

In the Matter of

**SNEAKERS WITH FABRIC UPPERS
AND RUBBER SOLES**

Investigation No. 337-TA-118



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UNITED STATES INTERNATIONAL TRADE COMMISSION

COMMISSIONERS

Alfred E. Eckes, Chairman

Paula Stern

Veronica A. Haggart

Kenneth R. Mason, Secretary to the Commission

**Address all communications to
Office of the Secretary
United States International Trade Commission
Washington, D.C. 20436**

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In the Matter of

SNEAKERS WITH FABRIC UPPERS
AND RUBBER SOLES

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COMMISSION ACTION AND ORDER

Introduction

The United States International Trade Commission has concluded its investigation under section 337 of the Tariff Act of 1930 (19 U.S.C. § 1337) of alleged unfair methods of competition and unfair acts in the unauthorized importation of certain sneakers into the United States, or in their sale by the owner, importer, consignee, or agent of either, the alleged effect or tendency of which is to destroy or substantially injure an industry, efficiently and economically operated, in the United States. The Commission's investigation concerned allegations of (1) infringement of Van Doren Rubber Co., Inc.'s common law trademark, (2) unfair competition, (3) passing off in the manufacture and sale of these sneakers, and (4) false designation of source.

This Action and Order provides for the Commission's final disposition of investigation No. 337-TA-118. The Commission bases this Action and Order upon the determination made in public session at the Commission meeting of February 28, 1983, that there is a violation of section 337.

Action

Having reviewed the record compiled and information developed in this investigation, including (1) the submissions filed by the parties, (2) the transcript of the evidentiary hearing before the presiding officer and the exhibits that were accepted into evidence, (3) the presiding officer's recommended determination, and (4) the arguments and presentations made by the parties at the Commission's public hearing on January 26, 1983, the Commission on February 28, 1983, determined that--

1. There is a violation of section 337 with respect to the importation and sale of imported sneakers with fabric uppers and rubber soles that infringe Van Doren's common law trademark;
2. The appropriate remedy for such violation is a general exclusion order issued pursuant to section 337(d) (19 U.S.C. § 1337(d));
3. The public interest factors enumerated in section 337(d) do not preclude the issuance of the order referred to in paragraph 2 above; and
4. The bond provided for in section 337(g)(3) (19 U.S.C. § 337(g)(3)) shall be in the amount of 266 percent of the entered value of the sneakers in question.

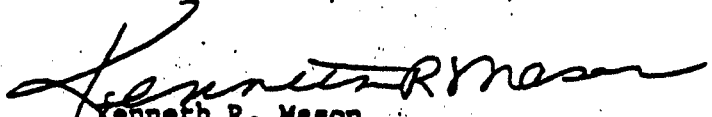
Order

Accordingly, it is hereby ORDERED THAT--

1. Sneakers with fabric uppers and rubber soles having a sole design which infringes Van Doren Rubber Co., Inc.'s trademark (exhibit A to the Action and Order), such as those depicted in exhibits B-F, are excluded from entry into the United States, except where such importation is licensed by the owner of the trademark;
2. The public interest factors enumerated in section 337(d) do not preclude such exclusion;
3. The articles ordered to be excluded from entry into the United States pursuant to paragraph 1 above are entitled to entry under bond in the amount of 266 percent of the entered value of said articles during the Presidential review period provided for in section 337(g)(2) (19 U.S.C. § 1337(g)(2));

4. Notice of this Action and Order be published in the Federal Register and that copies of this Action and Order and the Opinion issued in connection therewith be served upon each party of record to this investigation and upon the Department of Health and Human Services, the Department of Justice, the Federal Trade Commission, and the Secretary of the Treasury;
5. The Commission may amend this Order in accordance with the procedure described in section 211.57 of the Commission's Rules of Practice and Procedure (19 C.F.R. § 211.57).

By order of the Commission.


Kenneth R. Mason
Secretary

Issued: March 9, 1983

In the Matter of
CERTAIN SNEAKERS WITH FABRIC UPPERS
AND RUBBER SOLES

Investigation No. 337-TA-118

VIEWS OF THE COMMISSION

Procedural History

Van Doren Rubber Co., Inc. filed a complaint with the Commission on February 3, 1982, alleging a violation of section 337 of the Tariff Act of 1930, 19 U.S.C. § 1337.. On March 9, 1982, the Commission published a notice of investigation, 47 Fed. Reg. 10103, which stated that the Commission was instituting an investigation to determine whether there exists a violation of section 337 in the unauthorized importation of certain sneakers with fabric uppers and rubber soles into the United States, or in their sale in the United States by reason of (1) unfair competition, (2) false designation of source, (3) common law trademark infringement, and (4) passing off in the manufacture and sale of these shoes, the effect or tendency of which is to destroy or substantially injure an industry, efficiently and economically operated, in the United States.

The notice of investigation named three parties as allegedly violating section 337: Chin Yang Corporation; Thom McAn Shoe Co. Inc.; and Stride-Rite Footwear, Inc. During the course of the investigation, the Commission amended the notice of investigation twice and added eleven additional respondents: Melville Corp.; Stride-Rite International, Ltd.; Stride-Rite Corp.; Genesco, Inc.; San Shoe Trading Corp.; Poong Young (H.S. Corp.); Dae Yang Rubber, Inc.;

Tae Hwa Co. Ltd.; Tung Kunang Rubber Factory Co.; Mei GI Footwear Co.; and Hongson Group. The Commission subsequently terminated the investigation with respect to seven of these respondents based on a settlement agreement. ^{1/} Poong Young, Dae Yang Rubber, Inc., Tae Hwa Co., Ltd., Tung Kunang Rubber Factory Co., Mei GI Footwear Co., and Hongson Group remain as respondents in this investigation.

The Administrative Law Judge ^{2/} conducted an evidentiary hearing on September 7, 1982 through September 10, 1982. Van Doren and the IA appeared at this hearing, and Van Doren presented prima facie evidence of a violation of section 337 by respondents. ^{3/}

In her RD, the ALJ found that there is a violation of section 337 in the unlawful importation of certain sneakers into the United States and in their sale after importation, by reason of infringement of Van Doren's common law trademark in the design of its "Vans" sole, the effect or tendency of which is to injure substantially an industry, efficiently and economically operated, in the United States.

