one of the highest purposes of stewardship. It is important to protect what you have built."

When RJR was bought out, England moved to a position as vice president of Sea Land Corporation, which became an NYSE-listed company. In 1988, when Sea Land was purchased by CSX Corp., England returned to private practice in New York.

“That was an important time for me. I learned not to think of a corporation so much as a client. I think of a corporation as its people and its products.

“To a significant degree, the culture of a corporation often adopts the chairman of the board’s way of looking at things.” England adds, “Paraphrasing Woodrow Wilson, ‘There is no greater honor than to be the elected leader of an enlightened and efficient people.’ Corporate executives know exactly what Wilson meant.”

More than a decade ago, England began to assemble the group at Anderson Kill to establish a practice focused on brand integrity, anti-counterfeiting and anti-piracy. “I felt that the firm’s basic background in U.S. Attorney’s offices was a natural fit with my own experience working for a consumer products company – they knew how to ferret out crime and as corporate counsel I had focused, through our brand protection efforts, on deterring it.”

## England Today

England leads a phalanx of nearly a dozen lawyers. He relies heavily on the firm’s former prosecutors and intellectual property experts.

Understanding a corporation’s culture is the key to understanding how that company should react to an attack on the integrity of its brand. A large corporation that sees itself as the gold standard for a particular product area might not want to risk reputational damage in public litigation. But a younger, more aggressive company might want to take on all comers. “You have to know what works for that particular company,” says England.

Much of England’s legal work has dealt with captive insurance, and he sees a connection between captive insurance and brand protection. “A captive insurance fund enables a company to establish a measure of control over financial risk. A robust anti-counterfeiting program aims to manage reputational risk by establishing control over the company’s product line, the core of its identity. Both efforts, pursued with vigor and thoroughness, exemplify proactive risk management at its best.”

England smiled as he recounted the story of a European company employee who, while visiting Libya, purchased what he thought was one of his company’s

products. However, the company exported no products to Libya. But the product looked the same – except for one flaw. “Counterfeiters are notoriously bad spellers,” says England. “‘Africa’ was spelled ‘Africca’.”

## Paraphrasing Woodrow Wilson, “There is no greater honor than to be the elected leader of an enlightened and efficient people.” Corporate executives know exactly what Wilson meant.

England noted that there is upon occasion a natural tendency inside corporations to minimize or avoid facing the risk posed by counterfeiting. “Sometimes a company will say, ‘Well, the knock-offs are so bad no one could be fooled’ or ‘We spot-check markets where our products are sold.’ In fact, consumers are often fooled by bad knock-offs. And spot-checks are not enough; a more intensive and broader effort is usually necessary to realistically combat counterfeiting of consumer products.

When a company finds out that it does have counterfeit problems, sometimes the discovery is followed by questions: Do we have an obligation to report this? Is there a governmental agency to which to report this as a safety issue? Is it just a nuisance or a real threat to our business? And the big question: How much business are we losing?

Government prosecutors are especially quick to act if the brand theft involves cosmetics or medicines, where public safety is an issue. For counterfeit items that are not life-threatening, it can be difficult to get counterfeiting on law enforcement’s list of crime priorities. Companies sometimes must deal with a perception that protection against counterfeiting is the corporation’s problem, not the government’s. “Government looks to see how serious you are about stopping the counterfeiting,” notes England.

England recommends that companies take a team approach to anti-counterfeiting, engaging field investigators, marketing people, lawyers and others. Build-

ing a trail of evidence can be challenging, especially in foreign countries when you might not want (or where laws do not permit) the evidence to leave the country.

“In the business of protecting a brand, one factor is paramount,” England says, revealing some steel behind the Southern accent. “A company has to demonstrate to everyone involved that it takes brand integrity very, very seriously.

“If a consumer detects that a company is not particularly concerned with the efficacy or integrity of its brands, consumer loyalty (and company profits) can suffer.

“If the people doing the counterfeiting sense that a company’s efforts to combat them are half-hearted, they will see that as a green light to pursue their illicit activities.

“If a regulator or indeed a government sees that a company’s efforts in this area are lukewarm or not well thought out, then they will reserve their efforts for those companies that are really serious about brand protection.

“Lawyers are integral in many ways to the brand protection focus demonstrated by a company. At Anderson Kill we leave no doubt that we are serious about our efforts on behalf of our clients to defend brand rights and ownership and ensure that consumer confidence in a brand built up over years is not lost.”

