

In the Matter of

**CERTAIN MINIATURE, BATTERY-OPERATED,
ALL TERRAIN, WHEELED VEHICLES**

Investigation No. 337-TA-122



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UNITED STATES INTERNATIONAL TRADE COMMISSION

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Investigation No. 337-TA-122

OPINION OF CHAIRMAN ECKES, COMMISSIONER STERN AND COMMISSIONER HAGGART

Procedural History

On April 23, 1982, a complaint was filed with the Commission under section 337 of the Tariff Act of 1930 (19 U.S.C. § 1337), on behalf of Schaper Manufacturing Co., a division of Kusan, Inc., of Minneapolis, Minnesota - (Schaper), and A. Eddy Goldfarb, d/b/a A. Eddy Goldfarb and Associates, of Northridge, California (Goldfarb). On the basis of that complaint, the Commission instituted this investigation on May 14, 1982, notice of which was published in the Federal Register on May 19, 1982 (47 F.R. 21638).

The original notice of investigation defined its scope as the determination of whether there is reason to believe that there is a violation or whether there is a violation of section 337 in the importation or sale of certain miniature, battery-operated, all-terrain, wheeled vehicles by reason of (1) infringement of U.S. Letters Patent 4,306,375 (the '375 patent) and (2) false designation of origin, the effect or tendency of which is to destroy or substantially injure an industry, efficiently and economically operated, in the United States.

The respondents originally named in the notice of investigation were:

Esco Imports of Texas (Esco)
 Fishel Toys Ltd. (Fishel)
 Greenman Bros. Inc. (Greenman)
 M. W. Kasch Co. (Kasch)
 Larco, Inc. (Larco)
 LJN Toys, Ltd. (LJN)
 LJN Toys (Hong Kong) Ltd. (LJN HK)
 Milton D. Myer Co. (Myer)
 Northern Specialties (Northern)
 Novelty Distributing (Novelty)
 Pensick & Gordon (Pensick)
 Soma Traders, Ltd. (Soma)
 Universal International (Holdings) U.S.A., Ltd. (Universal)

On July 2, 1982, the Commission terminated Larco as a respondent, notice of which was published in the Federal Register of July 8, 1982 (47 F.R. 29733).

On October 14, 1982, the Commission terminated LJN, LJN HK and Universal on the basis of a settlement agreement.

Respondent Fishel was precluded by the Administrative Law Judge (ALJ) from appearing before him at the evidentiary hearing to contest any allegation in the complaint and from submitting evidence in this proceeding because of its failure to participate in discovery and wilful disregard of his orders. Greenman, Northern and Kasch did not participate in the evidentiary hearing before the ALJ.

The original notice of investigation directed the ALJ to issue a recommended determination (RD) as to whether there was reason to believe there was a violation of section 337 within 45 days of publication of the notice in the Federal Register, and to establish a schedule for and make an administrative record on relief, the public interest, and bonding to be certified to the Commission within 5 days after the filing of the recommended determination.

On August 2, 1982, the Commission amended the notice of investigation to limit the scope of the investigation to a determination of whether there is a violation of section 337 and directed the ALJ to issue his recommended determination by August 31, 1981 and to make an administrative record on relief, the public interest, and bonding to be certified to the Commission by August 16, 1982. The Commission itself undertook to issue its final determination within 45 days of the issuance of the recommended determination by the ALJ. The amendment to the notice of investigation was published in the Federal Register on August 11, 1982 (47 F.R. 34864).

The ALJ held a prehearing conference on July 19, 1982, and commenced his hearing on the existence of a violation of section 337 thereafter on that same day. The hearing was concluded on July 24, 1982, and the ALJ certified his recommended determination that a violation of section 337 exists and the record on which that recommended determination is based to the Commission on August 31, 1982. The ALJ conducted a hearing on relief, the public interest, and bonding on July 30, 1982, and certified the record thereon to the Commission on that same day.

The Commission held a hearing on the recommended determination and on relief, the public interest, and bonding on September 15, 1982. Notice of the hearing was issued on August 25, 1982, and was published in the Federal Register on August 30, 1982 (46 F.R. 38226).