The Commission held a public hearing in connection with this investigation on January 26, 1983. Complainant's counsel and the IA appeared

^{1/} Van Doren alleged passing off solely against Thom McAn, Inc. The Commission terminated this investigation with respect to Thom McAn, 48 Fed. Reg. 3670, thus, eliminating the passing off count from the investigation.

^{2/} The following abbreviations are used in these views: Administrative Law Judge (ALJ); recommended determination (RD); Investigative attorney (IA); transcript of evidentiary hearing before the ALJ (TR); transcript of oral argument before the Commission (CTR); complainant's documentary exhibit (CX); complainant's physical exhibit (CX phys. ex.); staff documentary exhibit (SX).

^{3/} RD at 14.

and made oral presentations on the issues of violation, remedy, the public interest, and bonding. Counsel for the Melville Corporation was present at the hearing but made no presentation.

On February 28, 1983, the Commission determined that respondents had infringed Van Doren's common law trademark in the "Vans" sole pattern and falsely designated the source of manufacture of the subject sneakers in violation of section 337. The Commission determined that the appropriate remedy in this investigation is a general exclusion order directed at sneakers with fabric uppers and rubber soles that infringe Van Doren's trademark. The Commission also found that public interest factors do not preclude issuance of an exclusion order and that, in accord with section 337(g)(3), the bond should be 266 percent of the entered value of the subject sneakers.

The parties and the products

Complainant, Van Doren Rubber Co., Inc., is a California corporation headquartered in Anaheim, California. Van Doren has two manufacturing facilities and 52 company-owned stores. All of Van Doren's manufacturing and company-owned sales facilities are located in southern California.

Van Doren manufactures a line of sneakers possessing a patterned outersole which consists of hexagons in the area of the ball of the foot and diamonds on the rest of the sole. Van Doren claims a common law trademark in this outersole design. The "Vans Off The Wall" product line constitutes approximately 90 percent of Van Doren production and 80 percent of the company's current sales.

The respondents remaining in this investigation are foreign companies which manufacture and/or import sneakers. Chin Yang Corp., Poong Young (H.S.

Corp.), Dae Yang Rubber, Inc., and Tae Hwa Co., Ltd., are South Korean shoe manufacturers whose products include sneakers. Tung Kunang Rubber Factory Co., Ltd., and Mei GI Footwear Co., Ltd. (Mei GI) are Taiwanese sneaker manufacturers and Hongson Group is a Taiwanese trading company that deals in the subject sneakers.

Some of the respondents manufacture or import certain sneakers which have a sole pattern identical to the "Vans" pattern. Many of the imported sneakers manufactured by respondents, however, have sole patterns which are not exact copies of the "Vans" sole pattern. For the reasons set forth below, we find that the identical pattern and four other patterns before us infringe Van Doren's trademark because they are confusingly similar to the "Vans" sole pattern.

The present investigation is a default proceeding. ^{4/} Granting a motion for default, however, does not automatically result in a finding of violation. ^{5/} Finding a party in default merely authorizes the presiding officer to create certain procedural disabilities for the defaulting party and entertain, without opposition, proposed findings and conclusions of law based upon substantial, reliable and probative evidence which would support a recommended determination or initial determination. ^{6/} Thus, Van Doren has

^{4/} RD at 14.

^{5/} Certain Attache Cases, Inv. No. 337-TA-49, USITC Pub. No. 955 at 10 (1979).

^{6/} Certain Miniature Plug-In Blade Fuses, 337-TA-114, USITC Pub. 1337 (1983) at 6; Certain Novelty Glasses, Inv. No. 337-TA-55 at 5.

the burden of presenting prima facie evidence on all of the issues in this investigation necessary for the Commission to make a determination. ^{7/}

Common law trademark

In this investigation, we have applied the definition of trademark contained in section 45 of the Lanham Act. Both the common law and the Lanham Act define a trademark as any word, name, symbol, or device, or any combination thereof, adopted and used by a manufacturer or a merchant to identify his goods and to distinguish them from those manufactured or sold by others. ^{8/} A trademark indicates origin or ownership, guarantees quality or constancy, and entitles the owner to advertise goods bearing the mark. ^{9/}

Van Doren claims a common law trademark in the design of the outersole on the "Vans Off the Wall" line of sneakers. Proof of a common law trademark in this design requires Van Doren to establish that: (a) it has a right to use the mark; (b) the mark is inherently distinctive or has acquired a secondary meaning; (c) the mark has not acquired a generic meaning; and (d) the mark is

^{7/} The Commission recognizes the difficulties presented in a default proceeding in terms of developing the record. Small gaps in the complainant's evidence caused by the inability to obtain necessary information in possession of respondents, however, do not preclude the Commission from making adverse inferences where the complainant has made a reasonable effort to obtain such information. *Certain Airless Paint Spray Pumps and Components Thereof*, Inv. No. 337-TA-90, USITC Pub. No. 1199 at 4 (1981).

^{8/} 15 U.S.C. § 1127; *Certain Vacuum Bottles and Components Thereof*, Inv. No. 337-TA-108, USITC Pub. No. 1305 (1982); *Certain Cube Puzzles*, Inv. No. 337-TA-112, USITC Pub. No. 1334 (1983); J. McCarthy, Trademarks and Unfair Competition, § 3:1 at 85 (1973).

^{9/} 3 R. Callman, Unfair Competition, Trademarks, and Monopolies, § 65 at 3.

not primarily functional. ^{10/}

Once Van Doren proves that it has a common law trademark, proof of infringement of that mark requires that Van Doren show a likelihood of confusion among consumers. ^{11/}

A. Van Doren's right to use the mark

Van Doren began to use the "Vans" sole pattern in 1966. In light of the commercial success of these sneakers, other shoe companies requested that Van Doren supply them with "Vans" sneakers for their retail outlets. Van Doren, however, refused to supply these companies with sneakers. Kinney Shoe Corp. began selling sneakers with copies of the "Vans" sole pattern in September 1980. ^{12/} Based on the absence of evidence to the contrary, we find that no one had a prior right to use the "Vans" sole pattern at issue in this investigation.