**In the business of protecting a brand, one factor is paramount. A company has to demonstrate to everyone involved that it takes brand integrity very, very seriously.**

Ultimately, England reflects, anti-counterfeiting efforts are a form of combat. “There is no getting around that fact that those people who intend to make a counterfeit consumer product or who intentionally distribute counterfeit consumer goods to an unsuspecting consumer are the enemy. A company must maintain a strong defense, recognizing that we will always have counterfeiters with us, and must be ready to deal convincingly with an attack on the integrity of its brands.” ▲

## **Working Effectively with Investigators**

Brand protection programs rely heavily on the work of investigators. At multinational corporations, those investigators are typically former law enforcement officers who come with the comfort of a known skill set – namely, reliably collecting, maintaining and transmitting physical evidence; writing detailed unbiased reports of interviews; and taking steps necessary to trace contraband back to its source. All of these skills are the product of training and experience earned in government service.

Yet even the best investigator cannot be expected to have in his or her skill set the ability to distinguish high quality counterfeit product from legitimate product. This requires additional training.

Many corporations make the mistake of not engaging investigators until a crisis arises, for example, when large amounts of counterfeit appear on store shelves. Sending untrained investigators to ferret out counterfeit at retail outlets can become an expensive process. Newly hired investigators conducting a market survey will first purchase samples at designated locations, have them examined for counterfeit status and then return to the offending retail outlets for follow up. The best investigators, if not properly trained in detecting counterfeit, will expend a great deal of time and money investigating legitimate product on store shelves.

One facet of an effective brand protection program is partnering with reputable investigators whom a company trains to find counterfeit and monitor a particular region on an ongoing basis. The cost of establishing and maintaining these relationships can be minimal, especially when shared with other intellectual property holders employing the same investigative team. Moreover, the benefit of having trained investigators routinely and reliably scanning store shelves for evidence that your company’s brand has been compromised will pay for itself many times over.

# How to Get Your Counterfeiters Prosecuted

By Cynthia M. Monaco

**T**he damage that counterfeiting wreaks on brand value can be swift, severe and long-lasting, and the discovery of a large counterfeiting operation is the nightmare of every brand integrity manager. Imagine news footage of police at a waterfront warehouse following a massive seizure of counterfeit goods bearing a convincing version of your company's logo. Even worse, picture a press release from health authorities describing the adulterated products now linked to your brand. If you are having a particularly vivid nightmare, you may see the news anchor reading aloud portions of the release detailing the specific health risks the goods carry and ending with, "The company did not return calls seeking a comment."

Certainly, the goal of brand integrity managers is to prevent counterfeiting before a law enforcement operation publicly highlights their company's gray market and counterfeit weaknesses. But crime pays well, the world is wide and even the strongest preventive programs sometimes fail. Rather than viewing cooperation with law enforcement agencies as a brand negative,

the best brand managers realize that proactive communication and partnerships are powerful tools.

In fact, every effective brand integrity program should contain provisions for working with law enforcement in the U.S. and abroad to stop and contain counterfeit goods from reaching market. Effective cooperation with law

enforcement yields several benefits. First, you – and the police and prosecutors – are likelier to detect counterfeiting operations at an earlier stage. Second, if an enforcement action or prosecution does take place, a collaborative relationship will increase your chances of hearing about it from law enforcement personnel before it happens. Finally, if your company decides that seeking prosecution is the best or only way to deter counterfeiters, a collaborative relationship vastly improves the chances that prosecutors will focus on your case among the many competing for their attention.

At minimum, then, effective cooperation with law enforcement will limit your chances of being blindsided by a seizure and press release. And at best, an effective partnership with law enforcement will mean better results in the global fight against counterfeiters, preventing these events and protecting both your customers and your brand.

Many brand integrity managers are unfamiliar with the mechanisms of state and local law enforcement agencies and the needs and wants of prosecutors. Here are some guidelines for working with law enforcement to produce an effective seizure and a prosecutable case.

## Develop a Good Relationship with Law Enforcement Agencies

The law enforcement agencies charged with fighting counterfeiters are generally sophisticated in their dealings with intellectual property holders and highly familiar with the mechanisms of international shipping; they are good resources and high-priority contacts for brand managers. Representatives of U.S. Immigration and Customs Enforcement ("ICE") and U.S. Customs and Border Protection ("CBP"), both agencies within the Department of Homeland Security, have met with companies and industry representatives concerned about the security of imports at the border or in American ports. These



**CYNTHIA M. MONACO**

representatives will explain the processing of shipments abroad destined for American ports and will outline new border initiatives on supply chain security. Proactively seeking out this information and consulting with the enforcement agencies as you work to develop and implement best practices are the foundation of a productive relationship.

