



United States International Trade Commission Hearing

**Introductory Letter and Exhibits
June 16, 2010**

**James D'Addario
Chairman & CEO
D'Addario & Company, Inc.**



Sustaining an American Dream in Today's Global Economy

I want to thank the commissioner(s) for giving me the opportunity to testify before you today. As the CEO and shareholder of a more than 100-year old manufacturing company in the U.S.A., I have grave concerns about the future of our family business. Blatant counterfeiting of our products in China and unfair trade tariffs are eroding our brand equity and making it difficult for us to compete. Without question, if left unchecked, we will see the loss of many job opportunities at our company and our material suppliers.

In 1905, my grandfather, Charles D'Addario, left the small town of Salle, Italy, after an earthquake had devastated their beautiful village. Our family tree shows that we practiced the trade of music string making as far back as 1680. He came here for the American Dream of building a prosperous, safe and comfortable home for his family.

Over the years, the business grew, and my brother and I eventually took stewardship. D'Addario has grown to be the largest manufacturer of music strings and accessories worldwide; making more than 20 million sets of strings, 2 million drumheads and 25 million woodwind reeds per year, here in the United States! D'Addario manufactures 90% of its products in America, and nearly 50% of our products are exported to 120 countries.

By sustaining a business philosophy of continuous improvement over the last four decades, we have repeatedly invested in our technological infrastructure and our workforce to remain competitive. Today we employ 1,000 people in the U.S.A. Over the last three years, by implementing Toyota's Lean Manufacturing principles, we have been able to improve efficiencies, gaining even more market share from foreign competition. During last year's economic downturn, we increased international demand for our products and have hired 100 additional manufacturing employees since April 2009!

Prior to 2001, D'Addario's strings were sold in China via shipments that were originally sent to Hong Kong. It was only when we began selling our strings directly to China that we began to understand the scope and breadth of the counterfeiting of our products within that country.

Over the last three decades, the Chinese economy has grown at unprecedented rates. With a population of 1.3 billion people and a growing economy, one would assume there is significant market potential for our products in the Chinese domestic market. Nonetheless, we are being blocked from realizing that potential.

While Chinese workers are still underpaid, and many live in rural areas with incomes below the poverty level, there is a fast-growing middle and upper middle class in the P.R.C. Recent news stories show Chinese workers demanding higher salaries and better working conditions. A new generation of Chinese worker and consumer is emerging. In fact, Treasury Secretary Timothy Geithner noted the change in domestic growth last month, saying, *"It looks as if there has been a durable shift towards domestic consumption in China."*

(Reference slide 2 "REAL AND FAKE STRING PACKAGING")

Unfortunately, fair access to the domestic market in China does not really exist for us. With a 17.5 % tariff on our products and convincing counterfeit versions of our packaging present throughout the market place, we are seeing only a tiny fraction of the share of the Chinese domestic market our products deserve. In surveys, we have found that seven out of ten sets of D'Addario strings on display in Chinese music stores were fakes.

(Reference slide 3 "CURRENT MARKET RESULTS" – per capita sales graph)



Sales of our branded products in China are only five thousandths of a dollar per person per year. By comparison, per capita sales in Brazil are 31 times greater, Russia 15 times greater and Mexico 20 times greater. Clearly, forces beyond our control are preventing our reasonable success in the Chinese domestic market.

(Reference slide 4 “CURRENT MARKET RESULTS” – sales volume graph)

(Reference slide 5 “WHAT’S OUR FAIR POTENTIAL?” – data examples)

We never look to compare an emerging market like China with established markets in Canada, Japan and Europe. However, if we were to make some reasonable assumptions regarding the size of China’s expanding middle class, it would be safe to assume that results similar to those achieved per capita in Brazil, Russia and Mexico would be attainable.

Today, the Chinese domestic market is responsible for only six of the 1,000 jobs in our factories!

If we achieved the same per capita results in China that we have achieved in Brazil, an additional 200 jobs could be created to supply their market. Increases in our production would create trickle-down increases in demand at all of our suppliers and more new jobs.

(Reference slide 6)

Blatant counterfeiting of our products in China is the most significant factor preventing our success in the Chinese domestic market and is the most significant threat to our other established markets around the world!

(Reference slide 7 Examples of counterfeit products and packaging)

(Reference slide 8 “SINGLE STRING PACKAGING”)

I have assembled some examples of counterfeit string packaging, the strings themselves and counterfeit guitar straps in the attached presentation. I also have physical samples that I would like to put into evidence.

(Reference slide 9 “GUITAR SET PACKAGING”)

Initially, the quality of counterfeit packaging materials was poor and it was easy for a consumer to discern a fake versus a real set. Now, the Chinese printing and packaging industry has developed the technical expertise to produce virtual replicas of the originals.

(Reference slide 10 “GUITAR SET PACKAGING”)

(Reference slide 11 “INSIDE GUITAR SET PACKAGING”)

While the packaging may be believable, the product inside is horrific. Not having access to the materials we do, and lacking centuries of string making expertise, the “Chinese” copies are of very, very poor quality. In most cases, the strings cannot even be tuned to pitch before they break; the workmanship is dismal. Consumers buying these inferior copies will surely be disappointed and will lose faith in the reliability of our brand.

(Reference slides 12 & 13 “THE PRODUCT INSIDE”)

Several months ago, we received a letter from an irate customer in Australia who had just purchased ten sets of our strings. While installing the strings, each string broke as it was tuned to pitch. We asked him to return them for our inspection only to find they were Chinese counterfeits. While being boxed out of the Chinese domestic market is a major concern for us, it is an even graver concern to know that Chinese fakes are beginning to infiltrate the international markets that we have worked so hard to develop over the last four decades. To date we have received complaints from the U.K., Russia, Romania, Turkey, Germany and Greece.



(Reference slide 14 “PLANET WAVES STRAPS”)

We are now also beginning to see counterfeit versions of our extremely-popular Planet Waves guitar straps in Chinese retail shops as well.

What actions have we taken on our own behalf?

(Reference slide 15)

(Reference slide 16 – “WASHINGTON D.C. VISIT – APRIL 2009”)

Visit Washington DC

Our first reaction to this growing concern was to reach out to our government. In early 2009, with help from our Congressman, Steve Israel, we visited four government agencies in Washington to inform them of the challenges we were facing. We learned a great deal during our visits and were able to make decisions on further actions to stall some of the counterfeiting and to better promote authentic D’Addario strings.

(Reference slide 17 “AGGRESSIVE LEGAL ACTION”)

Since then, D’Addario has taken aggressive legal action:

- We hired Patton Boggs in Washington D.C. and LexField Law Offices in Beijing.
- We hired investigators to identify stores selling counterfeits to determine where and when they were buying them.
- We successfully litigated a trademark dispute with a pirate manufacturer who was trying to register our trademark in China.
- We hired private investigators to infiltrate factories producing fake D’Addario strings.
- We conducted three factory raids with the assistance of Chinese authorities and seized D’Addario packaging and strings in process. The most significant penalty was a mere \$3,500 fine. In one case, our investigators were physically attacked while Chinese authorities stood by and watched.

We are doing what we can, with our limited resources and knowledge, but we are not winning this battle.

Ladies and gentlemen, we need your assistance.

Reference slide 18 “AUGUST 2008 RAID IN GUANGDONG, CHINA”

Reference slide 19 “WE’RE NOT ALONE”

Reference slide 20 “PLAY REAL” SALES AND MARKETING CAMPAIGN”

We have adopted aggressive sales and marketing strategies for the Chinese domestic market:

- To compete against low-cost counterfeits, we have lowered distributor net prices 30%, sacrificing most of our profit margin.
- We have created ads and posters for the Chinese domestic market, using high-profile U.S. and Chinese artists who play our products.
- Unique serial numbers are imprinted on over 14 million branded sets of strings per year. Consumers, retailers, distributors and customs officers can go on line to www.daddario.com/playreal to check if a particular set is a legitimate D’Addario product.
- Play Real brochures were printed in English and Chinese and distributed to thousands of stores and consumers in China.

(Reference slide 21 “SERIAL NUMBER VALIDATION PROGRAM”

(Reference slides 22, 23, 24 “PLAY REAL BROCHURES”)



In Closing

(Reference slide 25 "IN CLOSING")

I am proud that there are ten fourth-generation D'Addario family members working for our company. However, I am fearful that the fourth generation of D'Addarios working in our business may not have the same opportunities to succeed that previous generations have had. We can only do so much on our own. We need the help of our Federal Government to put pressure wherever it can to convince China and all of our trading partners of the ethics that are required to be honest and equal members of the world economic community.