B. Proof of inherent distinctiveness or secondary meaning

Van Doren does not claim that the "Vans" sole pattern is inherently distinctive. We concur with the ALJ's finding that the trademark claimed is not inherently distinctive. ^{13/}

^{10/} Certain Cube Puzzles, Inv. No. 337-TA-112, USITC Pub. No. 1334 at 7 (1983); Certain Vacuum Bottles and Components Thereof, Inv. No. 337-TA-108, USITC Pub. No. 1305 at 5 (1982); Certain Novelty Glasses, Inv. No. 337-TA-55, USITC Pub. No. 991 at 6 (1979).

^{11/} Id.

^{12/} Although Van Doren initiated a suit in federal court against Kinney and its suppliers, the companies settled the suit prior to litigation. Van Doren Rubber Co., Inc. v. Kinney Shoe Corp., C.A. No. 80-04673 (C.D. Cal. 1980).

^{13/} RD at 9.

Although a trademark is not inherently distinctive, that trademark may be protected if it has acquired secondary meaning in the minds of the consuming public. ^{14/} Proof of secondary meaning requires a manufacturer to show that in the minds of the public the primary significance of a product feature is to identify the source of the product rather than the product itself. ^{15/} For non-verbal symbols, secondary meaning denotes that such a visual symbol has come to achieve a trademark function of identification. ^{16/}

In establishing the existence of secondary meaning, we require proof of an association between the mark and the seller in the minds of a substantial number of the relevant buyer group. ^{17/} The party seeking legal protection for the mark may present both direct and circumstantial evidence of secondary meaning. Direct evidence consists of buyers' testimony, presented through testimony at the hearing, affidavit, or survey, on the existence of the necessary association between the mark and the source of the product. Circumstantial evidence consists of information relevant to buyers' exposure to the mark and allows the Commission to draw inferences from this indirect evidence on the existence of secondary meaning in the mark. Advertising, length of use, exclusivity of use, and sales volume are examples of circumstantial evidence of secondary meaning.

^{14/} See In re Morton-Norwich, 671 F.2d 1332, 213 USPQ 9, 26 (C.C.P.A. 1982).

^{15/} Inwood Labs. Inc. v. Ives Labs. Inc.-U.S.-, 102 S.Ct. 2182, 214 USPQ 1, 4 n.11 (1982), citing Kellogg Co. v. National Biscuit Co., 305 U.S. 111, 118 (1938).

^{16/} McCarthy § 15:2 at 521.

^{17/} Certain Vacuum Bottles, supra, at 8.

Van Doren presented both direct and circumstantial evidence on the existence of secondary meaning in the "Vans" sole pattern in California. With respect to direct evidence of secondary meaning, Ford Bubala & Associates, a California market analysis firm, conducted three surveys for Van Doren in the Los Angeles area. The first survey, conducted in November 1980, concerned whether the "Vans" sole had acquired secondary meaning. ^{18/}

The November 1980 survey used "Vans" and Kinney World Cup soles which were severed from the uppers and had no labelling, thereby focusing attention on the sole pattern itself. A presurvey analysis established that children ages 8-18 were the primary purchasers of this type of sneaker. ^{19/} When the survey takers asked approximately 764 children whether they associated the sole with any particular company over 67 percent answered Van Doren or "Vans" when shown the "Vans" sole. Over 60 percent identified the Kinney World Cup sole as coming from Van Doren. Survey results show that a significant portion of the relevant purchasing public in California identify the "Vans" sole pattern with a specific source. ^{20/} We find that the survey evidence

^{18/} CX-95A. The other two surveys conducted in 1982 concerned the likelihood of confusion between Van Doren sneakers with the "Vans" sole and various imported sneakers. CX-95B, CX-143. Hereinafter these three surveys will be referred to as the Ford surveys.

^{19/} CX-144.

^{20/} In the same survey only 2.4 percent of the responses named Kinney or World Cup as the source of the Kinney sole and only 1.8 percent named Kinney or World Cup as the source of the "Vans" sole. No other response accounted for more than 1 percent of the total responses. CX-95A at 9. Thus, the "Vans" pattern is clearly associated with Van Doren rather than another company.

presented establishes that the "Vans" sole pattern has acquired secondary meaning in California.

In common law trademark infringement cases, the Commission requires proof of secondary meaning throughout the United States. ^{21/} This requirement is consistent with the nature of the relief available in a section 337 proceeding. ^{22/}

Circumstantial evidence and inferences drawn from deliberate and close imitation of the complainant's design can establish secondary meaning, particularly if complainant has a strong trademark. ^{23/} In Cube Puzzles, for example, the closeness of the copying, evidence of secondary meaning such as national advertising, and the strength of the mark supported the Commission's conclusion of nationwide secondary meaning. ^{24/}

In making our determination, we also considered evidence on Van Doren's "zone of natural expansion" for the extent of Van Doren's trademark protection. This doctrine appears in trademark cases involving a senior user's limited geographic use of the trademark and provides the senior user trademark protection in his "zone of natural expansion." ^{25/} Although this

^{21/} Certain Cube Puzzles, supra, at 14-15.

^{22/} Cf McCarthy § 14.23 at 560 (proof of secondary meaning in limited area insufficient when nationwide rights involved).

^{23/} See Certain Vacuum Bottles, supra, at 16-19; Certain Novelty Glasses, supra, at 11.

^{24/} Certain Cube Puzzles, supra, at 14-15.