Once it is clear that your brand is being counterfeited, efforts will shift toward seeking prosecution. When that goal has been established, corporations should explore several different avenues. Both the Department of State and the Department of Commerce have bureaus dedicated to reducing counterfeiting. The Department of Justice has a unit of prosecutors who focus specifically on intellectual property crimes. And both ICE and the FBI have squads of special agents dedicated to pursuing these crimes. All of these agencies have issued warnings that counterfeiting and piracy is on the rise. CBP, for example, announced in January 2009 that its agency had seen a dramatic rise in counterfeiting activity and that seizures for fiscal year 2008 totaled over \$272.7 million, a 38% increase in domestic value over fiscal year 2007.

## Meet Intake Guidelines

Not all counterfeiting cases are pursued or prosecuted. Investigative and prosecuting authorities in major metropolitan areas typically have internal intake guidelines detailing the type of case that will be accepted for investigation or prosecution. The practical limits of law enforcement budgets and priorities, especially at the border, mean that resources are limited. For example, the U.S. Postal Inspection Service, ICE, and the FBI are among the leading federal investigative authorities pursuing the apprehension of counterfeiters and pirates. Yet all of the agents at these agencies must compete for the attention of the prosecutors at the Department of Justice which is the only agency with the authority to prosecute on behalf of the United States. As a result, federal agents look to develop good cases that will be accepted for prosecution by the Department of Justice, typically through a local U.S. Attorney's office. State and local law enforcement officers are similarly looking to meet the needs of their counterpart prosecuting authority when developing a case.

To complicate matters, in many cases, there is a choice of jurisdiction as to where a case can be presented. Federal agents have nationwide jurisdiction

and present cases to U.S. attorneys in over 90 federal prosecuting districts. Yet, few counterfeiting cases fit squarely within the confines of one of those districts. More importantly, almost everywhere there is a federal prosecuting and investigating authority covering a territory, there is also a state or local counterpart agency. A company that has been victimized by counterfeiters is typically afforded a range of choices on where to present a case. In capable hands, this choice affords a huge advantage.

A smaller case involving distributors in New York and Vermont, for example, might get better attention from prosecutors in Vermont but might need the investigative resources of investigators in New York. A larger case might provoke a turf battle between different federal or state jurisdictions vying for the prized prosecution.

In all cases, knowledgeable and experienced criminal attorneys and investigators can inform the brand integrity manager's choices to best get the attention his or her client needs from the criminal justice system. The brand integrity manager should have a basic grasp of the factors law enforcement looks at when evaluating a case.

The factors that tend to inform intake decisions include: (1) the dollar value of the crime, (2) the danger to the community posed by the crime, (3) the criminal background of the targets, and (4) the deterrence value of the prosecution.

**Dollar Value of the Crime.** The size of a business crime is typically measured in dollars. To return to the federal example, the U.S. Sentencing Guidelines tie many business crimes to a "loss figure" which, though open to wide interpretation, generally focuses on what the crime cost the victim or what the criminal stood to gain. The higher the loss, the higher the sentence.

The possibility of harm to the end-user of counterfeit product can also transform a relatively small counterfeiting case into a significant prosecution. Thus, dangerous bacterial infestation in a single box of counterfeit animal crackers will produce a swifter law enforcement response than a cargo container filled with designer handbags. The danger to the public outweighs the dollar value of the crime.

**Danger to the Community.** Against these considerations, prosecutors and law enforcement officers weigh the long-term benefit of a case. Longer sentences and bigger well-publicized cases are seen as of more deter-

rent value. In other words, the case is a warning to other counterfeiters and might prevent more crime or at least inform the public to be on guard against this type of crime.

## **Without a robust understanding of evidentiary requirements, and guidelines in place to ensure proper handling of evidence, corporations can cripple their own cases.**

**Criminal History of the Counterfeiters.** The identity of your counterfeiter or counterfeit distributor matters a great deal. Experience shows that high-value targets of federal investigations will be prosecuted for crimes that are well below the intake guidelines applied to other criminals. Good examples are members and associates of organized crime. Massive effort was expended to find evidence of Al Capone's tax crimes – and not because the government was worried he was a tax cheat. Marijuana charges may be pursued against an organized crime member in the hopes of building a large case, violent gang members are prosecuted for relatively small amounts of drugs in the hopes that they will cooperate against their gang leaders and workers who disassemble stolen cars for a chop-shop ring may be prosecuted for a single car theft in the hope that the investigation will open avenues of attack into the ring itself.

When evidence suggests that a counterfeiter may have a more serious criminal history or ties to an organized criminal network, the chances rise that law enforcement will have a greater interest in the case.

**Deterrence Value of the Prosecution.** Because of limited resources, many authorities will not prosecute a relatively small counterfeiting case. The expense of investigation and prosecution may be seen as a poor investment measured by the metrics of jail time, pro-

tection of the public, or the deterrent effect produced by the limited public attention to the case.

In some contexts, however, a small case can have a huge deterrent effect; the facts can make or break this decision. The prosecution of a luxury store for selling exotic shawls made from endangered species can have a powerful deterrent effect on trade in those endangered species if a movie star unwittingly purchased one of the shawls.