The Products

The products involved in this investigation are toy vehicles, more specifically, miniature, battery-operated, all-terrain, four-wheel drive toy vehicles.

The complainants' products are sold under the mark STOMPER and comprise a line of over twenty models which are styled after such full-size vehicles as trucks, cars, recreational vehicles, and construction vehicles. They are retailed individually in blister packs or in sets with various accessories. 1/ The complainants' toy vehicles are alleged to be covered by claim 1 of the '375 patent and to have a product configuration which acts as a designation of origin. The toy vehicles have two major parts: (1) a chassis, which houses an electric motor, battery, driving gears and shafts, and wheels; and (2) a top, styled to be at least recognizably similar to a full-size vehicle.

The imported products are alleged to infringe claim 1 of the '375 patent and to have a product configuration which is confusingly similar to the product configuration of complainants' toy vehicles.

One of the imported products is the SUPER CLIMBER toy-vehicle, Designs A, B and C, and the MILITARY SUPER CLIMBER, which are or have been exported to the United States by respondent Soma, a trading company which purchases its SUPER CLIMBER toy vehicles from their manufacturer. These toy vehicles also have a chassis and top as their two major components. Designs A, B and C refer to different mechanical designs for their chassis. Respondents Myer, Novelty, Esco, Pensick, Greenman, are toy wholesalers who have ordered the SUPER CLIMBER toy vehicles from Soma or purchased and sold them to retailers in the United States who sell them in blister packs. 2/

The other imported product is the HI RIDER toy vehicle, exported to the United States by Fishel, a trading company, which has a sales agent in the United States. 3/ was found to have ordered toy vehicles from Fishel. 4/

1/ Findings of fact (FF) 17-22 in the recommended determination.

2/ FF 5-8, 13, 23-26, 141, 144-145.

3/ FF 16, 27.

4/ FF 144.

Violation

The ALJ found in his recommended determination that there was a violation of section 337 and specifically that there was an "industry . . . in the United States" consisting of that portion of complainants' facilities devoted to the design, development, tooling, quality control, packaging, warehousing, advertising, marketing, distribution, and sale of the STOMPER toy vehicles and of the STOMPER accessories. 5/

We find that there is no violation of section 337 in this investigation because, given the particular facts of this case, complainants do not constitute "an industry . . . in the United States" within the meaning of that phrase as used in section 337. 6/ 7/ 8/

Section 337(a) requires the unfair methods of competition and unfair acts in the importation of the involved articles to have the effect or tendency to substantially injure "an industry . . . in the United States." The term "United States" is defined in section 337(j) as "the customs territory of the United States as defined in general headnote 2 of the Tariff Schedules of the United States," i.e., "the States, the District of Columbia, and Puerto Rico." This definition of United States is geographical and not based on citizenship. Thus, the industry referred to in section 337(a) must be geographically located in the United States.

5/ RD 101.

6/ Chairman Eckes notes that he agrees with those portions of the recommended determination insofar as they are not inconsistent with this opinion.

7/ Commissioner Stern discusses her findings on the other issues of violation in her Additional Views, infra.

8/ Commissioner Haggart notes that the conclusion that there is no "industry . . . in the United States" is supported by the legislative history of section 337. See her Additional Views, infra.

In the present case, complainants admit that they manufacture the STOMPER toy vehicles in Hong Kong, not in the United States. Indeed, the STOMPER toy vehicles are marked "MADE IN HONG KONG", and customs duties are paid on them. Nevertheless, complainants argue, and the ALJ found, that they should be considered "an industry . . . in the United States" because of various business activities which they conduct in the United States which relate to the STOMPER toy vehicles. The threshold question of the existence of an "industry . . . in the United States" in this case requires an inquiry into the nature and significance of complainants' business activities in the United States which relate to the STOMPER toy vehicles. 9/ 10/