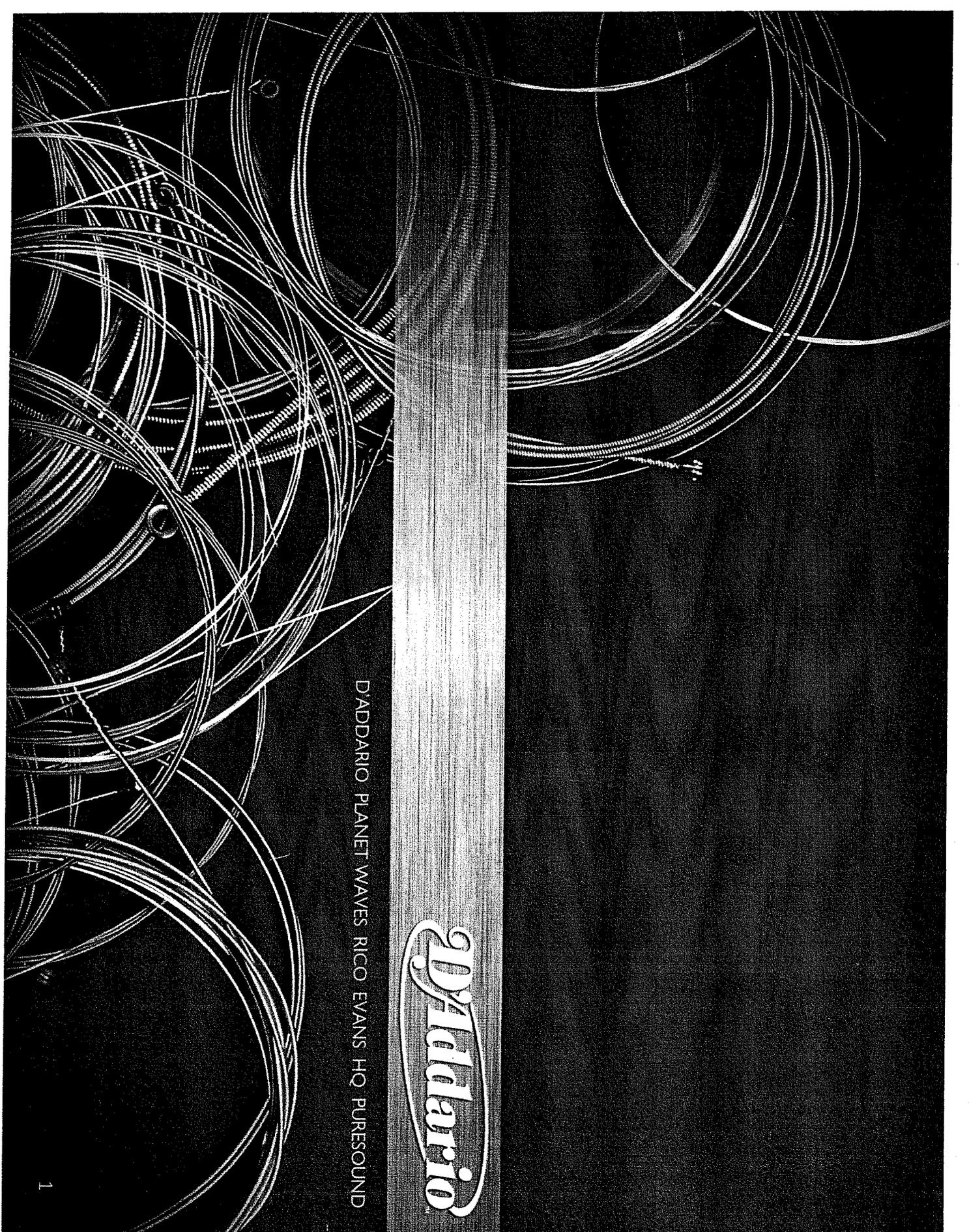
In March 2009, President Obama visited Elkhart, Indiana, to announce his economic stimulus package. He chose Elkhart because it was, and still is, experiencing one of the highest unemployment rates in the country. Coincidentally, ten years ago, Elkhart was the band instrument manufacturing capital of the world, with 3,500 employees manufacturing musical instruments. Today, only 300 jobs remain and the factories are gone. There will be more Elkharts if we do not take action.

Imagine how many jobs could be created by the entire music industry if working together we could influence China to change its culture of intellectual property piracy and strictly enforce universally-recognized intellectual property rights. I am sure it is in the thousands, maybe tens of thousands. Multiply that by countless other industries and suddenly you realize the magnitude of the issue facing us today.

Everyone at D'Addario is hopeful that the testimony and reports generated from this investigation will heighten awareness of the seriousness of this intellectual property issue and the need for our government to take affirmative action to put an end to it.

Thank you for giving me the opportunity to appear before you today.

James D'Addario
Chairman & Chief Executive Officer
D'Addario & Company, Inc.
June 16, 2010



D'Addario

D'ADDARIO PLANET WAVES RICO EVANS HQ PURESOUND

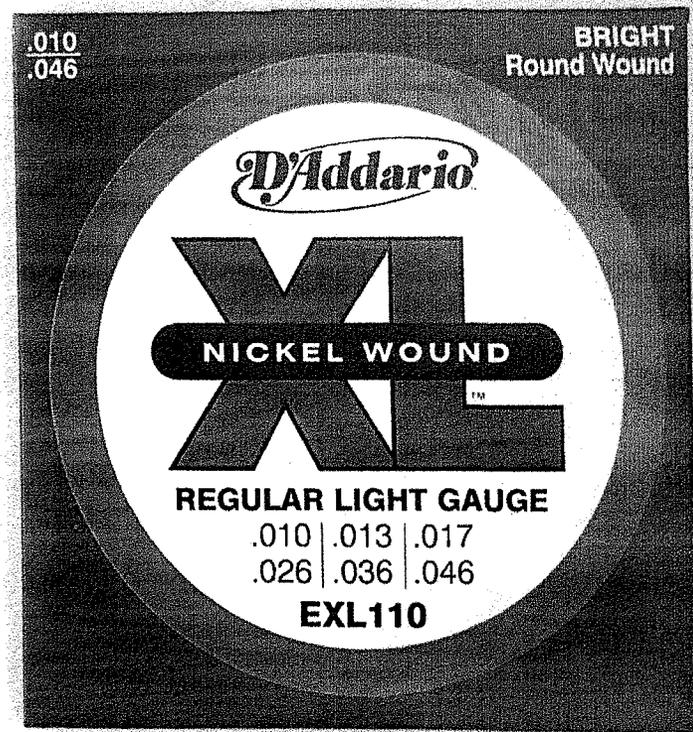


Brand - Fretted
Country - China
Date - 8/26/2008
Contact - Jan Liu & Assoc
Reference # - DA07