The brand integrity manager should employ investigators and attorneys who are familiar with the threshold guidelines in any given jurisdiction. This will ensure that a manufacturer's brand integrity program is well-armed with both facts and context. The program should be able to swiftly and accurately triage cases, deciding whether and how to seek law enforcement involvement forearmed with the knowledge of law enforcement constraints and priorities.

### **Team with Other Victim IP Holders**

As always, there is power in numbers. When a counterfeiting problem does arise, one way to maximize the attention of law enforcement is for corporate victims of the same counterfeiter to approach the government as a team. The benefits of the victim team are manifold. First, public officials are sensitive to perceptions that they are performing their job functions at the behest of a large corporation. For this reason, either a request for a meeting or a case presented for prosecution is more attractive if it encompasses an array of products and cannot be said to benefit a single corporate entity. Second, the cost of private investigators and attorneys to interact with the government is shared and thus takes a smaller portion of a brand integrity manager's budget. Finally, if a multi-victim counterfeiting case does become public through arrests or indictments, no one corporate brand will be highlighted. Instead, the emphasis of media attention will more likely focus on the seriousness of the global counterfeit threat, which is exactly what a brand integrity manager seeks to highlight.

### **Present Reliable Evidence and Witnesses**

Developing a prosecutable case depends to a large extent on the quality of the physical and testimonial evidence gathered.

For example, in a counterfeiting case, the defense may wish to highlight how difficult it was for the lab to distinguish between genuine and counterfeit goods in order to argue that a distributor charged with knowingly trafficking in counterfeit product was, in fact, taken in. Evidence and testimony from the lab would be an integral part of this argument – and the government will not bring it to trial without reliable high-quality evidence acceptable to a jury. If your evidence can be easily challenged, it is unlikely to see the inside of a courtroom, no matter how strong your argument may be. Preservation of evidence means both that measures are taken to properly document and handle the evidence and that witnesses exist who can testify to their direct knowledge of those practices. Without a robust understanding of evidentiary requirements, and guidelines in place to ensure proper handling of evidence, corporations can cripple their own cases.

A good brand integrity program should include measures to provide for (1) written chain of custody on any suspected counterfeit taken for testing by the manufacturer's laboratories and (2) a detailed report of testing performed on the product to confirm its status as gray market or counterfeit. The documentation should list by name the identities of everyone responsible for custody or testing of a sample.

### **Know Your Rights as a Crime Victim**

Law enforcement officers and agents take an oath to protect the public from criminals. When counterfeiters strike, the IP holder is a victim of crime, just like the unwitting purchasers of counterfeit goods. That fact – obvious to prosecutors and police officers – is often not readily apparent to corporate managers trained to think of their relationship to the government as a regulatory one.

Victims have rights that are spelled out in detail in many jurisdictions. Federal victims of crimes, for example, have the right to reasonably consult with the assistant U.S. attorney assigned to the case, to be informed of significant developments at every stage of the proceedings including plea deals and the right to testify at sentencing. Agents and prosecutors are trained in these rights and can be relied upon to respect them.

An effective brand integrity program will include a company liaison, who will work with agents and prosecutors. Such a person will preferably be someone

skilled in the language of the particular jurisdiction and its rules, who will act to protect the company's rights and to communicate effectively with prosecuting authorities.

### **Conclusion**

Dealing proactively with government agencies should be a part of every sophisticated brand integrity program. Brand integrity professionals should learn to communicate effectively with government investigators and attorneys about protecting their companies and their brands. Forming these relationships before they become critical to a particular case or crisis will improve the effectiveness of protection efforts. ▲

**CYNTHIA M. MONACO** is a shareholder in the New York office of Anderson Kill where she focuses her practice on counseling and litigation in anti-counterfeiting, white collar and regulatory matters. Prior to her career in private practice, Ms. Monaco worked for 11 years as an assistant U.S. attorney, serving in various positions with the Department of Justice and the U.S. Attorney's office for the Eastern District of New York culminating in her appointment by the attorney general to the position of senior litigation counsel. Ms. Monaco can be reached at (212) 278-1034 or at [cmonaco@andersonkill.com](mailto:cmonaco@andersonkill.com).

"[U]p to USD **200** billion of internationally traded products could have been counterfeit or pirated in 2005. This amount is larger than the national GDPs of about **150** economies."

*The Economic Impact of Counterfeiting and Piracy*, Organization for Economic Co-Operation and Development (OECD), 2008; emphasis added.