Before proceeding with our inquiry, however, we must first address the question of the STOMPER accessories. Complainants argue that the domestic industry encompasses both the STOMPER toy vehicles, which are manufactured in Hong Kong, and the STOMPER accessories, which are manufactured in the United States. In cases involving patents, the domestic industry is comprised of that portion of the business of the patentee, its assignees and licensees devoted to the production and sale under the claims of the patent. Certain

9/ Chairman Eckes notes that this is similar, in some respects, to the analysis in Certain Airtight Cast-Iron Stoves, Investigation No. 337-TA-69, USITC Publication No. 1126 (January 1981). In Stoves, however, the nature and significance of the business activities in the United States were found to constitute a service industry based on the installation and repair of the imported product. The nature of the activities in the United States were thus integrally related to that product. In the present case, the activities of the complainant are more akin to an "assist" which are often provided by a buyer of imported merchandise. Activities of this type do not comport with those which the Commission has determined in Stoves or a series of other cases where the Commission has consistently resolved what constitutes an industry in the United States.

10/ With respect to the nature and significance of the domestic activities required to constitute an "industry . . . in the United States," See Commissioner Haggart's Additional Views, infra.

Molded-In Sandwich Panel Inserts and Methods For Their Installation,
Investigation No. 337-TA-99, USITC Publication 1246 (May 1982). This case, involving a patent and a product configuration alleged to act as an indication of origin, should be treated similarly. The accessories clearly do not come within the claims of the '375 patent, nor do they have the product configuration of the STOMPER toy vehicles themselves. Thus the STOMPER accessories cannot be part of any domestic industry in this investigation. However, much of the economic data provided by complainants as to their business activities in the United States are not segregated with regard to the STOMPER toy vehicles and the STOMPER accessories. Rather than disregard this aggregate data as ambiguous, we have considered this data in our inquiry into the nature and significance of complainants' business activities in the United States relating to the STOMPER toy vehicle. —

There are two distinct complainants in this investigation, Goldfarb and Schaper. Complainant Goldfarb is engaged in the design and licensing of toys to toy manufacturers. 11/ In January, 1979, Goldfarb offered its design for the STOMPER toy vehicle, including a plastic mountain accessory, to Schaper. Later that year, the two companies concluded an exclusive licensing agreement covering the designs for the toy vehicle and accessories, as well as any improvements. 12/ The design work for the toy vehicle chassis and at least some design work for the toy vehicle bodies and accessories had thus been completed by the time the license agreement was concluded. Design work by Goldfarb has continued, however, and appears to be related to new body designs

11/ FF 146; Official reporter's transcript of proceedings before the Administrative Law Judge (TR (ALJ)) 27, 101.

12/ TR (ALJ) 40, 92; Complainants' exhibit (CX) 29.

and new accessories for the STOMPER toy vehicles. This work is undertaken in conjunction with Schaper and results in a complete engineering model which is transferred to Schaper for the preparation of engineering drawings. 13/

Additionally, there may be further communication about design changes necessitated by actual manufacturing conditions or other related matters. 14/

Goldfarb's activities, of course, require a certain amount of investment, expense, and labor and Goldfarb receives a return on these efforts through its royalties from Schaper. Thus, the essence of Goldfarb's business in this case is licensing and the concomitant collection of royalties, for Goldfarb does not manufacture the STOMPER toy vehicles. With regard to such activity, the Commission has previously held that:

Defining "industry" as the mere ownership or licensing of patent rights would be contrary to Commission precedent, legislative history, and the logical construction of the statute's wording. [Certain Ultra-Microtome Freezing Attachments, Investigation No. 337-TA-10, USITC Publication 771 (April 1976), p. 9. 15/]

This language applies by analogy to the ownership or licensing of rights in product configurations and thus, in our view, forecloses considering Goldfarb's activities as part of a domestic industry. The same result would obtain even if the activities of Goldfarb were to be considered jointly with those of Schaper because, as discussed below, the nature and significance of

13/ TR (ALJ) 94.

14/ TR (ALJ) 98.