Item #
EXL110



Counterfeit packaging

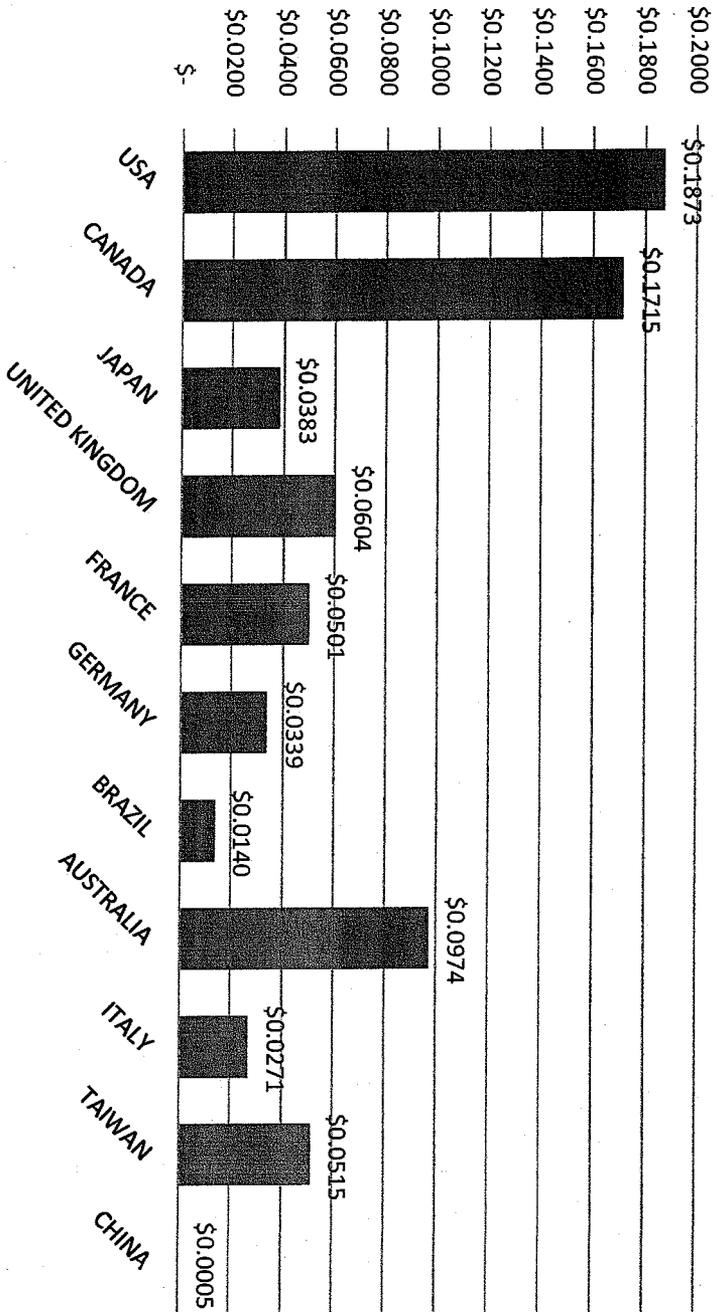


Real packaging

CURRENT MARKET RESULTS



Dollars Per Capita Per Year

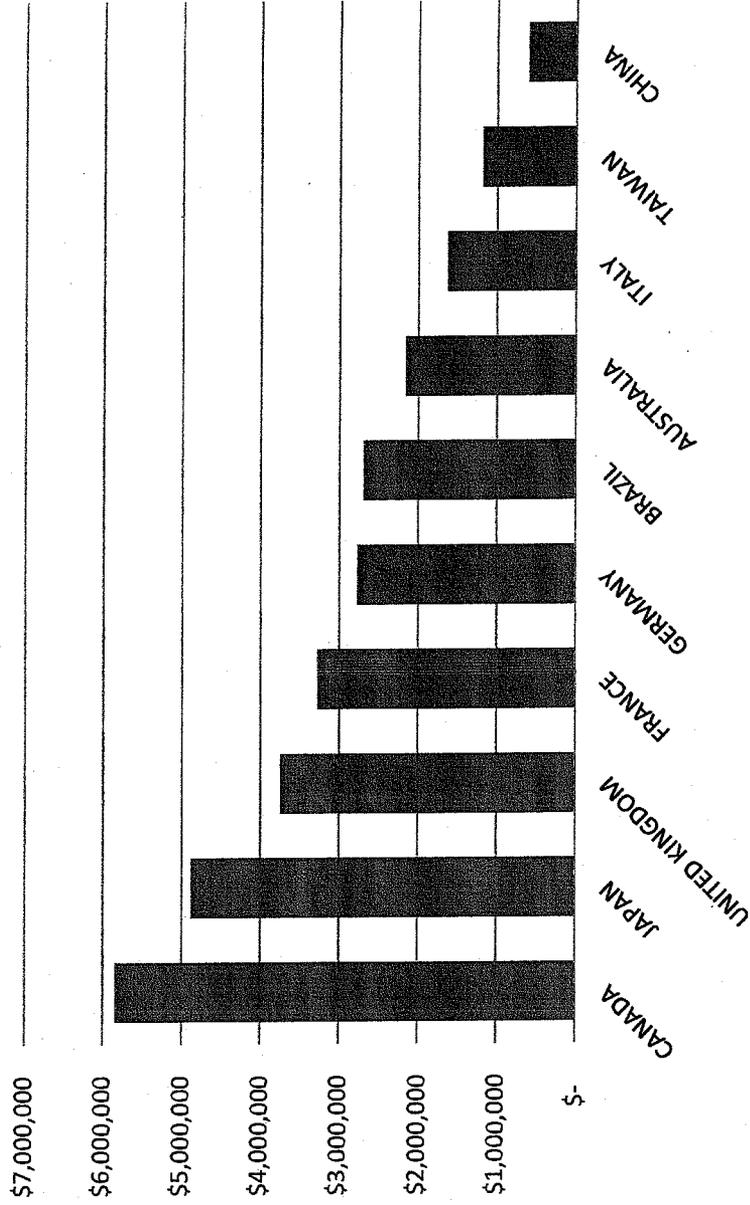


Sales are \$0.0005 per person in China. In comparison to our other markets, clearly other forces are at work preventing reasonable success in the Chinese domestic market.



CURRENT MARKET RESULTS

2009 D'Addario Branded



WHAT'S OUR FAIR POTENTIAL



Country	Population	Dollars per Capita Per Year	2009 Branded Sales	# of US Jobs Current Sales Provide	China Sales Potential Per Capita Sales Examples	# of US Jobs the Chinese Domestic Market Could Provide
World Totals	6,794,240,060		\$ 104,730,895	1,000.00		
CANADA	34,077,000	\$ 0.1715	\$ 5,843,438	55.79	\$ 229,279,115	2,189.22
BRAZIL	192,816,000	\$ 0.0140	\$ 2,693,295	25.72	\$ 18,676,620	178.33
RUSSIA	141,927,297	\$ 0.0068	\$ 958,677	9.15	\$ 9,031,579	86.24
SOUTH KOREA	49,773,145	\$ 0.0189	\$ 939,460	8.97	\$ 25,237,165	240.97
MEXICO	107,550,697	\$ 0.0086	\$ 922,101	8.80	\$ 11,463,648	109.46
POLAND	38,163,895	\$ 0.0180	\$ 686,580	6.56	\$ 24,054,480	229.68
CHINA	1,337,080,000	\$ 0.0005	\$ 603,125	5.76	\$ 603,125	5.76
TURKEY	72,561,312	\$ 0.0058	\$ 422,371	4.03	\$ 7,782,990	74.31
PHILIPPINES	92,226,600	\$ 0.0026	\$ 244,099	2.33	\$ 3,538,888	33.79

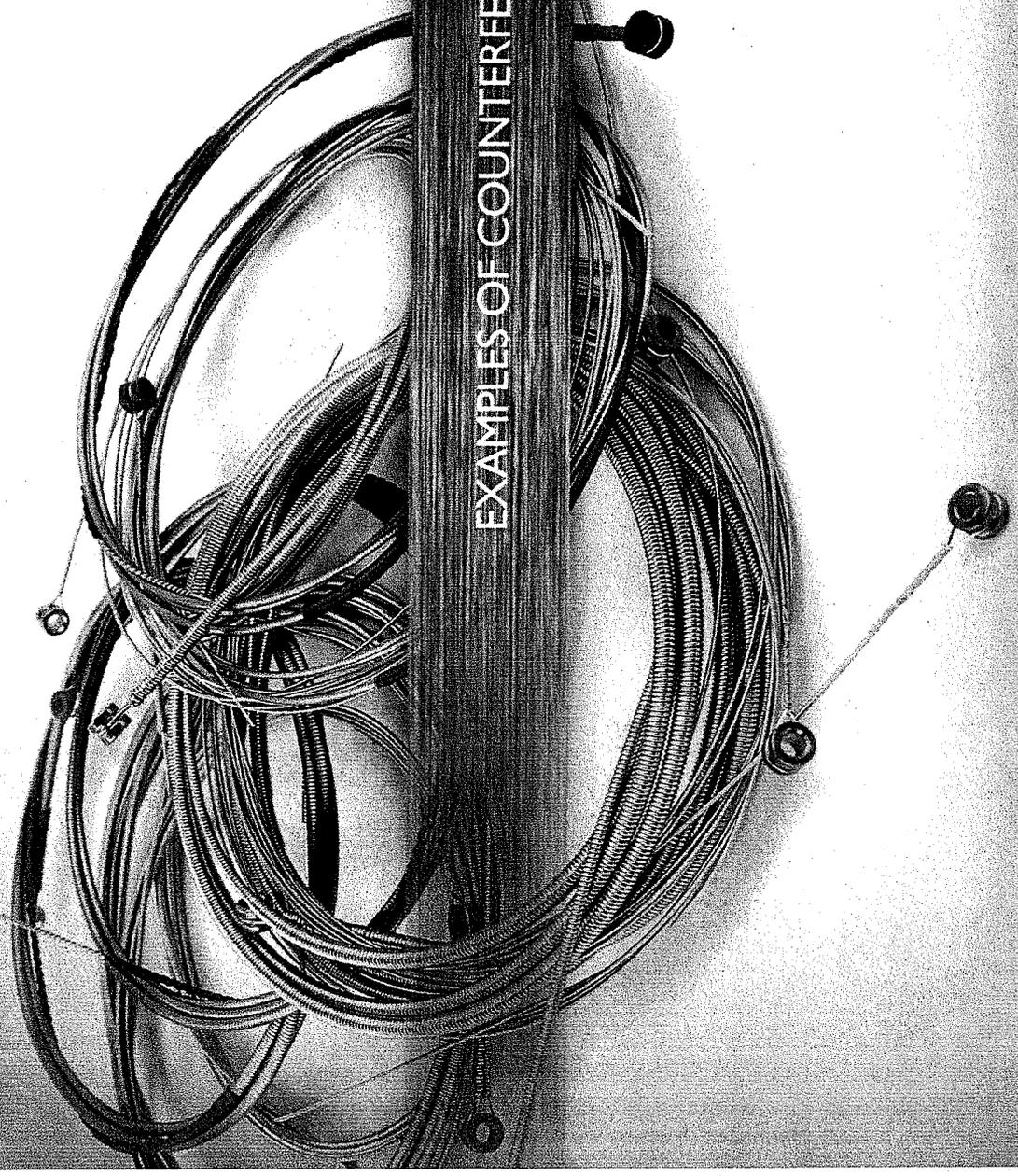
It is unfair to compare an emerging market like China with our established markets in Canada, Japan and Europe. However, if we were to make some reasonable assumptions regarding the size of their expanding middle class, it would be safe to assume that results similar to those achieved per capita in Brazil, Russia and Mexico would be attainable.