# Intellectual Property Audits are Valuable Aids for Brand Equity Management

By Kanishka Agarwala

**I**ntellectual property auditors are viewed with unwarranted suspicion. In truth, such audits are as valuable to a corporation as an annual health check-up at the doctor's clinic is to a person. The result of an audit can be employed by the brand equity manager and other decision makers in a corporation to address shortcomings, identify hitherto unused revenue streams and utilize corporate resources more effectively. Corporations that are IP-dependent (very few are not) and those at particular risk for being targeted by counterfeiters must conduct such audits on a regular basis.

## What is an IP Audit?

In a nutshell, it is the process by which the nature and extent of a corporation's intellectual property rights and the value of such rights are identified. In other words, it is a systematic review of the intellectual property of a corporation and the creation of an intellectual property balance sheet. On the one hand, intellectual property assets, such as patents, trademarks, copyrights, trade dress, trade



**KANISHKA AGARWALA**

secrets, etc., are listed, and liabilities, such as potential for infringement, involuntary abandonment, third-party claims, unaddressed counterfeiting issues, etc., are listed on the other. Remedial action is prescribed so that the corporation's IP portfolio remains in good fettle. A good analogy is a person visiting the doctor for a periodic health checkup.

An IP audit is not, as is sometimes heard, an attempt to ferret out and broadcast weaknesses in a corporation's intellectual property or brand equity department. To the contrary, it is a vital tool that assists the intellectual property department in its efforts to keep the corporation's portfolio well-structured and able to withstand challenges in the future. The goal is preservation of hard-won brand equity.

## How Does it Help?

**Conserve Resources.** It may seem counterintuitive, but IP audits save money and other corporate resources over the long term. In the evolution of a corporation's IP portfolio, some limbs (especially trademarks) tend to fall into disuse with no future plans to use those parts. However, these parts continue to be carried, with concomitant costs of maintenance, fees and other resources. Indeed, the corporation may have already lost the exclusive right to use these unused facets of its IP portfolio. The audit would corral such deadwood, so that informed decisions may be taken as to whether such parts of the portfolio need to be continued.

**Integrate Old and New.** The IP portfolio is an organic entity that is augmented depending upon a myriad factors. Elements are added in with a view to market conditions, future direction, present crisis management, etc. Often, the overall picture is lost resulting in the company paying to maintain parts of its portfolio that are at odds with each other. For example, a corporation may obtain a patent for technology that it continues to go to great lengths to protect as a trade secret. At other times, new acquisitions are piled high without care to strengthen the foundation on which the structure rests. An interesting case involved a corporation permitting its registration for a word mark to lapse, while keeping alive its registration of stylized fonts combined with a

logo. A timely audit would identify issues such as these so that later developments are properly meshed.

**Draw Attention to Deeper Issues.** The IP audit would draw attention to deeper branding issues and direct focus on strategic goals. Take for example, a company C that sells fruit beverages. C enjoys a good market share. It acquires a small regional company R in the business of fruit spreads, primarily for R's recipes that are a trade secret, as well as its state-of-the-art processing plant. R's trademarks are also assigned to C. The fruit spreads are subsequently marketed under both R and C brands. The superior reputation of C's brand causes sales under the C brand to far outweigh those under the R brand. The IP audit would help focus on issues such as whether the C brand has cannibalized the R brand, whether the R brand should be discontinued, whether the R brand's goodwill could be used to drive sales of goods that are closer to fruit spreads than beverages (such as fruit-filled pies), etc.

**Triage.** In flush times, it is easier to put off hard decisions regarding excesses because the company has the strength to carry the flab. However, when lean times come around, it is necessary to place the IP portfolio into tiers in order that maximum resources are expended on the most vital elements. The less critical tiers would receive resources in consonance with their importance to the company. One of the by-products of the audit process would be to identify and categorize the portfolio in order that the brand equity department can utilize resources in a manner that will be of maximum benefit to the company.

**Identify Untapped Revenue Streams.** A company may have several patents and trademarks in its portfolio that are unused, but may be licensed profitably to third parties. It may possess common-law rights in restricted geographic areas that could be expanded if properly protected. It could identify and co-opt infringers, rather than fight them, thereby increasing its market share without having to stretch itself too much. A well-conducted audit would highlight several opportunities for extracting more profit from an existing IP portfolio. For example, as a result of an audit, a garment manufacturer identified underutilized brands in its trademark portfolio, and engaged celebrities to endorse clothing branded with those trademarks. The company was able to give renewed life to those trademarks and created an additional revenue stream.

**Timely Corrective Actions.** An audit turns its sharpest focus on the issue of ownership of intellectual property. Ownership aspects are the most frequently litigated issues and non-ownership is a defense that is used often in intellectual property infringement cases. A corporation should not have to learn during discovery demanded by the alleged infringer that its ownership of the asserted intellectual property is flawed. By that point in time, it is likely too late to take any remedial action, resulting in colossal waste. A regularly conducted audit will identify problem areas much earlier, possibly even allowing for an opportunity to fix the problem.