15/ Some past Commission decisions appear to have named non-producing patentees as if they were part of the "industry" defined by their licensees which were producing under the patent. This, however, was not tantamount to considering their licensing activity as part of that "industry," as the facilities of the patentee were not actually included in those of the domestic industry. See, Certain Skateboards and Platforms Therefor, Investigation No. 337-TA-37, USITC Publication 926 (November 1978).

Schaper's activities are not such as to constitute an "industry . . . in the United States".

Schaper, like Goldfarb, does not manufacture the STOMPER toy vehicles it sells. Rather, these are procured by Schaper from Kader Manufacturing Co. in Hong Kong. 16/ Schaper's president testified that Kader is well known as a manufacturer; overall, it employs several thousand workers and has a large facility in Hong Kong which includes one of the most modern toolmaking shops in the Orient. 17/

Schaper has no single governing contract for its procurement of toy vehicles from Kader; rather, they are procured with purchase orders. 18/ However, the toy vehicles are manufactured to Schaper's design and specifications. Once Schaper receives a new design from Goldfarb, it prepares engineering drawings for the required tooling to be used in the manufacture of the toy vehicle. 19/ These tool drawings are then transferred to Kader. 20/ Schaper pays for and retains ownership of the tooling used by Kader in its production of the toy vehicles in Hong Kong. 21/ Schaper has also devised quality control programs and testing equipment which it has transferred to Kader for use by Kader during the manufacture of all toy vehicles in Hong Kong. 22/ These quality control programs are performed by Kader prior to, during, and after production of the toy vehicles in Hong Kong; they comprise the bulk of the quality control for the STOMPER toy vehicles. 23/

16/ FF 158.

17/ TR (ALJ) 431-432.

18/ TR (ALJ) 435.

19/ FF 158; TR (ALJ) 98, 311.

20/ FF 158; TR (ALJ) 311.

21/ FF 158; TR (ALJ) 314.

22/ FF 161; TR (ALJ) 311, 456-470.

23/ TR (ALJ) 456-470; CX 113.

The large majority of the toy vehicles produced are individually packed in blister packs in Hong Kong, the form in which they will ultimately reach the consumer in the United States; Schaper provides the artwork and approximately 70-75 percent of what is needed to package the toy vehicles in their blister packs. 24/ The remaining toy vehicles are packed in cellophane bags in Hong Kong for ultimate incorporation in sets with accessories in the United States. 25/ Throughout the production process in Hong Kong, there is continuous communication between Kader and Schaper or between Schaper and Wing Han, its trading company in Hong Kong, relating to the activities in Hong Kong; Wing Han performs quality control audits at Kader's facilities for the benefit of Schaper. 26/

Upon arriving in the United States, both the toy vehicles in blister packs and those in cellophane bags are subjected to ~~some~~ additional quality control by Schaper, which appears to amount to the sampling that would be expected of any commercial purchaser. 27/ The toy vehicles in blister packs are then sent to warehousing and ultimately shipped to Schaper's customers; the toy vehicles in cellophane bags are incorporated into sets with accessories, packaged and then sent to warehousing. 28/

Schaper engages in extensive promotion and advertising in the United States of its STOMPER toy vehicles and sets, and has sales personnel in the United States. 29/ Indeed, promotion and advertising are by far the largest

24/ FF 158, 160; TR (ALJ) 430.

25/ FF 158.

26/ FF 158; TR (ALJ) 314, 456-470.

27/ FF 162; TR (ALJ) 456-470; CX 113.

28/ TR (ALJ) 456-470; CX 113.

29/ Commissioner Haggart notes that more than sales activity is required to find an "industry . . . in the United States". See, Stoves, supra at 10 and her Additional Views, *infra*.

expenditure relating to the STOMPER toy vehicles, the second and third largest expenditures being financing costs and royalty payments to Goldfarb. 30/ Together these three items, none of which are directly related to the production of the STOMPER toy vehicles (and some of which must be allocated to the STOMPER accessories, although the exact amount is unknown), comprise over per cent of complainant Schaper's investment in the STOMPER toy vehicles and accessories.

Considering the nature and significance of the business activities of Goldfarb and Schaper in the United States as described above, we do not consider these sufficient to constitute an "industry . . . in the United States".

