Watch Out for Counterfeits (1)

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On the 13th of August, Los Angeles district FBI agents arrested four suspected counterfeiters and seized over $10M of fake Microsoft Windows ME, Office 2000 and Windows 2000 installation disks. The bust also netted a large number of stick-on holograms attempting to duplicate the Microsoft hologram that is part of the legitimate installation disks.

In addition to the FBI, law enforcement agencies involved in the year-long investigation included the Los Angeles Police Department, the Los Angeles County Sheriff’s Department and the U.S. Customs Service. Authorities indicated that the counterfeiting operation was organized by Asian crime syndicates.

Also in April 2001, three people were sentenced to a 2.5, 4, and 4.5 years in prison, respectively, for a counterfeiting operation involving several thousand counterfeit software items and stolen Microsoft Certificates of Authenticity. Had the counterfeits been sold at retail, the operation could have generated around $4.5M in illicit profits.

Microsoft reported that in the period from September 2000 to April 2001, its anti-counterfeit operations initiated and cooperated in legal actions in 22 countries (including Argentina, Brazil, Canada, Colombia, Hong Kong, Poland, Romania, Singapore, Taiwan, the United Kingdom, the United States and Venezuela), resulting in the removal of 38,065 Web pages offering counterfeit software. In the period from January 2000 through April 2001, Microsoft was awarded $17.7M by courts worldwide in restitution and fines.

Microsoft alone claims that around 5M counterfeit copies of its products are sold yearly worldwide. Total losses due to counterfeiting of software are difficult to measure, but industry estimates are that $12 billion in revenue were lost to the US holders of software intellectual property in 1999; more controversial estimates translate this figure into 107,000 lost jobs in the US and more than $5B lost wages to American workers. The controversy arises because many critics of the software industry claim that few of the people who bought cheap counterfeits could possibly afford what they describe as the inflated prices charged by software companies.

Home-made counterfeits are also dangerous. For example, on August 6, 2001, the Business Software Alliance (BSA) announced that a commercial printing company from St Louis Park, MN ended up paying $260,000 in penalties to settle lawsuits for having made unauthorized copies of Adobe, Apple, Macromedia and Microsoft software – and in addition, the company agreed to purchase licenses to replace all the illegally-copied software.

In the next part of this two-part series, I will suggest some practical reasons and suggestions for avoiding counterfeits and illegal copies of proprietary software.

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For details of the Los Angeles raid, see <
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