

Make It 'til They Fake It

Area manufacturers discover the world scourge of industrial counterfeiting

By Karen Singer



Norwalk's Veto Pro Pac makes high-end tool bags like the XL model at right. When knockoffs like the one at left turned up on the shelves of Lowe's, Veto Pro Pac's Wolter called his lawyer.

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Early last year, Allison K. Schieffelin received a phone call from a person she describes as "a very, very ethical man" with a national coffee chain, concerning a light fixture she hoped the retailer would purchase.

"He told me, 'I'm looking at your fixture and you didn't make it,'" recalls Schieffelin, chairman and CEO of the Lighting Quotient, a West Haven company that designs and manufactures high quality, energy-saving interior and exterior light fixtures.

The sample had been submitted by a California competitor vying for a contract for the same project, Schieffelin says, and the rival also "had the gall to literally borrow images from our website and post them on their own website."

Even worse, the Lighting Quotient's former comptroller — a family relative — was implicated in the scheme.

The California firm eventually agreed to destroy the knockoffs, and Schieffelin has a YouTube video documenting the destruction.

But the incident, along with several similar situations over the last year, have strengthened her determination to defend products created by the company, which was founded by her late father, Sylvan R. Shemitz.

"My dad's four words of guidance were 'Innovate, educate, differentiate' — when push comes to shove you 'litigate' and stand up for yourself and do everything you can to protect your intellectual property," Schieffelin explains.

That's a prudent approach, contends Gregory J. Battersby, a Norwalk intellectual property attorney and author whose most recent book, *Basics of Licensing* (Kent Press 2011), includes a chapter on infringements and counterfeits in which he urges property owners to monitor the marketplace and take "prompt and aggressive action" against violators.

"A successful product will be knocked off," says Battersby, who adds counterfeiting to the list of certainties such as death and taxes. "If a manufacturer is successful, the infringers will come and the counterfeiters will come and will use your brand and try to sell it without having the overhead and investing in the R&D."

The problem is already mammoth — and on the rise worldwide.

During fiscal 2009 the U.S. Customs and Border Protection and U.S. Immigration and Customs Enforcement made 14,841 seizures of counterfeit and pirated goods with a total domestic value of \$260.7 million. China accounted for 79 percent or \$204.7 million of the total seizure value. The top 10 categories of seized products included footwear, consumer electronics, apparel, computers/hardware, pharmaceuticals and toys/electronic games.

"This is a real problem we get a lot in the licensing area with consumer products," Battersby says. "Take a walk down Canal Street in New York and you can see it's rampant. But it's a more serious problem when you start talking about helicopters and pharmaceuticals."

"The trademarks area is all about goodwill," Battersby adds. "As you develop a name and a reputation, people come to associate your mark with a particular product and a particular quality, and if an inferior product turns up and they have a bad experience they won't go back to it."

Most manufacturing these days is done in China and southeast Asia, where the day shift of a particular factory may be making legitimate merchandise and the night shift producing knockoffs. What often occurs is products with similar packaging begin showing up on store shelves at lower prices, and manufacturers receive goods returned under warranty that aren't theirs.

"For the small manufacturer it is certainly a problem and an expense, but they've got to deal with it and take steps to protect themselves again these counterfeiters, who take the path of least resistance," Battersby says. "Sitting back and hoping it will not happen is just naïve."

One of the best defenses, intellectual property attorneys say, is to register your patents and trademarks with customs so counterfeiters can be seized at the border.

Register "not just in the U.S., but everywhere" you do business, recommends Elaine Doolan, an attorney with Michaud-Kinney Group, LLP and former trademark counsel for Stanley Works, the New Britain tool-maker that merged with Black & Decker last year. "In some countries you have to have a valid trademark registration to import or export your goods."

While with Stanley, Doolan says, "We did a lot of customs registrations in China. The expensive part, I've found, is not the registration part. When you deal with



China and Hong Kong there's a fee for holding the [counterfeit] goods, and they do charge you to destroy them, anywhere from a couple of hundred dollars to tens of thousands, depending on the quantity.

"Customs are very helpful," Doolan adds. "If you have a problem you need to register right away. Get the customs officials to know you. Build a relationship so they know you and they know your product."

Another way to detect knockoffs is to encourage your field representatives to inform you about them.

"I found a lot of my tips came through independent reps who were losing money," Doolan says. "So make sure they know who to report it to when they find it."

She also recommends distinctively marking your product or packaging with something like a SKU number or certain colored band "so you can tell, because most counterfeiters don't do that."

Trying to prosecute or even find the culprits is often an exercise in futility.

"You do a raid and a lot of times they've already been informed you're coming, so you get there and there's nothing," Doolan says.

"Going after the counterfeiter can be difficult when they're outside the U.S.," agrees Battersby. "So you go after retailer, who is potentially liable as well if they're infringing."

In the world of knockoffs, he adds, "there's usually some sort of nexus between former manufacturers, former suppliers and former representatives."

For added protection, Battersby advises manufacturers to become members of the International Anti-Counterfeiting Coalition (IACC), a non-profit trade group.

Trade shows are a particular fertile environment for counterfeiters.

"About six years ago at a light show at [New York's] Javits Center, somebody liked one of our fixtures so much they

took it," recalls Joseph Zaharewicz, vice president of design for the Lighting Quotient. "More recently we've been going to shows having units on display but tending to hold back on product literature, making life a little more difficult to walk away with a complete description of how you're doing it."