^{25/} United Drug Co. v. Theodore Rectanus Co., 248 U.S. 90, 101 (1918); Hanover Star Milling Co. v. Metcalf, 240 U.S. 403, 415, (1916). Courts have also held that a junior user's bad faith copying can preclude the junior user from acquiring trademark rights in areas where the junior user enters a particular market before the senior user and the two products do not directly compete. Pike v. Ruby Foo's Den Inc. of Md., 232 F.2d 683, 685 (D.C. Cir. 1956), Travelodge Corp. v. Siragusa, 228 F. Supp. 238, 141 USPQ 719 (N.D. Ala. 1964), aff'd, 352 F.2d 516, 147 USPQ 379 (5th Cir. 1965).

doctrine does not eliminate the need for additional proof of secondary meaning in the contested area, it does affect the amount of proof necessary to qualify a mark for protection. ^{26/}

The existence of intentional close copying is probative evidence on secondary meaning, but is not sufficient standing alone to establish secondary meaning in a weak mark. ^{27/} Although bad faith on the part of a trademark's junior user can affect the amount of proof required to establish secondary meaning, ^{28/} the user's intent does not displace the need for additional proof of secondary meaning.

Van Doren submitted circumstantial evidence of national secondary meaning consisting of information on their own national advertising, nationwide sale of sneakers through mail order coupons, the creation and success of a national sales force, sponsorship of national skateboard and bicycle-motorcross (BMX) teams, and participation in promotional programs associated with a nationally released movie and record album, Fast Times at Ridgemont High. Van Doren has engaged in national advertising to a substantial degree since 1978. ^{29/} The company spent approximately \$1 million in advertising its sneakers from 1978 through 1980. This advertising relates directly to the establishment of the "Vans" sole trademark

^{26/} McCarthy § 26:10 at 221.

^{27/} As noted in Vacuum Bottles, most cases involving deliberate copying as proof of secondary meaning concerned strong marks requiring little proof of secondary meaning. Vacuum Bottles, supra, at 18.

^{28/} Kimberly Knitwear v. Kimberly Stores, Inc. of Michigan, 331 F. Supp. 1339, 1341 (W.D. Mich. 1971).

^{29/} CX-163.

because a picture of the sole was usually included in the advertisement. ^{30/} The company has achieved a national reputation, at least among BMX fans and participants. ^{31/} It appears that Van Doren used this pattern exclusively from 1966 to 1980 and it was this pattern that attracted the skateboarders and BMX fans.

Van Doren established a national sales force in 1977, and in 1980, prior to the first importation and sale of the allegedly infringing sneakers, had sales representatives in 35 states. ^{32/} In addition, from January through July 1980, Van Doren received mail orders for its sneakers from consumers in 47 states. ^{33/} At this time national sales constituted a significant percentage of total sales and sneakers with the "Vans" pattern accounted for the majority of these national sales. ^{34/} In this investigation, the information on national secondary meaning also constitutes prima facie evidence that Van Doren's "zone of natural expansion" is the entire United States. ^{35/}

In addition to this circumstantial evidence of national secondary meaning, there is extensive evidence of bad faith copying on the part of respondents. Respondent Chin Yang manufactured the Kinney World Cup sneakers. Kinney provided Chin Yang with samples of "Vans" sneakers and

^{30/} See CX-166a-m.

^{31/} See CX-38.

^{32/} CX-179.

^{33/} CX-180.

^{34/} CX-154; TR at 81.

^{35/} A senior user's "zone of natural expansion" is determined as of the date that the junior user began using the mark. McCarthy, §26:8 at 217-18.

requested that Chin Yang copy them. The Kinney World Cup soles appear identical to the "Vans" sneaker. ^{36/} The Stride-Rite companies and Thom McAn subsequently ordered copies of the "Vans" sneaker which were manufactured at respondents' plants. Sales invoices refer to the sneakers as Vans, and one respondent, Tae Hwa, made an exact copy of the Chin Yang, Kinney/Thom McAn outersole mold. ^{37/} Thus, the record clearly supports a finding of intentional copying. ^{38/} Subsequent variations in the sole pattern occurred after initiation of litigation against the Kinney Shoe Corp. and do not alleviate the intention to profit from Van Doren's goodwill exemplified in the "Vans" trademark. ^{39/}

For all of the foregoing reasons, we find that the "Vans" sole pattern has acquired national secondary meaning.

Generic meaning

The party seeking trademark protection has the burden of showing that the claimed mark is not generic. The name of a product, such as cellophane or aspirin, which has become closely related in the public's mind with the type of product rather than its source can never serve as a trademark. ^{40/} De facto secondary meaning cannot transform a generic term into a trademark. ^{41/}

^{36/} Compare CX phys. ex. A, with CX phys. ex. L.

^{37/} CX-92E.

^{38/} Intentional copying also precludes respondents' from claiming the defense of geographically remote junior use under *Hanover Star Milling Co. v. Metcalf*, 240 U.S. 403, 415 (1916).

^{39/} Van Doren settled the suit prior to litigation. *Van Doren Rubber Co., Inc. v. Kinney Shoe Corp.*, (C.A. No. 80-04673, C.D. Cal. 1980).

^{40/} McCarthy, § 12:1 at 405.

^{41/} In Re Minnetonka Inc., 212 USPQ 772, 776 (TMT & App. B'd. 1981).

The first two Ford surveys contained control shoes used to establish that the relevant public did not consider all sneakers as "Vans." ^{42/} Although 13.2 percent of the responses in the May 1982 survey identified the Keds sneaker as a "Vans" and 34 percent of the responses in the 1980 survey identified the Sears sneaker as a "Vans" sneaker, no one identified the Nike shoe as coming from Van Doren. ^{43/} The Keds and Sears sneakers have uppers similar to the "Vans" sneaker, but very dissimilar soles. ^{44/} The Nike shoe has dissimilar uppers and soles. ^{45/} Although the degree of dissimilarity between the Nike shoe and the Van Doren sneaker is high, we conclude that "Vans" was not a generic term for sneakers with fabric uppers and rubber soles.

D. Functionality

On the issue of functionality, the Commission has applied the criteria outlined in In Re Morton - Norwich Products Inc., 671 F.2d 1332 (C.C.P.A. 1982). ^{46/} In that case the Court of Customs and Patent Appeals ^{47/} distinguished between de facto and de jure functionality. An item may have de facto functionality, i.e., the outersole of a sneaker may serve as a sneaker sole and still acquire trademark protection. If an item has de jure functionality, i.e., the design of the pattern on the outersole serves a

^{42/} See note 18 at 8, supra.

