

PUBLIC VERSION

**UNITED STATES INTERNATIONAL TRADE COMMISSION
Washington, D.C. 20436**

In the Matter of

CERTAIN FOAM FOOTWEAR

**Investigation No. 337-TA-567
(Remand)**

COMMISSION OPINION

I. INTRODUCTION

On February 9, 2011, the presiding administrative law judge (“ALJ”) issued his remand initial determination (“ID”) in the above-captioned investigation, finding that the asserted patents, U.S. Patent No. 6,993,858 (“the ’858 patent”) and U.S. Patent No. D517,789 (“the ’789 patent”), were not unenforceable. The Commission determined not to review the remand ID and found a violation of section 337 of the Tariff Act of 1930, 19 U.S.C. § 1337, as amended (“section 337”). *See 76 Fed. Reg.* 24052-53 (April 29, 2011). The investigation is now before the Commission to consider the issues of remedy, the public interest, and bonding.

II. BACKGROUND

The Commission instituted this investigation on May 11, 2006, based on a complaint, as amended, filed by Crocs, Inc. (“Crocs”) of Niwot, Colorado. *71 Fed. Reg.* 27514-15 (May 11, 2006). The complaint alleged violations of section 337 of the Tariff Act of 1930, as amended (19 U.S.C. §1337), in the importation into the United States, the sale for importation, and the sale within the United States after importation of certain foam footwear, by reason of infringement of

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claims 1-2 of the '858 patent; the design claim of the '789 patent; and the Crocs trade dress (the image and overall appearance of Crocs-brand footwear). The complaint further alleged that an industry in the United States exists as required by subsection (a)(2) of section 337, and requested that the Commission issue a permanent general exclusion order and permanent cease and desist orders. The complaint named the following eleven (11) respondents: (1) Collective Licensing International, LLC of Englewood, Colorado; (2) Double Diamond Distribution Ltd. ("Double Diamond") of Canada; (3) Effervescent Inc. ("Effervescent") of Fitchburg, Massachusetts; (4) Gen-X Sports, Inc. of Toronto, Ontario; (5) Holey Soles Holding Ltd. ("Holey Soles") of Canada; (6) Australia Unlimited, Inc. of Seattle, Washington; (7) Cheng's Enterprises Inc. of Carlstadt, New Jersey; (8) D. Myers & Sons, Inc. of Baltimore, Maryland; (9) Inter-Pacific Trading Corp. of Los Angeles, California; (10) Pali Hawaii of Honolulu, Hawaii; and (11) Shaka Shoes of Kaliua-Kona, Hawaii. The Commission terminated the investigation as to the trade dress allegation on September 11, 2006. A twelfth respondent, Old Dominion Footwear, Inc. ("Old Dominion") of Madison Heights, Virginia, was added to the investigation on October 10, 2006. All but three respondents have been terminated from the investigation on the basis of a consent order, settlement agreement, or undisputed Commission determination of non-infringement. The three remaining respondents are Double Diamond, Effervescent, and Holey Soles ("Active Respondents").

On April 11, 2008, the ALJ issued his final ID finding no violation of section 337. The ALJ found non-infringement and non-satisfaction of the technical prong of the domestic industry requirement with respect to the '789 patent, and found the '858 patent invalid as obvious under 35

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U.S.C. § 103. Although the issue was raised, the final ID made no finding on whether either asserted patent was unenforceable due to inequitable conduct. The ALJ's final ID also included his recommended determination ("RD") on remedy and bonding should the Commission find that there was a violation.

On July 25, 2008, the Commission affirmed the final ID with certain modifications and clarifications, and terminated the investigation with a finding of no violation of section 337. The Commission took no position regarding the issue of enforceability of the '858 and '789 patents.

On February 24, 2010, the U.S. Court of Appeals for the Federal Circuit ("Federal Circuit") issued its judgment overturning the Commission's findings regarding invalidity of the '858 patent, and non-infringement and lack of domestic industry concerning the '789 patent. *Crocs, Inc. v. United States Int'l Trade Comm'n*, 598 F.3d 1294, 1311 (Fed. Cir. 2010). The Federal Circuit "remand[ed] the investigation for a determination of infringement of the '858 patent and any appropriate remedies." *Id.* On July 6, 2010, the Commission remanded the investigation to the ALJ to decide the remaining issue of enforceability of the patents.