Today, the Chinese domestic market creates only six jobs in our factory!



***Blatant counterfeiting of our products
in China is the most significant factor
preventing our success in the Chinese
domestic market and is the most
significant threat to our other
established markets around the world!***

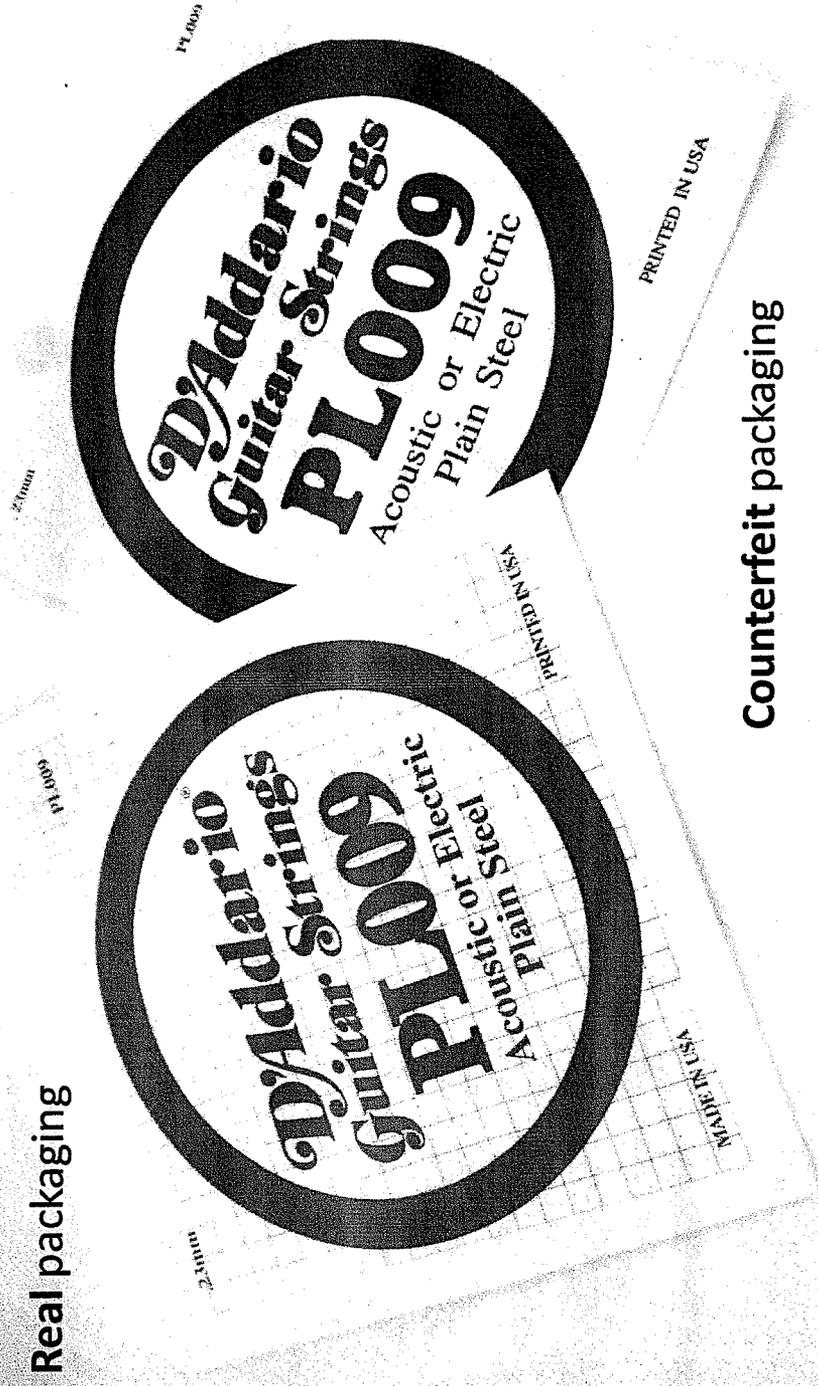
EXAMPLES OF COUNTERFEIT PRODUCTS & PACKAGING





SINGLE STRING PACKAGING

Real packaging



Counterfeit packaging

GUITAR SET PACKAGING



Brand - Fretted
 Country - China
 Date - 8/26/2008
 Contact - Jan Liu & Assoc
 Reference # - DA07

Item #

EXL110



Counterfeit packaging



Real packaging

EXTERIOR PACKAGING



Brand - Fretted
Country - China
Date - 9/04/2008
Contact - Jan Liu & Assoc
Reference # - DA13

Item #

EJ27N



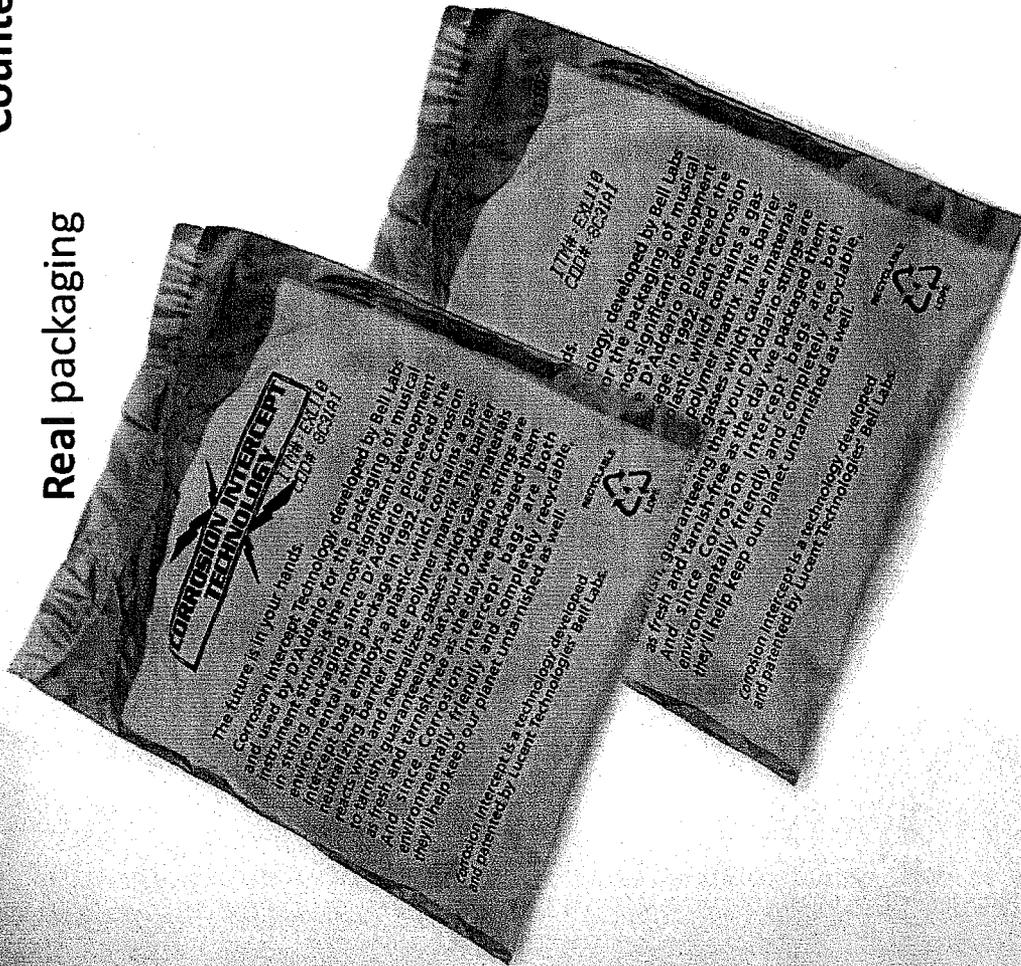
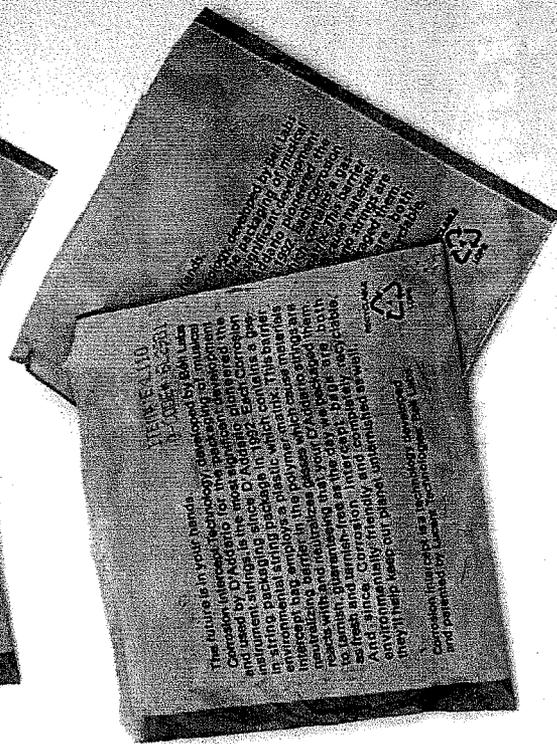
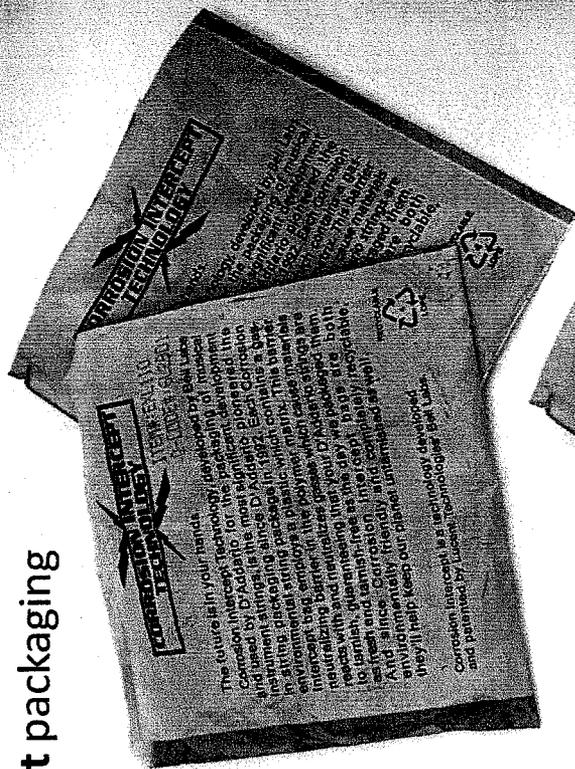
Counterfeit packaging