We thus conclude that there is no "industry . . . in the United States" involved in this investigation, and thus no violation of section 337. 31/

30/ TR (ALJ) 307-309; CX 108.

31/ Commissioner Haggart, having found that there is no "industry . . . in the United States", does not proceed to the other issues of violation.

ADDITIONAL VIEWS OF COMMISSIONER PAULA STERN

My negative determination in this investigation rests on a number of considerations, not least of which is the complainants' failure to establish the existence of a domestic industry. 1/ While finding the patent in issue valid and infringed, complainants have failed to demonstrate the alleged false designation of source or the alleged substantial injury to the proposed domestic industry. The following is a discussion of these additional factors.

Unfair Methods of Competition and Unfair Acts

1. Patent Infringement

The complainants have established the validity of the subject patent and its infringement by the subject imports. At the prehearing conference before the Administrative Law Judge (ALJ), the parties agreed that claim 1 of the '375 patent is the only claim involved in this investigation. 2/ The ALJ found claim 1 of the '375 patent to be infringed by the toy vehicles imported or sold by the Soma respondents and Fishel. 3/ The issues raised with respect to this finding are whether the '375 patent is valid and whether it is infringed. I find the '375 patent valid.

Respondents asserted that claim 1 was invalid because the claimed invention it defines would have been obvious under 35 U.S.C. section 103

1/ For a discussion of the standards for establishing a domestic industry in investigations where there is little or no manufacturing in the United States, see Certain Airtight Cast-Iron Stoves, Inv. No. 337-TA-69 at 8-11 (1981).

2/ Official reporter's transcript of proceedings before the Administrative Law Judge (TR (ALJ)) 34-35.

3/ Conclusions of Law (in Recommended Determination) (CL) 3, Findings of Fact (in Recommended Determination) (FF) 42-47, Recommended Determination (of Administrative Law Judge) (RD) 68-71.

in view of various United States and foreign patents and other documents, as well as in view of several toy vehicles said to have been on the market prior to the filing date of the '375 patent and "general knowledge of the transmission of rotational motion." Of these, only certain of the United States patents were pressed, and now respondents rely only on United States Letters Patent 3,810,515 to Ingro (Ingro) and United States Letters Patent 2,739,541 to Varney (Varney). 4/ Ingro was cited by the examiner during prosecution of the '375 patent at the Patent and Trademark Office, but Varney was not.

Ingro describes a wall-climbing, four-wheel drive vehicular device or toy. Respondents particularly rely on the toy embodiment of Figures 4 and 5 of Ingro which is propelled by a centrally-located spring motor 45 which drives a fore-and-aft shaft each end of which terminates in worms 46 and 47 which mesh, respectively, with gears 48 and 49. Gears 48 and 49 are fixed, respectively, to front and rear axles 50 and 51. There are, however, several distinctions between claim 1 and Ingro.

4/ Respondents rely on United States Letters Patent No. 3,628,284 to Soulakis to support their argument that claim 1 would have been obvious if the doctrine of equivalents is applied as broadly as the ALJ did. Since I do not so apply the doctrine of equivalents to claim 1, I do not reach this question.

Ingro does not describe "an electric motor mounted to one side of the frame." All motors described in Ingro are centrally located to any frame therein. And while Ingro does refer to a battery-operated motor in place of the spring motor, the only such motor described (motor 106 in the embodiment of Fig. 11) does not have "a driveshaft which is perpendicular to the two axes," as called for by claim 1. It will not do that the driveshaft of motor 106 of Ingro is perpendicular to the plane of its two axles 50 and 51, for claim 1 specifies that the driveshaft must be perpendicular to the axles themselves. 5/ Likewise, Ingro describes no "means mounted to the frame to releasably support electrical battery means in the form of a single standard cylindrical AA dry cell." Even assuming battery 107 of Figure 11 is a single standard cylindrical AA dry cell, it is not mounted to any element which might be called a "frame," nor are there any mounting means for such a battery on any element that might be called a frame in that embodiment. And since battery 107 is centrally located forward (or perhaps aft) of motor 106 in Figure 11 of Ingro, it certainly cannot be said to be located as called for in claim 1 "at the other side of the frame in a position extending substantially the full distance between said front and rear axes and located adjacent to said inside wheel edges on said other side of the frame." Nor does battery 107 have its axis "substantially parallel" to