On February 9, 2011, the ALJ issued his remand ID finding that the asserted patents were not unenforceable. On March 18, 2011, after receiving an enlargement of time, respondents Effervescent and Double Diamond filed a joint petition for review of the remand ID. On March 28, 2011, Crocs and the Commission investigative attorney ("IA") each filed a brief in response to respondents' petition for review.

On April 25, 2011, the Commission issued notice of its determination not to review the remand ID and requested written submissions on the issues of remedy, the public interest, and

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bonding from the parties and interested non-parties. *See 76 Fed. Reg.* 24052-53 (April 29, 2011).

The Commission's notice reaffirmed the ruling in the final ID that claims 1 and 2 of the '858 patent are infringed by Effervescent's accused products, and that claim 2 of the '858 patent is infringed by Double Diamond's accused products. *76 Fed. Reg.* at 24053. These actions, along with the Federal Circuit's decision, resulted in a finding of a violation of section 337 by Double Diamond and Effervescent. Holey Soles was found in violation of section 337 with respect to the '789 patent based on the Federal Circuit's reversal of the Commission's findings of non-infringement and lack of domestic industry as to this patent. *See Crocs*, 598 F.3d at 1311.

On May 6 and 13, 2011, respectively, complainant Crocs, the IA, and respondent Effervescent filed briefs and reply briefs on remedy, the public interest, and bonding. Respondent Double Diamond filed a reply brief on May 13, 2011. Holey Soles did not file any submissions.

III. REMEDY, PUBLIC INTEREST, AND BONDING

For the reasons set forth below, the Commission has determined to adopt the RD. *See RD* at 124-36. We have determined further that the public interest does not preclude the ALJ's recommended remedy. We focus our discussion on the remedy and bonding issues in dispute.

The Commission is authorized to issue a general exclusion order when the Commission determines that there is a violation of section 337 of the Tariff Act of 1930, and where: (a) general exclusion is necessary to prevent circumvention of an exclusion order limited to products of named persons; or (b) there is a pattern of violation of section 337 and it is difficult to identify the source of the infringing products. *See 19 U.S.C. § 1337(d)(2)*. The ALJ recommended that, if

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the Commission were to determine that there has been a violation of section 337, a general exclusion order should issue. RD at 124-32. The ALJ found that the record evidence established a widespread pattern of unauthorized use, as demonstrated by the infringing foam footwear manufactured by various third parties. *Id.* (table of non-respondents' accused shoes at 126-129). The ALJ also found sufficient evidence of the existence of business conditions from which one might reasonably infer that foreign manufacturers other than respondents to the investigation may attempt to enter the U.S. market with infringing articles. *Id.*

In addition, the ALJ found that cease and desist orders directed against the three remaining respondents were warranted. *Id.* at 132-33; *see* 19 U.S.C. § 1337(f). The ALJ found that the record evidence shows that respondents maintain significant inventories of accused products in the United States.

Section 337(j) provides for entry of infringing articles during the sixty (60) day period of Presidential review upon posting of a bond and states that the bond is to be set at a level "sufficient to protect the complainant from any injury." 19 U.S.C. § 1337(j)(3); *see also* 19 C.F.R. § 210.50(a)(3). Based on the record evidence, the ALJ calculated the price difference between Crocs' (\$30) and each respondents' accused footwear to establish the recommended bond amount for each individual respondent should the Commission find a violation. *Id.* at 136. The ALJ found no price difference for Double Diamond, a \$0.01 price difference for Holey Soles, and a \$0.05 price difference for Effervescent. Accordingly, the ALJ recommended that the Commission set these amounts as the individual bond amounts for each Active Respondent. The ALJ did not set a bond for non-party importers under the recommended general exclusion order.

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A. Remedy

The Commission agrees with the ALJ, the IA, and Crocs that the appropriate relief includes a general exclusion order directed to infringing foam footwear.¹ The record evidence here firmly establishes the statutory criteria that “there is a pattern of violation of [section 337] and it is difficult to identify the source of infringing goods” in accordance with section 337(d)(2)(B) and *Kyocera v. U.S. Int'l Trade Comm'n*, 545 F.3d 1340, 1358 (Fed. Cir. 2008). See also *Certain Hydraulic Excavators and Components Thereof*, Inv. No. 337-TA-582, Comm'n Op. at 15-19 (January 21, 2009) (the Commission considering *Kyocera* when issuing a general exclusion order); *Certain Hair Irons and Packing Thereof*, Inv. No. 337-TA-637, Comm'n Op. at 3-5 (June 29, 2009) (the Commission considering *Kyocera* when issuing a general exclusion order based on internet sales).