Real packaging

Counterfeit packaging

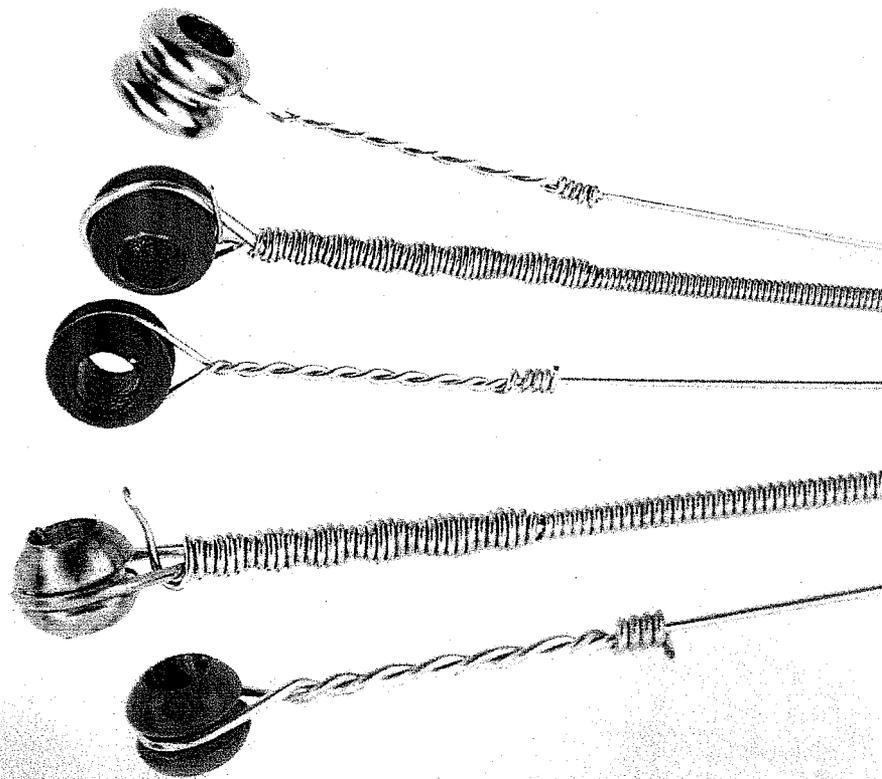
Real packaging



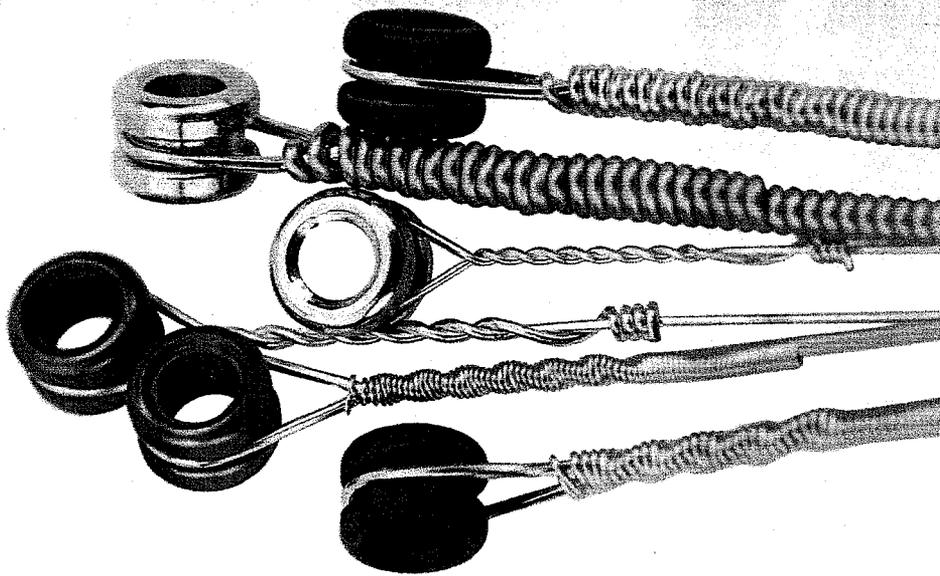
THE PRODUCT INSIDE

D'Addario[™]