The IP audit also identifies infringing activities by third parties for further action as well as the company's own potentially infringing activities. Before large sums of money are invested, it may be possible to work around infringing another's intellectual property. In this way, the company can be more assured that its investments are safe and it can stanch loss of profits to infringers.

**Secure Protection.** An audit also closely looks at a company's systems for maintenance of IP rights, such as docketing systems, chains of command and repositories of data. Trademarks that are critical to the business are placed with watch services. Any lacuna is highlighted in order that the corporation not lose its intellectual property rights on account of slack maintenance.

**Enter into Agreements That are More Fail-proof.** A corporation that possesses trade secrets, enters into trademark licenses, hires independent contractors, outsources manufacturing or marketing, or is in joint venture situations, places its ownership of intellectual property at risk if the documents are not properly drafted. The audit will identify weaknesses in a company's agreements, thereby averting harm at a later date.

### **Why is an IP Audit of Particular Importance to Companies that are Targets for Counterfeiters?**

The laws of the United States and of several other nations offer protection under their respective anti-counterfeiting laws, civil and criminal, only to registered trademarks. Moreover, governmental agencies, such as customs and border police, require that the trademarks be registered before these agencies will prevent the importation of infringing goods. The audit

flags threats to brand equity from counterfeit goods. It also ensures, by securing the ownership and registration aspects, that the trademarks implicated will receive the full measure of protection contemplated by the anti-counterfeiting statutes.

### How Should an IP Audit be Conducted?

Audits are tailored to each unique situation. However, features common to the conduct of all IP audits are:

- create an inventory of every IP asset in a company's portfolio, including trademarks, trade dress, copyrights, patents, trade secrets, licenses and other contracts, and domain names;
- trace the ownership of each asset and following every document that may have a bearing on the chain of title to the asset, such as security agreements and assignments;
- determine the worldwide registration status of each asset;
- interview personnel from R&D, marketing, sales, designers, etc.;
- review all contracts that have a bearing on the intellectual property assets;
- review threatened and ongoing litigation;
- review matters associated with the Internet presence of the corporation, such as domain names, web pages, linking, metatags, etc.;
- review sample advertising and marketing materials; and
- determine brand hierarchy and brand extension.

### To What Use can the Results of an IP Audit be Put?

Once the audit exercise has yielded its results, the IP portfolio may be valued. The results of the audit and the valuation can be used by the brand equity team to streamline its efforts; by the legal team to bridge gaps, plug loopholes and initiate remedial action against infringers and counterfeiters; by the R&D team to direct future research efforts; by the finance department to allocate funds in a more efficient manner; and by management to draft policies that will alleviate the problems highlighted.

### Conclusion

An intellectual property portfolio, like any delicate mechanism, needs periodic attention and fine tuning. Neglecting to undertake the vital task of auditing the

portfolio, especially when a corporation is IP-reliant, virtually ensures that its intellectual property rights will not receive the full measure of protection of the law. Corporations that are waging active battles with counterfeiters will be well-served by conducting immediately, at the very least, trademark audits to ensure that civil and criminal remedies are available when needed. When the advantages to be gained for the corporation from an audit are weighed against the resources devoted to the audit process, it will be found that the scales are heavily in favor of conducting these audits regularly – not only at times of mergers and acquisitions. ▲

**KANISHKA AGARWALA** is an attorney in the New York office of Anderson Kill. Mr. Agarwala's practice focuses on intellectual property and commercial and unfair competition litigation. He has worked on a variety of matters involving patent infringement, misappropriation of trade secrets, copyright infringement, trademark and trade dress infringement, false designation of origin, false advertising, dilution and cybersquatting. Mr. Agarwala can be reached at (212) 278-1417 or at [kagarwala@andersonkill.com](mailto:kagarwala@andersonkill.com).

"[I]f counterfeiting and piracy could be eradicated or seriously reduced, up to **2.5** million jobs could be created in the legitimate economies of the G20."

*The Impact of Counterfeiting on Governments and Consumers, International Chamber of Commerce: Business Action to Stop Counterfeiting and Piracy (ICC BASCAP), (May 2009); emphasis added.*

# Managing Reputational Risk

## A Practical Guide to Protecting Your Business from Counterfeit

By Pamela D. Hans

**A** company's reputation is its most valuable and irreplaceable asset. A single headline about a consumer being harmed by counterfeit product can destroy a reputation that took years to build.

Over the past decade, the risk of counterfeiting has increased dramatically, as manufacturing has gone global and supply chains have grown longer and more complex – increasing opportunities for counterfeiters and risks for manufacturers.