Specifically, Crocs has identified over 60 non-respondents that practice the asserted patents and use established chains for distribution of infringing footwear in the United States. See RD at 126-32; CX-657C (Qs. 182-244, Qs. 254-451, Qs. 600-964, Qs. 1501-2457); CX-667C (Qs. 220-21); CX-658C (Qs. 167-68, 161-62); CX-335-43; CX-347; CX-371-72; CX-376-77; Hearn, Tr. at 1036-39; Nutt, Tr. at 1243-47; Walter, Tr. at 912-14. The record evidence also establishes that many non-respondents' sales are made over the internet and that there is widespread copying of molds. Both of these practices make it difficult to identify the exact

¹ We note that the ALJ's analysis was at least partially based on the general exclusion factors provided in *Certain Airless Paint Spray Pumps and Components Thereof* (“*Airless Spray Pumps*”), Inv. No. 337-TA-90, 216 U.S.P.Q. 465, 473 (U.S.I.T.C. 1981). However, we do not view *Airless Spray Pumps* as imposing additional requirements beyond those identified in section

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source of the infringing products. See RD at 126-32; CX-657C (Qs. 182-244, Qs. 254-451, Qs. 600-964, Qs. 1501-2457); CX-667C (Qs. 220-21); CX-658C (Qs. 167-68, 161-62); CX-335-43; CX-347; CX-371-72; CX-376-77; Hearn, Tr. at 1036-39; Nutt, Tr. at 1243-47; Walter, Tr. at 912-14; 19 U.S.C. § 1337(d)(2)(B).

Therefore, we agree with the ALJ that the statutory requirements for the issuance of a general exclusion order under section 337(d)(2)(B) have been met and determine to issue a general exclusion order that excludes certain foam footwear that infringes the '789 or '858 patents. The inclusion of a certification in the Commission's exclusion order, as well as Customs' access to the ID and other previous Commission orders, will permit importation of non-infringing products (*e.g.*, former respondent Old Dominion's accused products were determined not to infringe the asserted patents) and address respondents' concerns that a general exclusion order may disrupt legitimate trade. See Commission Notice (December 21, 2006). As for Double Diamond's argument that the RD does not reflect current economic conditions, we note that Double Diamond does not present any proof that the record evidence presented to the ALJ is now substantially inaccurate.

We also agree with the ALJ, the IA, and Crocs that cease and desist orders are warranted here. The record evidence shows a significant number of infringing foam shoes in U.S. inventory in absolute terms (*i.e.*, Effervescent - 10,000 pairs; Double Diamond - 25,000 pairs; and Holey Soles - 125,000 pairs) which have a significant value. These factors warrant issuance of cease and desist orders directed against each of the Active Respondents. See RD at 133; *Certain Flash*

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Memory Circuits and Products Containing Same, Inv. No. 337-TA-382, Comm'n Op. at 25, USITC Pub. 3046 (July 1997).

B. Public Interest

When issuing an exclusion order under section 337(d) or cease and desist orders under section 337(f), the Commission must weigh the remedy sought against the effect such a remedy would have on the following public interest factors: (1) the public health and welfare; (2) the competitive conditions in the United States economy; (3) the production of articles in the United States that are like or directly competitive with those subject to the investigation; and (4) United States consumers. *See* 19 U.S.C. §§1337(d)(1), (f)(1).

The Commission agrees with the IA, complainant, and respondent Effervescent that any issued remedial orders would not be contrary to the public interest since U.S. demand for foam footwear can be met by other entities, including Crocs, as well as by non-infringing alternatives. *See* Comm'n Notice at 2 (noting respondents that have settled or do not infringe the asserted patents). Consequently, we find that the public interest factors set out in sections 337(d)(1) and (f)(1) do not preclude issuance of a general exclusion order or cease and desist orders in this investigation.

C. Bonding

The Commission is tasked with determining the amount of the bond under which articles excluded from entry under section 337(d) may be permitted to enter the United States during the period of Presidential review. Such a bond amount must be sufficient to protect complainant from any injury. *See* 19 U.S.C. § 1337(j). The Active Respondents have submitted evidence

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that there is no price difference between Crocs' \$30 sales price and Double Diamond's sale price, a \$0.01 price difference from Holey Soles' sales price, and a \$0.05 price difference from Effervescent's sales price.

Crocs and the IA argued that the appropriate bond amount during the period of Presidential review is 100% of the entered value for any imported infringing products. The Commission agrees, however, with the ALJ and the Active respondents that, based on the record evidence, separate, lower bond amounts for each Active Respondent is appropriate combined with a 100% bond amount for all non-respondents. The Commission has determined that such bond amounts will be sufficient to protect complainant from any injury. *See* § 1337(j)(3).