Counterfeit product



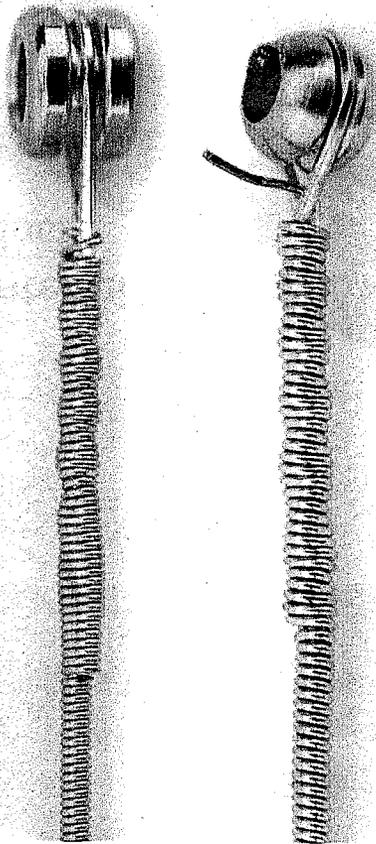
Real product



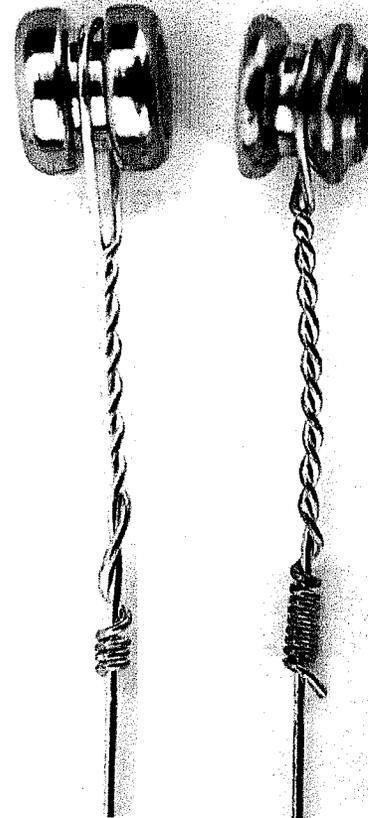
THE PRODUCT INSIDE

D'Addario

Real vs. Counterfeit



Real vs. Counterfeit



PLANET WAVES STRAPS

D'Addario

**Counterfeit
product**



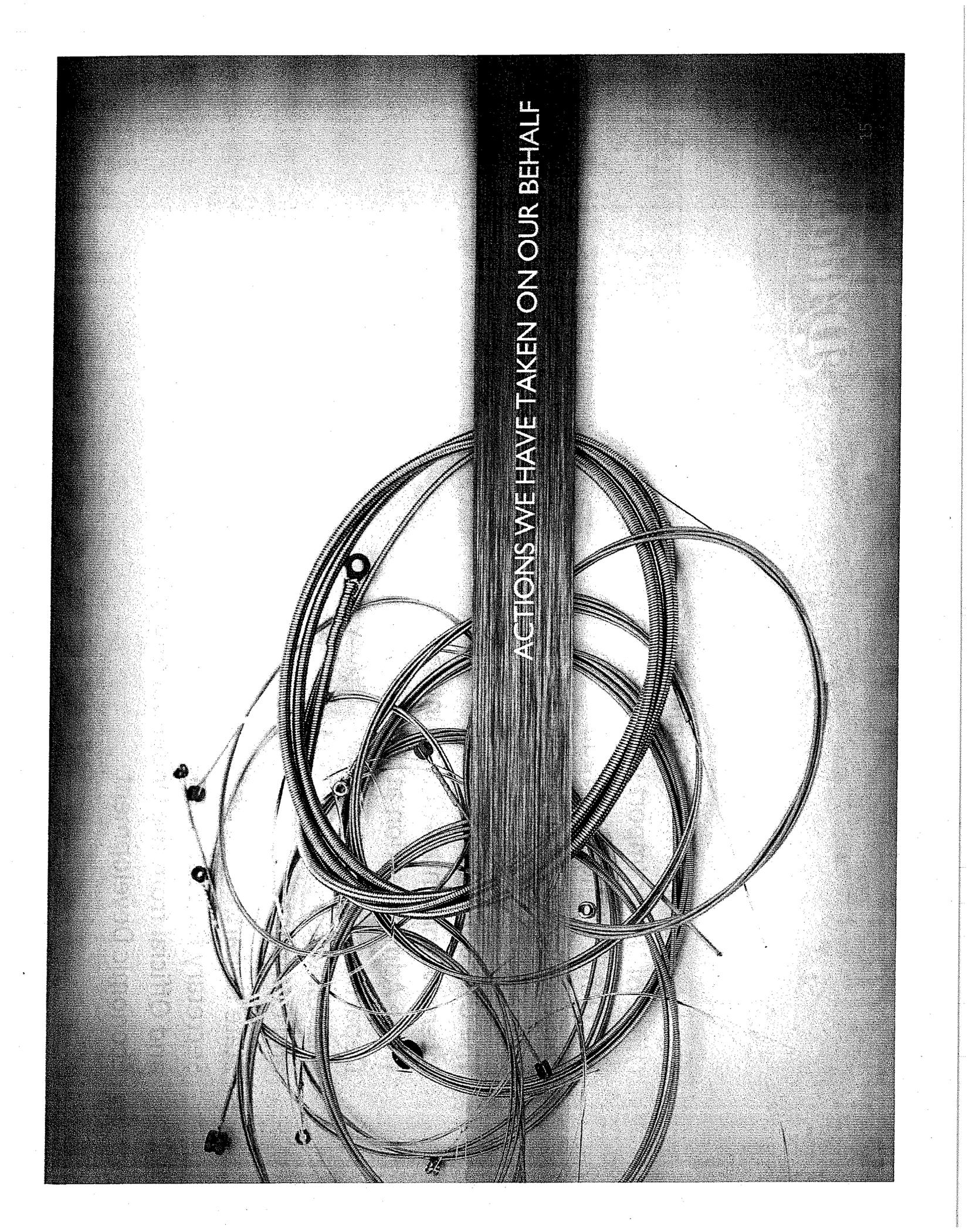
**Counterfeit
product**



**Real
product**

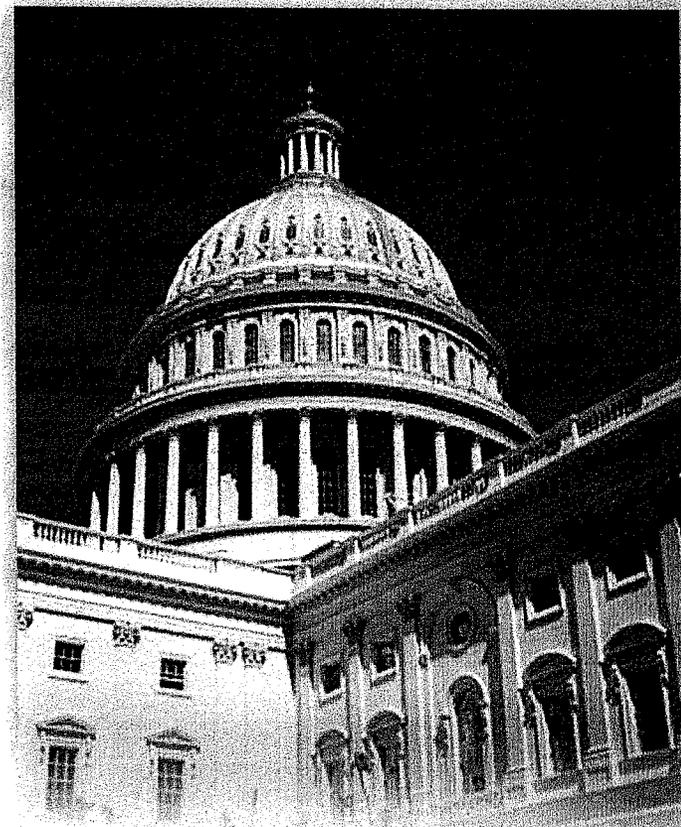


**Real
product**

A black and white photograph showing a dense, chaotic tangle of various cables and wires. The cables are of different thicknesses and some have connectors or loops. The background is a light, textured surface. A vertical black bar runs through the center of the image, containing white text.

ACTIONS WE HAVE TAKEN ON OUR BEHALF

- The International Trade Commission's Office of Unfair Import Investigations
- The Office of the U.S. Trade Representative – Congressional Affairs Specialist
- The Office of Legislative & Intergovernmental Affairs / International Trade Administration at the U.S. Department of Commerce - Deputy Assistant Secretary for Trade Agreements and Compliance
- State Department - Deputy Assistant Secretary for East Asian & Pacific Affairs and Official from the Under Secretary for Economic Development

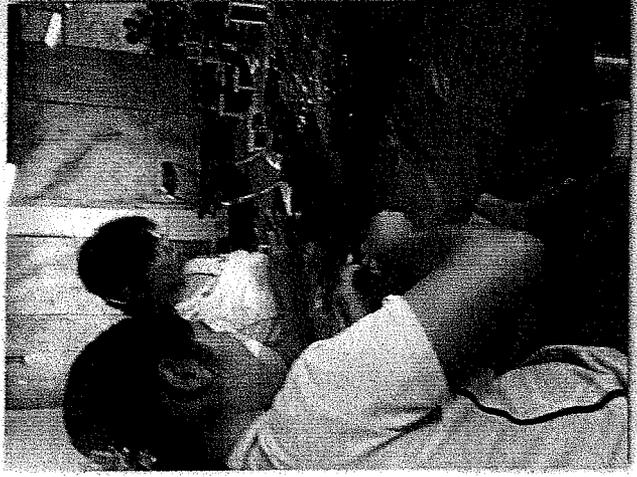


- Hired Patton Boggs in Washington D.C. and Jan Liu of LexField Law Offices in Beijing.
- Hired investigators to identify stores selling counterfeits and determine where and when they were buying them.
- Successfully litigated a trademark dispute with a pirate manufacturer trying to register our trademark in P.R.C.
- Hired private investigators to infiltrate factories producing counterfeit D'Addario strings.
- Conducted three factory raids with the assistance of Chinese authorities and seized D'Addario packaging and strings in process.



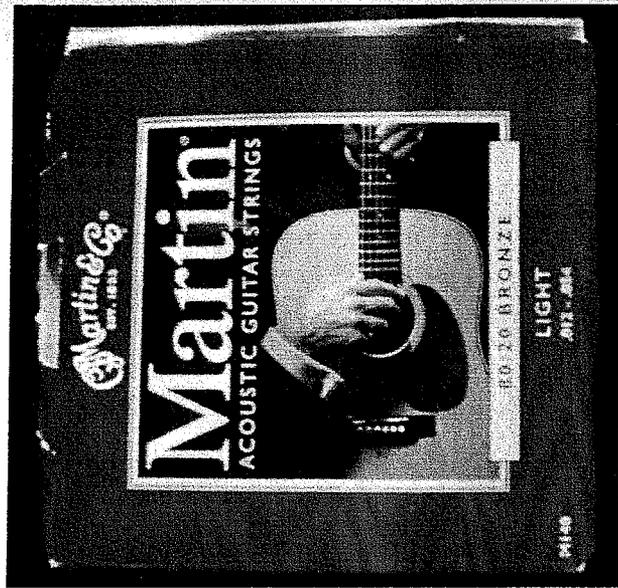
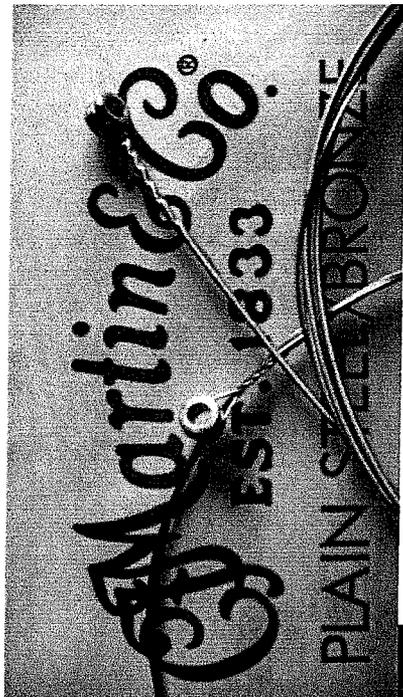
D'Addario

AGGRESSIVE LEGAL ACTION



August 2008 Raid in Guangdong, China

WE ARE NOT ALONE **D'Addario**



Other major brands in our industry are fighting the same battle. Counterfeit Martin and Fender string sets were also found during our factory raids.