5/ The term "axes" in claim 1 refers to the axes of the two axles described in the '375 patent.

the driveshaft of motor 106 (which is not driveshaft 108) as called for in claim 1, and certainly battery 107 is located above wheels 111 and 112 and not "at approximately the same height as said front and rear wheel means" as called for by claim 1. Driveshaft 108 is not one which "extends both fore and aft from the motor." Thus worms 113 are not "mounted parallel to the driveshaft and driven respectively from the fore and aft extensions of the driveshaft."

Even conceding respondents' argument that Ingro itself or other art suggests replacing spring motor 46 in the embodiment of Figures 4 and 5 with a battery-powered electric motor, the most this could possibly suggest would be a driveshaft extending fore and aft from a motor perpendicular to its two axles and terminating in worms, but leaving all the other differences described above. Given that Ingro was considered by the Patent and Trademark Office during the prosecution of the '375 patent, it is presumed valid over Ingro under 35 U.S.C. section 282, and respondents have the burden of establishing its invalidity over Ingro. 6/ The burden is a heavy one, and they have failed to carry it.

z Varney is relied upon by respondents as illustrating a gear train substantially the same as that of claim 1 of the '375 patent. However,

6/ Solder Removal Co. v. International Trade Commission, 199 USPQ 129 (CCPA 1978).

even if Varney could be applied, it does not show anything more than Ingro. Respondents have presented the testimony of their expert, Dr. Roumauldi, to establish the obviousness of claim 1 over Ingro and Varney. However, since Dr. Roumauldi was not qualified as an expert in mechanical toy design, I do not give his testimony great weight.

Respondents do not dispute that Soma has exported its SUPER CLIMBERS Designs A, B and C to the United States, nor that the respondent Soma wholesalers have purchased and imported them for sale to retailers in the United States. 7/ The question of whether these three mechanical designs infringe will be discussed separately for each design:

* Soma SUPER CLIMBER Design A

Soma SUPER CLIMBER Design A is represented by complainants' physical exhibit CPX-10. At the September 15, 1982 Commission hearing, respondents, by their counsel, admitted that the Soma SUPER CLIMBER Design A would infringe claim 1 of the '375 patent if that patent is valid. 8/

* Soma SUPER CLIMBER Design B

Soma SUPER CLIMBER Design B is represented by complainants' physical exhibit CPX-11. The ALJ found that although Design B did not literally infringe claim 1, the doctrine of equivalents nevertheless applied and infringement could be found. 9/ Further, he found that respondents'

7/ Designs A, B and C refer to the mechanical design of the chassis for both the SUPER CLIMBER and MILITARY SUPER CLIMBER toy vehicles.

8/ Official reporter's transcript of the September 15, 1982 Commission hearing (TR (Com)) 132.

9/ FF 44; RD 69-71.

reliance on file wrapper estoppel to avoid infringement was "not supported by the evidence of record." 10/ I agree that Design B infringes claim 1 of the '375 patent.

In considering the question of infringement, it is necessary initially to establish the scope and breadth of the patent claims allegedly violated. In this particular instance, it is therefore necessary to establish the scope of claim 1 of the '375 patent so as to determine if the claim can be "read" on the accused Soma SUPER CLIMBER Designs B (and C). A claim must be read in light of the specification. 11/ Its scope, however, is not limited only to those specific embodiments actually disclosed, but is expanded under the doctrine of equivalents to include embodiments that perform substantially the same function in substantially the same way to produce substantially the same result as the disclosed invention. 12/

The range of equivalents to be accorded will depend upon whether the invention is a pioneer invention or merely a small advance over the prior art. If the former, a broad range of equivalents applies commensurate with the patentee's contribution to the art. 13/ If the latter, only a narrow range of equivalents is warranted. 14/ Furthermore, the range of

10/ RD 69.