^{43/} CX-95A, CX-95B.

^{44/} CX-phys. ex. M, S.

^{45/} CX-phys. ex. R.

^{46/} Certain Cube Puzzles, supra, at 16-17.

^{47/} This is the predecessor court to the Court of Appeals for the Federal Circuit.

function, the design cannot be used as a trademark. ^{48/}

According to the court, "'functionality' is determined in light of 'utility', which is determined in light of 'superiority' of design, and rests upon the foundation 'essential to effective competition.'" ^{49/} In making this determination on functionality, the court enumerated four factors for consideration:

- (1) the existence of an expired utility patent which discloses the utilitarian advantage of the design sought to be registered as a trademark;
- (2) the originator of the design touting the design's utilitarian advantages through advertising;
- (3) the availability of alternative designs; and
- (4) the comparative simplicity or cost savings resulting from the method of manufacturing the article. ^{50/}

Applying these criteria to the present investigation, we find that the design of the Van Doren "Vans" sole pattern is non-functional. The original Van Doren sole pattern consisted of all diamond shapes. When a problem developed with the sole cracking at the ball of the sole, Van Doren modified the pattern and used hexagons in that area. This solved the cracking problem in the sole. The Van Dorens testified at the hearing that several design

^{48/} In re Morton-Norwich Products, Inc. at 1337-38.

^{49/} Id. at 1340.

^{50/} Id. at 1341.

alternatives exist which could have solved the cracking problem. ^{51/} Thus, the design is not uniquely superior in this respect.

Prior to reaching a settlement agreement in this investigation, respondents introduced as evidence of functionality expired U.S. Letters Patent No. 1, 289,106 issued in 1918. This patent discloses a diamond pattern with longitudinal ribs which the patent asserts increase traction. The claimed feature which provides the increased traction, i.e., thin ribs "of greater elasticity than the other bearing portions of the sole" crossing the center of the pockets, is not present in the Van Doren pattern. Examination of the physical exhibits shows that all of the ribs on its shoe are of the same thickness and elasticity. ^{52/} Thus, this patent does not preclude use of the "Vans" pattern as a trademark.

During the investigation, parties also argued that Van Doren magazine advertisements appearing in 1977 through early 1980 claimed that the sole pattern improved grip. ^{53/} Van Doren now asserts that these advertisements were unintentionally misleading. ^{54/} These advertisements represented a small portion of Van Doren's total sales effort. Considering the scientific tests reaching a contrary result, these advertising overstatements do not preclude use of the design as a trademark.

^{51/} TR at 70-71.

^{52/} Although initially respondents contended that the "Vans" pattern resulted in increased traction, Van Doren's expert witness and the tests he conducted demonstrated that the "Vans" sole design was not superior for traction purposes, CX-175-176, TR 292-307.

^{53/} CX-166a, 166b, 168.

^{54/} TR. at 114-17.

The final two criteria involve the issue of competitive utility, i.e., whether the design in question is one of a few available designs for the article or whether the design results in cost savings or in a simpler manufacturing method. Either of these conditions could make a design necessary for effective competition and thus functional.

In this investigation, numerous alternative designs exist for use on sneaker soles. 55/ Thus, the effect on competition of granting trademark protection to the "Vans" pattern is minimal. Furthermore, there is evidence that the "Vans" sole pattern is more expensive to produce than other patterns available. 56/ Thus, no relevant competitive factor precludes use of the sole pattern as a trademark.

Based on the foregoing analysis, we conclude that Van Doren has a common law trademark in the "Vans" sole pattern.

Infringement

Trademark infringement requires that the trademark holder establish a likelihood of confusion in the minds of a substantial number of reasonable buyers. Although secondary meaning and likelihood of confusion are two separate legal issues, they are related in the sense that confusion can occur only after initial association or recognition of the mark. 57/

In Coin-Operated Audio-Visual Games and Components Thereof (Games), Inv. No. 337-TA-87, USITC Pub. No. 1160 at 8-9 (1981), the Commission examined the

55/ RD at 13.

56/ TR at 72.

57/ McCarthy, § 15.3 at 522.

following factors in determining the likelihood of confusion:

- (1) The degree of similarity between the designation and the trademark in--
 - (a) appearance;
 - (b) pronunciation of the words used (for tradenames);
 - (c) verbal translation of the designs or pictures involved; and
 - (d) suggestion;
- (2) the intent of the actor in adopting the design;
- (3) the relation in use and manner of marketing between the goods and services marketed by the actor and those marketed by the other user; and
- (4) the degree of care likely to be exercised by purchasers.

Van Doren presented survey evidence establishing actual confusion among customers. Although proof of actual confusion is not essential in a trademark infringement case, the trademark holder must establish a likelihood of confusion. ^{58/} Thus, while exact identity of marks is unnecessary, sufficient similarities in the marks must exist so that it is likely that a reasonable consumer would be confused as to the source of the product. ^{59/}

The sneakers at issue consist of two major parts which may have an identification function, the fabric uppers and the sole. The Ford surveys used sneakers with uppers and soles similar to the "Vans" sneaker, and sneakers with uppers similar to the "Vans" sneaker but soles dissimilar to the "Vans" sneaker. The surveys included the second type of sneaker in an attempt to isolate the degree of confusion caused by each portion of the sneaker.

The 1980 survey results show that when the percentages are adjusted for the effect of the similar uppers, ^{60/} 17.8 percent of the children

^{58/} McCarthy, § 23.2 at 36-40.

^{59/} Saxlehner v. Eisner, 179 U.S. 19 (1900).