Counterfeit products cost companies that make legitimate products millions each year. Luxury brands alone are losing as much as \$12 billion per year, according to the International Chamber of Commerce. While it is difficult to estimate the full extent of counterfeiting worldwide, the United Nations Economic Commission for Europe reported that “OECD [Organisation for Economic Co-Operation and Development] estimates based on Customs seizures suggest that up to \$200 billion (USD) of international trade in 2005 was in counterfeit or pirated products.”

Not only does counterfeiting “mean lost sales, but lost sales translate into lost jobs, less money spent on innovation and new technology, loss of IP and damaged brands and reputations.” More important even than the loss of money and reputation is the loss of life when a knock-off product causes a fire or electrocutes a homeowner.

The good news is that a company can substantially protect itself, its reputation, and its customers by imple-

menting a comprehensive program aimed at deterrence, early detection and rapid response to counterfeiting. A plan to effectively combat counterfeit should reflect and include the following considerations.

### 1. Identify Your Company's Goals

Develop a comprehensive strategy to prevent and respond to counterfeit. Like any corporate initiative, your anti-counterfeit strategy must reflect your company's particular needs, vulnerability and culture.

### 2. Safety

Consider first any threat to health and safety that a counterfeit product may pose to your customers. For example, companies in the pharmaceutical industry may face serious health and safety concerns if their products are easily susceptible to counterfeit. U.S. Customs and Border Protection announced that seizures of products (in fiscal year 2008) posing potential safety and security risks increased by over 124% in domestic value, from \$27.8 million to \$62.5 million over the previous year. Other industries will focus sim-



**PAMELA D. HANS**

Counterfeiting is estimated to cost U.S. companies more than **\$250 billion** in lost revenue each year. Globally, its costs have been estimated at **\$600 billion** annually. The World Health Organization estimates that up to **10%** of the world's pharmaceuticals may be counterfeit.

*Crackdown on Counterfeiting, Piracy Gathers Steam in Congress, Wall Street Journal, July 10, 2007; emphasis added.*

ply on the bottom-line effects – both in revenues lost when customers unknowingly buy knock-offs instead of the company’s products, and from loss of customers who lose faith in a brand because of the poor quality of counterfeit products or because they learn that the brand is widely counterfeited.

### 3. Brand Vulnerability

Every company is different. Some companies have one brand that is the household name, while others have a panoply of brand names that fall under one umbrella. For those companies that are recognized exclusively or primarily by one product or brand name, the impact of an incident of counterfeiting can be dramatic. Market studies can guide your evaluation of risk, as can comparison with the experience of similarly-situated companies when their products have been linked to counterfeit.

### 4. Consider Supply-Chain Risk

Companies with manufacturing operations in China have often reported issues with counterfeiting and diversion of genuine product. Consider consulting with experts who have evaluated supply-chain risk within and outside the United States as well as with trade organizations and government officials. Each of these resources can provide you with valuable insight into the unseen – or as yet undetected – risks that your company faces.

### 5. Investigate Counterfeit

Private investigators, industry partners and government agencies can all be valuable resources for investigating instances of counterfeiting. Investigators can help track down counterfeiters while industry partners can share their knowledge and experience in combat-

“The domestic value of goods seized for intellectual property rights (IPR) violations in Fiscal Year (FY) 2008 increased by **38.6%** to \$272.7 million (M) from \$196.7M in FY 2007.

The number of IPR seizures increased by **9.7%**, from 13,657 to 14,992.

ing counterfeit and identifying entities involved in the manufacture and distribution of counterfeit goods. Government agencies as well are in many cases willing to share their experience and outline steps for preventing counterfeiting.

### 6. Legal Obligations

Hand in glove with safety considerations are legal obligations and considerations. As discussed below, certain actions by counterfeiters, such as infringement of copyrights, may trigger response obligations or responses that may be necessary to prevent dilution of a trademark. Similarly, different jurisdictions impose different legal obligations when counterfeit products are found. Knowing your rights and obligations in the various jurisdictions and countries in which you do business is a critical component of identifying your company’s objectives and of preparing an effective plan. By consulting with legal counsel, a company can learn its legal rights and obligations, as well as appropriate means to enforce those rights and fulfill potential obligations.

### 7. Be Proactive and Police Your Marks

Make sure that your trademarks are registered in every country in which you do business. It is also imperative that you police your trademarks. Failing to do so can hinder your ability to successfully respond to counterfeit incidents. Policing and enforcing trademarks may involve – or require – litigation. In some instances, knowing about trademark violations and failing to take steps to prevent them may weaken or even constitute a waiver of trademark rights. Counsel specializing in patent and trademarks can assist you in registering as well as policing and enforcing trademarks, including through litigation.