11/ Tate Engineering, Inc. v. United States, 477 F.2d 1336, 1340 (Ct. Cl. 1976), citing, inter alia, United States v. Adams, 383 U.S. 39, 49 (1966).

12/ Tate, supra, at 1340, citing Graver Tank & Mfg. Co. v. Linde, 339 U.S. 605, 608 (1950). Accord, Coleco Industries v. United States International Trade Commission, 573 F.2d 1247, 1254 n.6 (CCPA 1978).

13/ Tate, supra, at 1340.

14/ Tate, supra, at 1340.

equivalents may be limited under the doctrine of file wrapper estoppel if the patentee has narrowed his claims in order to avoid the prior art. 15/ As has been said, "the doctrine of equivalents is subservient to file wrapper estoppel." 16/

From a review of the prosecution history of the '375 patent application while it was pending in the Patent and Trademark Office, and taking into consideration the prior art references not considered by the Patent and Trademark Office, I conclude that the '375 patent is not a pioneer patent. Therefore, claim 1 of the '375 patent is not entitled to a broad range of equivalents.

In this case, the only argument which the Soma respondents make on infringement by the Soma SUPER CLIMBER Design B is to state that it "does not literally infringe and it is not the equivalent to the claim [1] because the worms of Design B are attached to the motor driveshaft rather than being mounted parallel to the driveshaft as the claims require." I see no distinction between collinearity and parallelism; the former is a trivial case of the latter. And it is clear from the specification and particularly the embodiment depicted in Figure 6 of the '375 patent that this was the intended meaning of the quoted phrase in claim 1. Soma SUPER CLIMBER Design B thus literally infringes claim 1, and there is no need to resort to the doctrine of equivalents or the doctrine of file wrapper estoppel.

15/ Tate, supra, at 1341, citing Graham v. John Deere Co., 383 U.S. 1, 33 (1966).

16/ Tate, supra, at 1341, citing Autogiro Co. of America v. United States, 384 F.2d 391, 400 (Ct. Cl. 1967).

* Soma SUPER CLIMBER Design C

Soma SUPER CLIMBER Design C is represented by complainants' physical exhibit CPX-12. Respondents point to nine different distinctions between their Design C and claim 1, and there is no dispute that Design C does not literally infringe claim 1. The ALJ found that despite the absence of literal infringement the doctrine of equivalents should be applied to find that Design C infringes claim 1. I do not agree. Claim 1 is not entitled to a broad range of equivalents. The finding of equivalency is a finding of fact. 17/ The only evidence complainants have pointed to in this connection is in the deposition testimony of Mr. So Ping Kwong, one of the owners of Soma. 18/ This is not sufficient evidence to establish equivalence. At best, this testimony simply lists the components of Design C in no particular order, without stating their relationship to one another or to elements in Design A or B or even to claim 1 itself. Mr. So's statement about the way Design C chassis works is a statement of an equivalent or better level of performance not a statement of equivalent structure and function.

17/ Coleco, supra, at 1254, citing Graver Tank Mfg. Co. v. Linde Co., 339 U.S. 605 at 609 (1966).

18/ Complainants' Exhibit (CX) 65, pp. 53-54.

Respondent Fishel, although retaining counsel, failed to cooperate in discovery and ignored orders of the ALJ. Accordingly, Fishel was precluded from appearing at the hearing to contest any allegations contained in the complaint and from submitting evidence in this proceeding. There is sufficient evidence to establish a prima facie case that Fishel is infringing claim 1. 19/

Thus, I have found complainants' arguments persuasive on the issues of patent validity and infringement. I turn now to those issues in addition to the lack of a domestic industry where complainants' case fails.