^{60/} Adjustment for confusion resulting from factors other than the mark is necessary because protection is accorded the trademark rather than these other factors such as the sneaker's uppers.

responding were confused by the identical sole pattern. ^{61/} Chin Yang Corp. manufactures this sneaker which was used in the 1980 Ford survey and San Shoe imports the sneaker for sale to U.S. shoe chains. ^{62/}

The second Ford survey conducted in May 1982, shows that, when the figures are adjusted for the effect of similar uppers, 21.6 percent of the children responding were confused by the Genesco sole pattern. ^{63/} Hongson Group supplies Genesco with this sneaker. Furthermore, Genesco indicated that Hongson advised it that Mei GI manufactured this sneaker. ^{64/}

The second survey also shows that 13.9 percent of the children responding were confused by the Stride-Rite sneaker. ^{65/} This pattern consists of hexagons or honeycombs over the entire sole. The "Vans" pattern has hexagons in the area of the ball of the foot. Thus, this Stride-Rite sole pattern uses one of the two major elements of the "Vans" pattern. Stride-Rite International supplied Poong Young (H.S. Corp.) with a sample outersole, which Stride-Rite International obtained from Thom McAn. Stride-Rite International imported sneakers manufactured by Poong Young (H.S. Corp.), Dae Yang, Chin Yang, and Tae Hwa. ^{66/} Although there is no description of the sole pattern on the order forms, letters written by a Stride-Rite employee to various customers mention Van Doren's assertion that the present sole pattern on

^{61/} CX-phys. ex. L; CX-95A.

^{62/} CX-75; 144A; SX-21 at 8-9.

^{63/} CX phys-Q; CX-95B.

^{64/} CX-85X.

^{65/} CX-phys. ex. P; CX-95B.

^{66/} CX-85C.

sneakers produced in Korea and Taiwan are very similar to the "Vans" pattern. The letters request permission to change the sole pattern to an all hexagon or honeycomb pattern. ^{67/} Thus, we conclude that the sole pattern was one of those confusingly similar to the "Vans" sole pattern. ^{68/}

The third Ford survey conducted in August 1982 involved the soles of Thom McAn sneakers. These soles were severed from the upper, apparently to eliminate possible confusion from a similar upper. The survey indicated that 50.4 percent of the children responding thought that the Thom McAn sole came from a "Vans" sneaker. ^{69/} Thom McAn purchases the sneakers used in this survey from Stride-Rite International and San Shoe. These companies, in turn, source the shoes from the Korean and Taiwanese manufacturers. The ALJ found that Tung Kuang was one of these companies. ^{70/}

Although the sole patterns at issue in this investigation vary from nearly identical to incorporating only the hexagon portion of the "Vans" design, the survey results indicate that these patterns confuse children, the relevant purchasing public. A reasonable child may not take the time to inspect closely the sole pattern on the sneaker and may not notice that only one portion of the pattern is present. Furthermore, labeling is not a defense to likelihood of confusion, particularly when a potentially dominant force in

^{67/} CX-86W-Y.

^{68/} This conclusion is based on the ALJ's properly imposed evidentiary sanctions against Poong Young and Dae Yang. RD at 17-18.

^{69/} CX-143.

^{70/} The ALJ again properly imposed an evidentiary sanction to support the finding the sneakers manufactured by Tung Kuang had an infringing sole pattern.

the market is copying a smaller company's design. ^{71/} Such labeling may contribute to confusion rather than allieviate it. ^{72/}

The sneakers in question are used for the same purposes and marketed through the same distribution channels as the "Vans" sneakers. Thus, it is likely that consumers will be exposed to the similar product.

We find that respondents intended to copy the Van Doren sole pattern. ^{73/} Intentional copying provides additional support for a finding of likelihood of confusion because intent to copy supports the inference that the mark's copiers intended to cause confusion. ^{74/}

We find that each of the five sole patterns at issue infringe Van Doren's common law trademark. One of the infringing patterns appears to be identical to the "Vans" pattern, ^{75/} and three of the infringing patterns employ at least two designs on the sole, (one in the area of the ball of the foot and another on the remainder of the sole). ^{76/} Furthermore, both of the components of the infringing sole pattern are similar to the corresponding component in the "Vans" pattern. Although the full sole hexagon pattern differs from the other sole patterns in that it does not include at least two different shapes in the pattern, this fifth infringing pattern does

^{71/} The foreign manufacturers' production capacity greatly exceeds Van Doren's capacity, thus providing the potential for dominance in the market. See injury discussion, infra, at 26.

^{72/} Truck Equipment Service Co. v. Freuhauf Corp., 536 F.2d 1212, 1221 (8th Cir.), cert. denied, 429 U.S. 861 (1976).

^{73/} See discussion of evidence of bad faith copying, supra, at 12.

^{74/} See McCarthy, § 15:3 at 522-23.

^{75/} See exhibit D to the Action and Order.

^{76/} See exhibits B, C, and E to the Action and Order.

incorporate one of the two component shapes used in the "Vans" pattern. ^{77/}
 The survey shows that some confusion is likely.

False designation of source as to manufacture

Van Doren alleged that respondents falsely designated the source of the sneakers in question because they falsely implied the manufacturer of these sneakers. ^{78/} In past investigations the elements of proof of common law trademark infringement constituted prima facie evidence of false designation of source. ^{79/} In this case, Van Doren's proof of trademark infringement also establishes false designation of source of manufacture.

Domestic industry

The domestic industry in this investigation consists of that part of complainant's business devoted to the manufacture, distribution, and sale of the product bearing the allegedly infringed trademark. ^{80/} The entire "Vans" sneaker is manufactured in the United States. Van Doren has two manufacturing facilities in Anaheim, California, where it employs over 1,100 persons. The "Vans" sole and all of the sneakers with the

^{77/} See exhibit F to the Action and Order. Proof of likelihood of confusion with respect to patterns more disparate from the "Vans" sole than the five infringing patterns would require strong proof of likelihood of confusion, particularly in light of the confusion related to the sneakers' uppers.

^{78/} CTR at 17-18.

^{79/} Certain Coin-Operated Audio-Visual Games and Components Thereof, Inv. No. 337 TA-87, USITC Pub. No. 1160 at 9 (1980).

^{80/} See id. at 24.

sole are manufactured in California. Approximately 90 percent of Van Doren's production and 80 percent of its current sales consist of sneakers bearing the "Vans" sole pattern. All of Van Doren's sneakers are distributed from California. Approximately 65 percent of sales are in Van Doren shoe stores and virtually all sales are in the United States. ^{81/} Thus, we determine that the domestic industry consists of that portion of Van Doren's operation, manufacturing, distributing, and selling sneakers with the "Vans" sole.