"PLAY REAL" SALES AND MARKETING CAMPAIGN



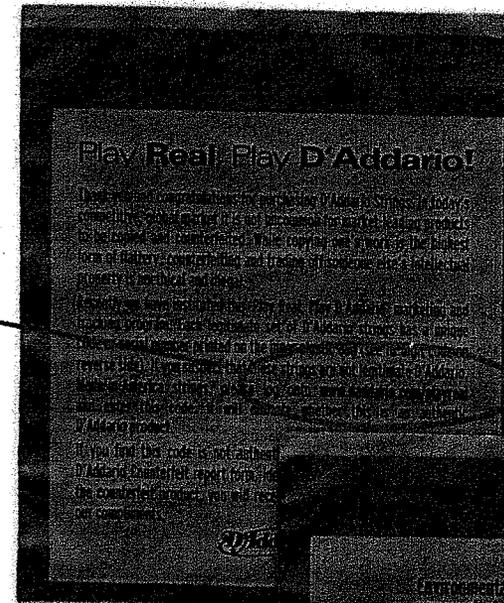
- Adopted an aggressive China pricing policy. Lowered distributor net prices 30 % to make our strings more competitive against counterfeits.
- Created ads and posters for the Chinese domestic marketing, using high profile U.S. and Chinese artists who play our products.
- Implemented the Play Real unique serial number packaging program.



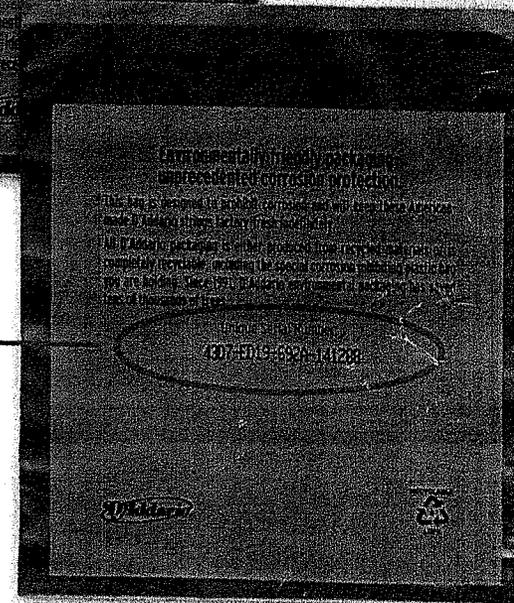
SERIAL NUMBER VALIDATION PROGRAM



Consumers, retailers, distributors, and customs agents can go online to www.daddario.com/playreal to check if a particular set is a legitimate D'Addario product.



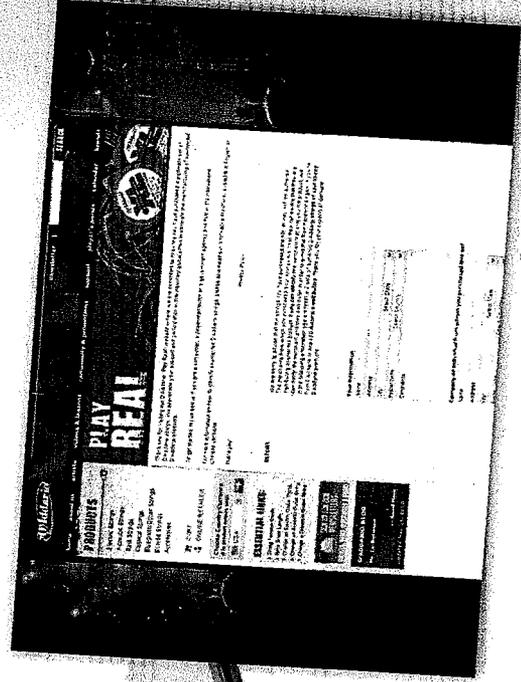
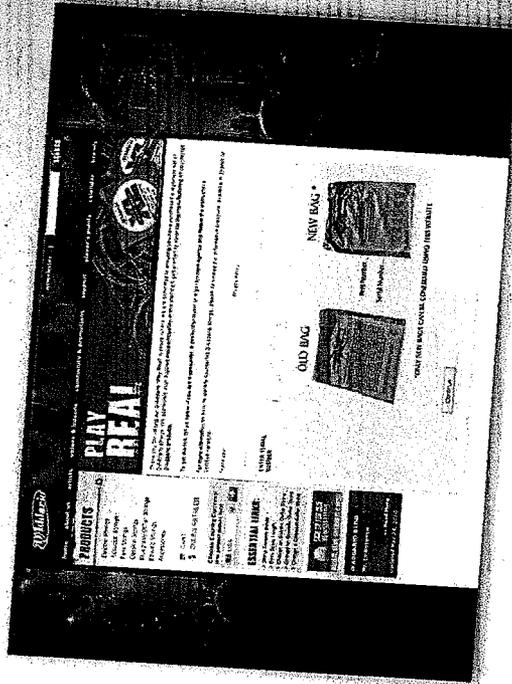
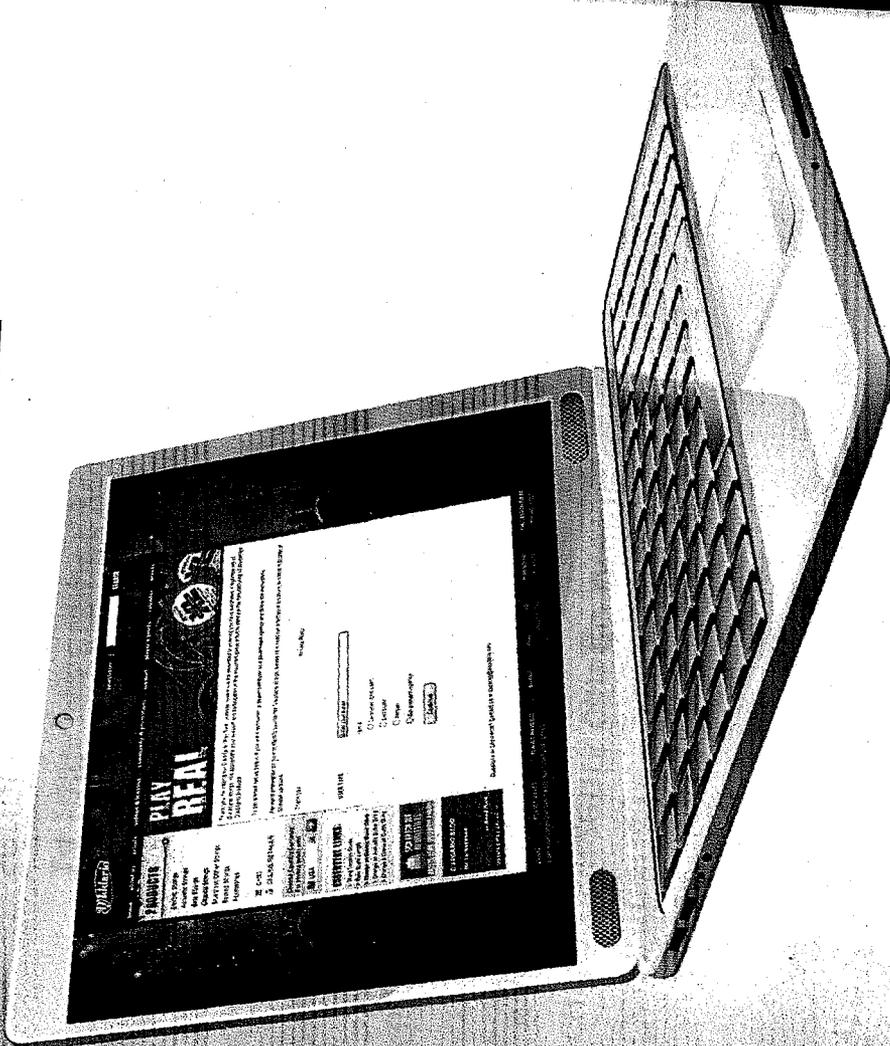
14 million sets per year get unique serial numbers to facilitate validating if the set is authentic.