The record evidence submitted here establishes the exact price difference between Crocs' footwear and each of the Active Respondents' infringing footwear. *See* RD at 135-36. Further, the record evidence here establishes that a large number of non-respondents import infringing footwear at unknown sales prices, as well as at sales prices well below Crocs' sales price of \$30. *See* Cohen, Tr. at 1389; Hearn, Tr. at 1075; Nutt, Tr. at 1247; Mann, Tr. at 1344-45; Crocs' Sub. at 11 (Appendix 1). Accordingly, due to this particular combination of certainty and uncertainty regarding the price difference between complainant's shoes and infringing shoes, we set the bond at \$0.00 for Double Diamond's covered products, \$0.01 per pair of shoes for Holey Soles' covered products, \$0.05 per pair of shoes for Effervescent's covered products, and at 100% of the entered value for all other covered products during the period of Presidential review. *See Certain Neodymium-Iron-Boron Magnets, Magnet Alloys, and Articles Containing Same*, Inv. No. 337-TA-372, USITC Pub. 2964, Comm'n Op. at 15 (May 1996) (setting the bond at 100% of

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entered value when the available pricing information is inadequate).²

IV. CONCLUSION

The Commission has determined that there is a violation of section 337, and has further determined that the appropriate form of relief is : (1) a general exclusion order prohibiting the unlicensed entry of foam footwear that infringe one or more of (i) claims 1-2 of the '858 patent, or (ii) the claimed design of the '789 patent; and (2) cease and desist orders prohibiting Double Diamond, Holey Soles, and Effervescent from conducting any of the following activities in the United States: importing, selling, marketing, advertising, distributing, offering for sale, transferring (except for exportation), and soliciting U.S. agents or distributors for, foam footwear that infringe one or more of (i) claims 1 or 2 of the '858 patent, or (ii) the claimed design of the '789 patent.

The Commission further has determined that the public interest factors enumerated in sections 337(d)(1) and (f)(1) (19 U.S.C. §§ 1337(d)(1), (f)(1)) do not preclude issuance of the general exclusion order or the cease and desist orders. Finally, the Commission has determined to set the bond at \$0.00 for Double Diamond's covered products, \$0.01 per pair of shoes for Holey Soles' covered products, \$0.05 per pair of shoes for Effervescent's covered products, and at 100% of the entered value for all other covered products during the period of Presidential review.

By order of the Commission.

² We note that, in at least one circumstance, the Commission has set the bond amount for a general exclusion order as the difference between the average sales price of complainant's and respondents' products. *See Certain Ink Cartridges and Components Thereof*, Inv. No. 337-TA-565, Comm'n Op. at 63-64 (October 19, 2007). In that case the RD did not indicate the presence of infringing imports by a large number of non-respondents at unknown sales prices.

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A handwritten signature in black ink, appearing to read "J. R. Holbein". The signature is fluid and cursive, with a large initial "J" and "R".

James R. Holbein
Secretary to the Commission

Issued: August 2, 2011

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(Remand)**

CERTIFICATE OF SERVICE

I, James R. Holbein, hereby certify that the attached **COMMISSION OPINION** has been served by hand upon the Commission Investigative Attorney, **David O. Lloyd, Esq.**, and the following parties as indicated, on **August 2, 2011**.



James R. Holbein, Acting Secretary
U.S. International Trade Commission
500 E Street, SW
Washington, DC 20436

On Behalf of Complainant Crocs, Inc.:

Michael A. Berta, Esq.
Arnold & Porter
1 Embarcadero
22nd Floor
San Francisco, CA 94111

- Via Hand Delivery
- Via Overnight Mail
- Via First Class Mail
- Other: _____

On Behalf of Respondents Effervescent, Inc. and Holey Soles Holding, Ltd.:

Smith R. Brittingham, IV, Esq.
**FINNEGAN, HENDERSON, FARABOW, GARRETT
& DUNNER, LLP**
901 New York Ave., NW
Washington, DC 20001

- Via Hand Delivery
- Via Overnight Mail
- Via First Class Mail
- Other: _____

On Behalf of Respondent Double Diamond Distribution:

Rachael Stafford, Esq.
4120 W. Windmill Lane. Suite 106
Las Vegas, NV 89139

- Via Hand Delivery
- Via Overnight Mail
- Via First Class Mail
- Other: _____