Efficient and economic operation

Indicia of efficient and economic operation include: use of modern equipment, effective quality control programs, competitiveness, successful sales efforts, and profitability of the subject product. The ALJ found that the domestic industry is efficiently and economically operated, ^{82/} and we concur with her assessment of the domestic industry.

Van Doren employs over 1,000 persons in its factories. Approximately 900 are in manufacturing with the remainder acting in supervisory and administrative capacities. About one of every 35 employees is a supervisor. ^{83/}

Van Doren's manufacturing facilities contain modern machinery for manufacturing sneakers. Van Doren has purchased new equipment over the past several years and in 1981 expanded its manufacturing facilities and research and development department. ^{84/}

^{81/} CX-156.

^{82/} RD at 9-10.

^{83/} CX-162, TR at 44.

^{84/} TR at 44-46.

injury to the domestic industry is caused by the infringing imports and is likely to continue in the future.

Van Doren has experienced declining store sales of "Vans" sneakers since early 1981. These store sales make up the bulk of Van Doren's total sales. Van Doren bases its claim of substantial injury on the failure of store sales of "Vans" sneakers to meet projected levels. ^{87/} The projections for sales of sneakers that do not have the "Vans" sole pattern demonstrate the accuracy of Van Doren's projections. ^{88/} Van Doren's store sales of these other sneakers have increased steadily from January 1979 through July 1982 and conform to the projections. ^{89/} These increasing sales together with increasing sales of "Vans" sole sneakers prior to December 1980 indicate that the decline in "Vans" sales was not part of a general contraction in demand for sneakers. ^{90/}

Van Doren's financial data also show declining trends. After tax profits decreased dramatically from fiscal year 1981 to 1982. ^{91/} Before tax profits as a percentage of total sales show a similar decline from 1981 to 1982. ^{92/} Van Doren's cash position deteriorated from a positive cash flow in 1980, to a negative cash flow in 1982. ^{93/} Among the factors

^{87/} The ALJ found that Van Doren's store sales from December 1980 through July 1982 of "Vans" sneakers are substantially less than the projected sales. RD at 20.

^{88/} CX-151.

^{89/} Id.

^{90/} CX-149; 151; 170.

^{91/} CX-163.

^{92/} CX-178.

^{93/} Id. Van Doren included attorney's fees in its calculation of declining cash flow. Although attorney's fees do affect cash flow, this expenditure is not directly related to the production of the trademarked product.

Since 1967 Van Doren has expanded from one retail sales outlet to a chain of 52 company-owned shoe stores. From 1980 to July 1982, Van Doren has successfully expanded its national sales force, and currently national sales account for approximately 35 percent of total sales. ^{85/} Prior to entry of the infringing sneakers, the "Vans Off the Wall" line of sneakers was a commercial success.

Van Doren has spent approximately \$2.4 million in advertising since it began manufacturing sneakers. The bulk of these expenditures has been since 1977. ^{86/}

For the foregoing reasons, we find that the domestic industry is efficiently and economically operated.

Injury

Van Doren has presented prima facie evidence of substantial injury by reason of imports of sneakers with soles that infringe Van Doren's trademark in the "Vans" sole pattern. Furthermore, the evidence supports the conclusion that importation of the subject sneakers has the tendency to injure the domestic industry in the future.

Van Doren based its claim of injury on several factors-- declining sales and profits, a deteriorating cash flow situation, employee layoffs, and production cutbacks. Furthermore, these factors, when combined with respondents' lower prices and high production capacity, establish that the

^{85/} CX-154.

^{86/} CX-163.

contributing to this change in cash position were increased research and development costs and capital expenditures required to produce additional competitive styles. Research and development expenditures increased over 500 percent from 1980 to 1982. ^{94/}

Van Doren has laid off approximately 400 full-time and 400 part-time employees. In September 1981, Van Doren had 1,986 employees, in July 1982, that figure was 1,175. ^{95/} In addition, Van Doren shut down its production plants for four weeks in November and December 1981. This reduced production by about 200,000 pairs of sneakers. In 1982, production has been reduced by about 35 percent or 15,000 pairs of sneakers per week. ^{96/}

The precise level of market penetration by infringing imports is difficult to calculate. Accepting Van Doren's figures, import market penetration ranges from 34.6 percent to 44.1 percent for the period from October 1980 to July 1982.

The imported sneakers sell at prices substantially lower than Van Doren's selling price and in some cases below Van Doren's cost of production. Van Doren's retail prices range from \$14.99 to \$26.99 depending on the style of the shoe ^{97/} and Van Doren's average retail price for these sneakers is \$21.43. ^{98/} Van Doren's cost to manufacture the "Off the Wall" sneakers in the United States is more than three times respondents' cost of production. ^{99/}

^{94/} CX-163F.

^{95/} CX-164B.

^{96/} TR at 58-59.

^{97/} CX-109.

^{98/} CX-181.

^{99/} See TR 133; CX-92-E; CX-144A.

Foreign production capacity for sneakers appears to be substantially greater than that of Van Doren. Chin Yang has a production capacity estimated at 100,000 pairs per day; 100/ Tae Hwa, 100,000 pairs per day; 101/ Tung Kunang, 5,000 to 6,667 pairs per day; 102/ Dae Yang, 40,000 pairs per day; 103/ and ICC (a nonrespondent company), 250,000 pairs per day. 104/ By contrast, Van Doren's production capacity is 100,000 pairs per week or approximately 14,330 pairs per day, and Van Doren is presently operating at about one third of its capacity. Thus, foreign producers of infringing sneakers have substantial capacity to increase their share of the U.S. market. This appears likely in light of the substantially lower prices of the infringing sneaker.

Based on the record in this investigation, we conclude that there is a violation of section 337 by reason of common law trademark infringement and false designation of source of manufacture in the importation into the United States and sale of the subject product, the effect or tendency of which is to substantially injure an industry efficiently and economically operated, in the United States.

Remedy

We determine that the appropriate remedy is a general exclusion order directed at all imported sneakers that infringe the Van Doren sole

100/ SX-4 at 88.