SERIAL NUMBER VALIDATION PROGRAM



www.daddario.com/playreal

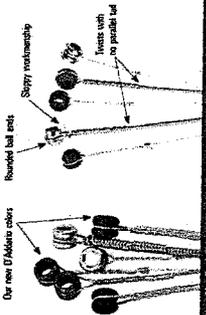


"PLAY REAL BROCHURES"



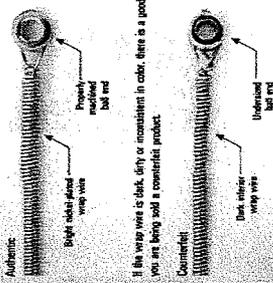
How To Identify a Fake

String Feel:
If you run a string through your thumb and forefinger, it should be smooth, supple and consistent in feel. Inauthentic strings may feel rough and sticky. Too much wrap wire residue can make a string feel stiff and lack flexibility.



Our new D'Addario codes
Rounded ball ends
Sharp rectangular ball ends
Insects with no parasite ball

Wrap Wire Color & Consistency:
D'Addario uses only the finest raw materials and has rigorous inspection procedures at our vendors and our own plant to ensure that all materials meet our specifications.



Authentic:
Bright white-plated wrap wire
Properly manufactured ball end

Counterfeit:
Dark, uneven wrap wire
Unfinished ball end

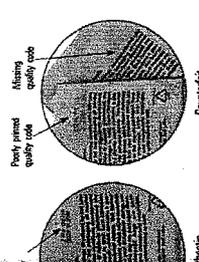
String Length:
All D'Addario guitar strings have windings a full .35" (1 meter) long. Many counterfeits are shorter to save materials and cost. Measure your strings before installing them.

How to Identify Counterfeit Strings



"Play Real... Play D'Addario"

Inhibitor Bag:
Each new bag includes a printed quality code. Counterfeit packages have this code or the printing quality is poor.

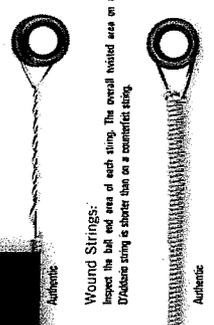


Authentic:
Properly printed quality code

Counterfeit:
Missing quality code

Twist:
If a guitar string is laid in visually identify, there are some signs that indicate that your strings may not be the original. Inspect and measure areas of the wound strings and plain steel.

Steel Strings:
The ball end of a steel string should have a set of even twists adjacent to the ball end. 3 light left twists allow the even twists. The overall twisted wire string is shorter than on a counterfeit string.



Authentic:
Even twists adjacent to the ball end

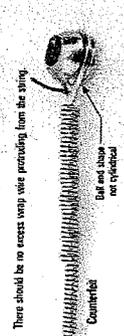
Counterfeit:
No even twists adjacent to the ball end



Very much recommended in 2001

What To Look For

How To Identify a Fake



Authentic:
Ball end has no excess wrap wire protruding from the string

Counterfeit:
Ball end has excess wrap wire protruding from the string

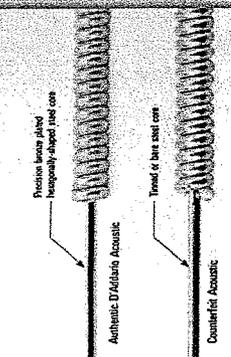
The ball ends should be properly finished with no metal burrs or sharp edges. The ball end is cylindrical and should have fine chamfered (beveled) edges on the ball end and the outer edges.



Authentic:
Ball end has a hole at the ball end and flat terminal points that are parallel to the wrap wire

Counterfeit:
Ball end has a hole at the ball end and a sharp, pointed terminal point

Acoustic Steel Strings:
All D'Addario acoustic steel strings are made of a micro-grain, hexagonally-shaped high-carbon steel alloy that is plated with 80/20 bronze. The micro plating is only one micron thick ensuring that the edges of the hexagonally-shaped wire remain sharp and are able to bite into the bridge wrap wire as it is wound onto the string. D'Addario's bronze string specifications have been meticulously checked but never escaped. Look at the core wire protruding from the end of an acoustic string. If it is not a yellow bronze color, it is not an authentic D'Addario string.



Authentic:
Precision laser-plated hexagonally-shaped steel core

Counterfeit:
Laser-cut steel core

Wound Strings:
Inspect the ball end area of each string. The overall twisted area on a D'Addario string is shorter than on a counterfeit string.



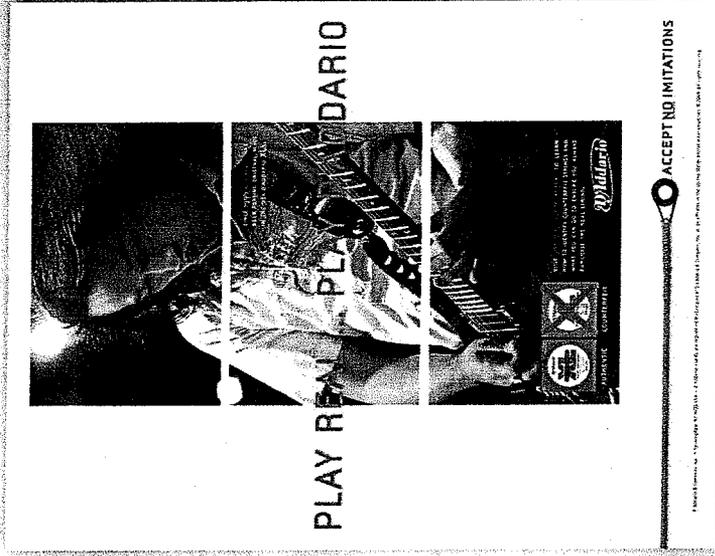
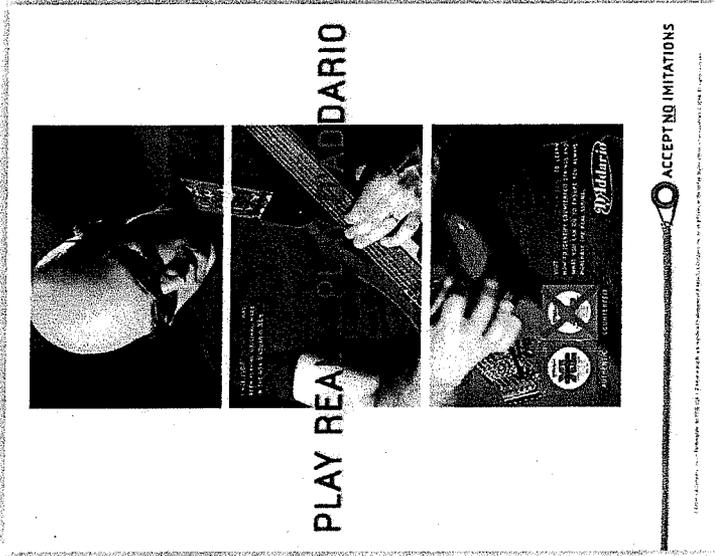
Authentic:
Overall twisted area is shorter

Counterfeit:
Overall twisted area is longer

Play Real brochures translated into Chinese and distributed to thousands of stores in P.R.C.

POSTERS AND ADS

D'AddarioTM



Ads and posters in Chinese publications and distributed nationwide.



D'Addario

IN CLOSING

DADDARIO.COM/

LOG ON TO LEARN HOW TO IDENTIFY COUNTERFEIT STRINGS AND WHAT YOU CAN DO TO ENSURE YOU ALWAYS PURCHASE THE REAL STRING

D'Addario



DA ZHONG



LAWRENCE KU



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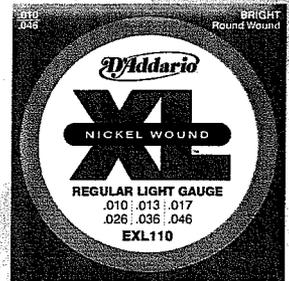


LIU YUE



ZHANG LING

**PLAY REAL...
PLAY D'ADDARIO**



ACCEPT NO IMITATIONS

DADDARIO.COM/
LOG ON TO LEARN HOW TO IDENTIFY COUNTERFEIT STRINGS AND WHAT YOU CAN DO TO ENSURE YOU ALWAYS PURCHASE THE REAL STRING

D'Addario



MENG FAN HAO



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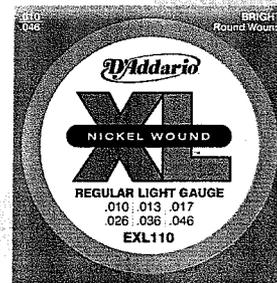


WEN THAI LIU



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**PLAY REAL...
PLAY D'ADDARIO**



ACCEPT NO IMITATIONS