China was the top trading partner for IPR seizures with a domestic value of \$221M, accounting for **81%** of the total value.

IPR seizures of goods from China rose **40%** by value in FY 2008.”

*Intellectual Property Rights, Seizure Statistics: FY 2008, U.S. Customs and Border Protection and U.S. Immigration and Customs Enforcement (January 2009); emphasis added.*

## 8. Document Counterfeit

Investigating evidence of counterfeiting is an essential component of any anti-counterfeit plan. However, in order for those investigations to be valuable, the evidence gathered during those investigations must be kept in a particular way, known as maintaining “chain of custody.” Chain of custody is about linking each piece of evidence to its source. It is a chronological tracking, through scrupulous documentation, of every step between the acquisition and final disposition of every piece of evidence collected. Since it is not possible for a field investigator to know at the time of acquisition which piece of evidence ultimately will be used in court, proper chain of custody procedures must be followed for every acquisition. It is crucial to consult with counsel and in-house security to determine the precise steps required to ensure that chain of custody is maintained.

## 9. Educate and Inform

Government partners including customs inspectors can be powerful allies in the fight against counterfeiting. To enlist their aid, companies must be proactive in reaching out and developing relationships – which at the outset entails a willingness to take instruction from the agencies on container security and steps the company can take to police the contents of its own containers before they leave a foreign port for the United States. Those that show themselves willing to learn and act on such instruction are more likely to find government agencies receptive to information about their product and its vulnerabilities.

## 10. Work with a Team of Experts

Use the expertise of legal counsel, investigators, and other consultants to help protect your company’s brand and pursue wrongdoers. Gathering specific information about (1) the applicable law in the various jurisdictions, (2) the extent and effectiveness of relationships with governmental groups such as customs, and (3) what other companies have done to combat counterfeit in those jurisdictions can provide you with valuable information to help your company develop, implement and execute an appropriate strategy.

At first, the task of developing a plan to combat counterfeit products may seem daunting. However, by drawing upon expertise both inside and outside the corporation in order to develop a plan that appropriately reflects your company’s goals, risks and culture, you can make significant strides to protect the integrity of your products and make your company an undesirable target for counterfeiters. ▲

**PAMELA D. HANS** is an attorney in the Philadelphia office of Anderson Kill and has experience counseling clients relating to the prevention of counterfeiting, piracy and the sale, marketing, distribution and use of counterfeit and diverted goods. She has experience in assisting clients in developing and implementing programs for managing risk of counterfeit, and monitoring and deterring counterfeit. She also has worked closely with investigators as well as customs officials in evaluating litigation as an avenue to deter and prevent counterfeit. Ms. Hans can be reached at (267) 216-2720 or at [phans@andersonkill.com](mailto:phans@andersonkill.com).

“The number of goods suspected of infringing intellectual property rights, detained in 2008 increased by **126%** to 178 million articles, from 79 million in 2007.

The number of cases in which customs administrations intervened in 2008, increased for the 6th consecutive time by **13%** to 49.381 from 43.671.”

*Report on EU Customs Enforcement of Intellectual Property Rights. Results at the European Border 2008, the European Commission, Directorate-General Taxation and Customs Union; emphasis added.*

# The Anderson Kill Difference

**Our team is experienced in handling matters relating to counterfeiting, piracy and parallel imports. Our practice focuses on representing clients whose products are manufactured and sold globally. We have assisted our clients in:**

- devising and implementing internal protocols and best practices;
- overseeing investigations of the sources and methods of counterfeit activity;
- working with government agencies in protecting client interests; and
- pursuing infringers through criminal and civil remedies.

**We offer our clients the unique benefit of:**

- a dedicated team of criminal and IP litigators led by former federal and state prosecutors;
- extensive law enforcement experience with key state and federal agencies;
- established relationships with private investigative agencies in the United States and abroad; and
- a proven track record working with clients to defend brand value.

THE ANTI-COUNTERFEITING & BRAND INTEGRITY TEAM LEADERS:



**Phillip England, Chair**  
pengland@andersonkill.com  
(212) 278-1483



**Kanishka Agarwala**  
kagarwala@andersonkill.com  
(212) 278-1417



**Michael Lane**  
mlane@andersonkill.com  
(212) 278-1568



**Pamela D. Hans**  
phans@andersonkill.com  
(267) 216-2720



**Cynthia M. Monaco**  
cmonaco@andersonkill.com  
(212) 278-1034



ANDERSON KILL  
& OLICK, P.C.

1251 Avenue of the Americas  
New York, New York 10020  
212-278-1000

NEW YORK, NY  
GREENWICH, CT  
NEWARK, NJ  
PHILADELPHIA, PA  
VENTURA, CA  
WASHINGTON, DC

[www.andersonkill.com](http://www.andersonkill.com)