Battersby sends private investigators to trade shows "to photograph products and surreptitiously get evidence."

"In most instances, we wind up getting damages and getting the stuff off the shelf," he says.

Richard Michaud, managing partner of the Michaud-Kinney Group, LLP, also has successfully taken on counterfeiters for companies including a small Norwalk manufacturer making garden sprinklers, which had design patents on its product.

"They were at a trade show and by the time the show ended there were knockoff goods in other booths, made in China," Michaud recalls. "When a major retailer started selling the counterfeits, we sent a cease-and-desist letter to the retailer and ended up suing. After we found out who the manufacturer was — the retailer had to tell us — we added the manufacturer to the suit, and they immediately went into settlement talks."

Run by a mother and son, the company wasn't earning "tons of money" from garden sprinkler sales, Michaud says, "but the settlement resulted in more income than they had made on their own."

The son, Rob Wolter, went on to become president of Veto Pro Pac, a Norwalk company making high-end tool bags with design and utility patents — which also have been targeted by counterfeiters.

"When Lowe's started selling an exact duplicate of our Model XL bag, we were able to stop them pretty quickly with cease-and-desist letters," Wolter says.

"The infringement was so blatant they just folded their tent."

Intellectual property attorneys and manufacturers say the electronic marketplace is a good way to find fakes and misuse of company trademarks.

Bilco officials routinely search the Internet, according to Executive Vice President Roger F. Joyce, who characterizes the 85-year-old West Haven company as "vigilant" about protecting patents, trademarks and copyrights on its access products for home and commercial construction.

There have been a few rare cases "where competitors have read our patents and have copied a certain feature, which we learn about readily through their website or see their products," Joyce says. "Misuse of copyright and trademark is primarily the area we see and monitor carefully."

"A popular example these days is our protected names may be embedded on websites as metatags, or key words, so if one is does a Google search for a Bilco door and a competitor uses those words, a customer may be directed to that website, which is an improper use of a trademark," Joyce adds.

If a competitor's website turns up, "We can search their metatag source to see if our trademark is embedded there," he explains. "If it is, we ask our attorneys to contact them to ask them to stop using our trademark. The copyright and trademark rules are very clear about misuse of marks in a particular way."

"Occasionally we do discover them and shut 'em down," Joyce adds. "Some have contested our claim, saying Bilco is a generic name for a basement door but that doesn't provide any defense for the misuser, and once they're notified they're cooperative. Over the years we've



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While working for Chemtura Corp. in Middlebury, attorney Doolan often “found a lot of stuff through the Internet,” including someone selling similar product on eBay and shipping chemicals through the U.S. Postal Service. “You can’t do that,” she says.

Product protection, however, isn’t high on the list of priorities for most state manufacturers, according to Jack Crane, director of growth-strategy services for the Connecticut State Technology Extension Program (ConnSTEP), which provides technical assistance to small and mid-sized manufacturers in the state.

Around 75 percent of them have 75 or fewer employees, and they are “not in a mode of worrying about protecting themselves for the lion’s share of what they do, which is for somebody else’s property,” Crane explains. “Now I’m telling them, ‘When you’re asked to make something to solve a problem for a customer and you’re in the early stages of development to make something very difficult, try to get paid for it upfront and sign a technology agreement so when the company goes abroad [for mass manufacturing] you can get a piece of the action.’”

Convincing them to do this is “difficult,” Crane concedes, because “They’ve always been used to giving it away.”

According to attorney Gregory Rosenblatt, a Wigin & Dana partner who works with the New Haven Manufacturers Association, “What we try to encourage them to do is to sign a technology-transfer agreement so they’ll get a royalty” — and also perhaps the ability to license the invention for applications other than the one for which it was developed.

Rosenblatt urges small manufacturers to seek patent protection if they “come up with a better way to process material” or other innovation.

“If they think they have something unique, put a stake in the ground and file a patent application,” he says. “For a small manufacturer with under 500 employees and affiliates, the filing fee for a provisional patent application is just over \$100, which gets them a serial number and filing date that’s recognizable virtually worldwide for up to a year. After a year, you have to file a non-provisional application fee, for \$500, plus attorney fees to draft.”

Rosenblatt acknowledges the process can get expensive, but says, “The earlier

you put the world on notice the better, by marking your product with the patent [which lasts 20 years from the filing date].”

For small manufacturers with a history of product development, protecting their intellectual property is part of the harsh reality of doing business.

“It is one of our biggest challenges to pay for being really innovative,” Schieffelin says. “That’s what the race is that we’re in now.”

The Lighting Quotient has won several awards recently, and while Schieffelin is delighted by the accolades, she admits the thrill is tinged with unease.

Following a recent awards ceremony where her company was honored for a new LED lighting fixture, she says, “It was a matter of moments before people were hovering around our light fixture, pulling it apart and unabashedly taking pictures of it.”

Schieffelin says her company had spent nearly \$1 million to develop the LED fixture, including prototypes “that have to be tested eight ways to Sunday for heat, degradation, fire and shock and have to be easy to install.

“Yet with modern technology,” she laments, “it takes about 15 minutes to copy that [fixture], and they may have a knockoff before we make our first dollar.”

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