101/ id. at 93

102/ SX-20 at 103.

103/ SX-4 at 92

104/ Id.

pattern.^{105/} This investigation satisfies the balancing test set forth in Certain Airless Paint Spray Pumps and Components Thereof, Inv. No. 337-TA-90, USITC Pub. No. 1199 at 17-20 (1981) whereby a complainant may justify issuance of a general exclusion order. Van Doren has clearly established a widespread pattern of unauthorized use. Chin Yang began producing large numbers of infringing sneakers for Kinney Shoe Corp. in 1980. Other U.S. retailers observed Kinney's sales success with the infringing sneakers. These retailers decided to enter the market and ordered shoes from numerous foreign manufacturers. These manufacturers include five of the respondents in this investigation and other manufacturers not named as respondents. These firms have production capacity far exceeding Van Doren's capacity. In addition, there is information that other U.S. retailers including Edison Brothers, Standard Shoes, Mervyns, SCOA (Gallenkamp), and J.C. Penney's have imported infringing sneakers.

With respect to business conditions in the U.S. market, there exists an established and growing demand for the "Vans" sneakers in the United States. Foreign producers and domestic retailers have recognized this demand and have moved to take advantage of it. Numerous channels of distribution exist for copies of "Vans" sneakers and major retailers have marketed the infringing article. The relatively low price of infringing sneakers provides incentives for the establishment of additional outlets in the U.S. market.

^{105/} Equitable principles associated with trademark law provide that where a party has engaged in unfair competition, he should be required to keep a safe distance from the margin and avoid all likelihood of confusion. Chevron Chemical Co. v. Voluntary Purchasing Groups, 659 F.2d 695, 702 (5th Cir. 1981), cert. denied, 102 S. Ct. 2947 (1982); World's Finest Chocolate Inc. v. World Candies Inc., 409 F. Supp. 840, 844 (N.D. Ill. 1975), aff'd, 559 F.2d 1226 (7th Cir. 1977).

Foreign capacity stands at 495,000 shoes per day. Each of the named respondents entered the market rapidly. Outersole molds can easily be copied at relatively little expense from a single pair of sneakers and respondents were able to deliver shoes shortly after companies placed orders.

Public interest factors

The Commission may order a remedy only "after considering [the remedy's] effect . . . upon the public health and welfare, competitive conditions in the United States economy, the production of like or directly competitive articles in the United States, and United States consumers. . . 19 U.S.C. § 1337(d), (f). Consideration of these public interest factors is "paramount in the administration of the statute." 106/

We determine that a general exclusion order will have no adverse effect upon the enumerated factors. Numerous alternative sole patterns are available for manufacturers continued use. A general exclusion order in this case would affect only sole patterns which infringe Van Doren's trademark.

The sneakers in question are not essential to the public health or welfare. Furthermore, the exclusion order will not affect the availability of low priced sneakers. Sneakers with similar uppers and dissimilar sole patterns will continue to be available to U.S. consumers.

Bonding

Section 337 (g)(3) provides that during the 60-day Presidential review period the articles subject to an exclusion order shall be entitled to entry under bond determined by the Commission. We determine that a bond of 266

106/ S. Rep. No. 1298, 93d Cong., 2d Sess. 193 (1974).

percent of entered value is appropriate in this case. This amount represents a comparison of the average F.O.B. entered value of the imported sneakers and Van Doren's cost of production. Thus, this bond offsets the competitive advantage resulting from the unfair acts in question. 107/

107/ See section 210.14(a)(3) of the Commission's Rules of Practice and Procedure, 19 C.F.R. § 210.14(a)(3).

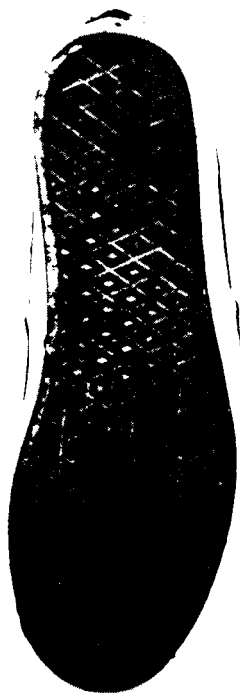


EXHIBIT A

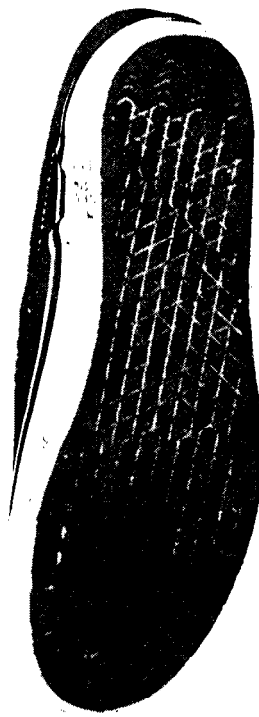


EXHIBIT B



EXHIBIT C

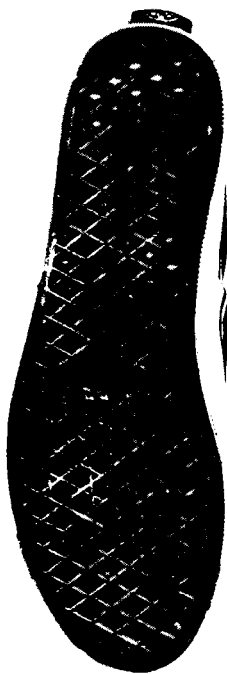


EXHIBIT D



EXHIBIT E

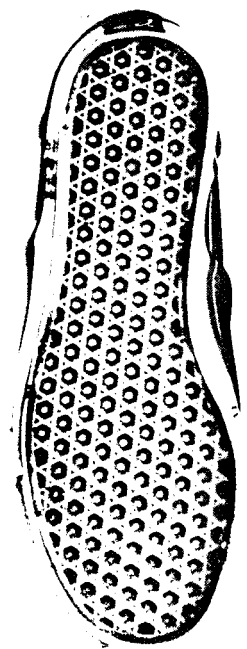


EXHIBIT F

