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5-hour ENERGY wins \$20M in counterfeiting lawsuit



THE U.S. DISTRICT COURT FOR THE EASTERN District of New York recently handed 5-hour ENERGY a resounding victory in a high-profile anti-counterfeiting action, issuing a summary judgment of more than \$20 million against two groups of defendants who had conspired to manufacture and distribute counterfeit versions of the popular dietary supplement.

The Court's ruling wraps-up the remaining defendants in a consolidated action that saw more than 100 other defendants settle similar charges. Geoffrey Potter, chair of the Anti-Counterfeiting practice at Patterson Belknap Webb & Tyler, represented 5-hour ENERGY and chatted with Inside Counsel to discuss the case.

"We are highly gratified by the Court's comprehensive 94-page opinion granting us damages on summary judgment of more than \$20 million against those that manufactured counterfeit 5-hour ENERGY, plus attorneys' fees and the costs of our investigators," Potter said.

Last June, the Northern District

of California issued criminal indictments and executed arrest warrants for 11 members of a counterfeiting network that flooded the nation with millions of bottles of fake 5-hour ENERGY. Ten members were arrested and one remains a fugitive. This marked the first-ever U.S. criminal prosecution stemming from a food/beverage counterfeiting operation—a dramatic shift in the U.S. District Attorneys' approach to handling counterfeit food products, which have the potential to pose significant public health risks.

The counterfeiting took place in 2012, was discovered in 2012 and shut down in 2012. This month the court decided the summary



Geoffrey Potter

judgment motion against the few defendants that did not settle, awarding \$10 million in statutory damages against each of the defendants alleged to be involved with the manufacture of the counterfeits. According to Potter, this is the largest award ever of statutory damages in a counterfeiting case that was actively defended.

So, how did the counterfeiting take place? The counterfeiters built a factory in San Diego, near the Mexican border, equipped with hundreds of thousands of dollars'

worth of specialized manufacturing equipment, mixed up a home-brew of fake 5-hour ENERGY and used round-the-clock shifts of undocumented workers to fill, label and package the counterfeits. The counterfeit packaging was a nearly indistinguishable copy of the authentic product. The counterfeiters manufactured almost 5 million fakes and when the factory was seized they were manufacturing at the rate of almost 1.5 million units per month.

“Virtually all counterfeits in the U.S. get into stores disguised as lower-cost “diverted” products,” explained Potter. “There is an active multi-billion-dollar domestic market for diverted health and beauty aid products dominated by large gray-market distributors that are willing to make big purchases on a no-questions-asked basis. The counterfeits were sold to these distributors who, in turn, sold the counterfeits to other distributors and to both big chain and independent retail stores nationwide.”

Immediately after discovering the first counterfeit bottles, Potter and his team dispatched investigators nationwide to find the counterfeits and then promptly obtained ex parte seizure orders for dozens of locations to take the counterfeits and any records concerning their manufacture, sale or purchase. In addition, they froze millions of dollars in dozens of bank accounts and sued every person and company up and down the distribution chain that had anything to do with the purchase, sale or manufacture of the counterfeits or their component parts, eventually

suing more than 100 parties.

“Within weeks, we worked our way up the distribution pyramid and seized the counterfeiters’ factory,” he said. “Along the way, we seized more than three million counterfeit bottles.”

What does this 5-hour ENERGY victory mean for the future of anti-counterfeiting?

“No one is going to try to counterfeit 5-hour ENERGY again,” said Potter. “In fact, there is no ‘gray’ or ‘secondary’ or ‘diverter’ market any more for 5-hour ENERGY products. The company’s litigation strategy has been so aggressive and successful that no diverter will touch it.”

The court’s decision is an important precedent in that it found that an award of maximum statutory damages is appropriate against those that sell counterfeits that pose a risk to human health or safety, according to Potter. While food and beverage products are frequently counterfeited, the counterfeits are usually manufactured abroad. This case is unusual because the factory was located in the U.S. and the counterfeiting crime was committed by U.S. citizens. The Government not only had the advantage of the massive civil discovery, which documents the counterfeiting operation, but they also had easy access to and jurisdiction over the defendants.

“The counterfeiters committed a hideous crime and tens of thousands of consumers purchased and consumed the putrid counterfeits. This is a very good case for criminal

prosecution and the Government brings good cases like this,” he said.

But, according to Potter, the amount of counterfeiting is very large and, each year, only a handful of people in the entire Federal system are jailed for counterfeiting. Unfortunately, brand owners cannot depend on the Government to protect their valuable trademarks and consumers, so they must still do it themselves if they want to effectively stop counterfeiting.

Potter added, “This case is a vivid reminder that the civil anti-counterfeiting laws are very powerful tools that, if used skillfully, enable brand owners to decisively strike back against counterfeiters.” ●

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