2. False Designation of Source

Complainants allege that the overall appearance of their STOMPER toy vehicles constitutes a "brand identifying 'trade dress'" which is "created principally by the size of the vehicle, the relative scale of the oversized tires to the body, the distinctive gear-toothed tread of the tires, and the scale and placement of the vehicle body relative to the chassis which leaves a substantial portion of the chassis exposed and creates a high riding appearance." 20/ They further allege that respondents have copied complainants' trade dress and "created a likelihood of confusion as to the source of the respective vehicles." 21/ The ALJ agreed with complainants on both of these points, finding that respondents have thereby created a false designation of origin within the meaning of section 43(a) of the Lanham Act (15 U.S.C. section 1125(a)) and thus have committed an unfair act within the meaning of section 337. 22/ I disagree with this portion of the recommended determination.

19/ FF 47.

20/ Complainants' Prehearing Brief, p. 24.

21/ Id., p. 25.

22/ FF 48-121; CL 5-6; RD 72-95.

The question here is copying of the product configuration of complainants' STOMPER toy vehicles. Since the decisions of the Supreme Court in the Sears-Compco cases, there can be no common-law restraint on copying product configurations. 23/ The common law can only require labeling or precautions to identify correctly the source of products and possibly imply some liability for intentional palming off. 24/ Copying of product configurations may, however, give rise to a statutory cause of action under section 43(a) of the Lanham Act. 25/ However, it must be shown that at least the design features relied on are nonfunctional, that they are inherently distinctive or have acquired a secondary meaning in the market place, and that the copying of these features is likely to confuse purchasers as to the source of the goods or services involved. 26/ Complainants have not prevailed on any of these points.

Functionality

Our reviewing court has recently defined "functionality" in a case involving a container configuration sought to be registered on the principal

23/ Sears, Roebuck & Co. v. Stiffel Co., 376 U.S. 225 (1964); Compco Corp. v. Day-Brite Lighting, Inc., 376 U.S. 234 (1964); McCarthy, Trademarks and Unfair Competition, section 7.24 (McCarthy).

24/ 1 J. McCarthy, Trademarks and Unfair Competition (1973) (McCarthy), at section 7.25.

25/ Truck Equipment Service Co. v. Fruehauf Corp., 536 F.2d 1210; 191 USPQ 79 (8th Cir. 1976), cert. den. 429 U.S. 861.

26/ See, Truck Equipment, supra.

register. The principles expounded in that case are directly in point here. 27/ The Court distinguished between de facto and de jure functionality, the latter being operative to prevent a design from being protected as a trademark. The Court defined "functional" as referring to "utilitarian" as opposed to "aesthetic" and stated that "utilitarian" meant "superior in function (de facto) or economy of manufacture," which superiority is to be determined "in light of competitive necessity to copy." 28/ The Court referred to a number of factors, both positive and negative, used in previous cases, which aid in determining superiority. The first of these was stated as follows: ". . . the existence of an expired utility patent which disclosed the utilitarian advantage of the design sought to be registered as a trademark was evidence that it was functional." 29/ It is clear from the cases, however, that it is the patent itself, not the fact that it has expired, that is of evidentiary value on the issue of functionality.

27/ In re Morton-Norwich Products, Inc., 671 F.2d 1332 (CCPA 1982).

28/ Morton-Norwich, supra, 671 F.2d 1332, 1338-40.

29/ Morton-Norwich, supra, 671 F.2d at 1340-41, citing In re Shenango Ceramics, Inc., 53 CCPA 1268, 362 F.2d 287, 150 USPQ 115 (1966); Best Lock Corp. v. Schlage Lock Co., 56 CCPA 1472, 413 F.2d 2295, 162 USPQ 552 (1969); Mine Safety Appliances Co. v. Storage Battery Co., 56 CCPA 863, 405 F.2d 901, 160 USPQ 113 (1969); In re Deister Concentrator Co., 48 CCPA 952, 289 F.2d 496, 129 USPQ 314 (1961); Daniel v. Electric Hose & Rubber Co., 231 F. 827 (3d Cir. 1916).

The second factor mentioned by the Court for determining functionality was whether "the originator of the design touted its utilitarian advantages through advertising." 30/

A third factor was whether there were other alternatives to the design features available. 31/ The Court implied that the availability of a large number of alternatives was significant in assessing this factor. 32/

30/ Morton-Norwich, supra, 671 F.2d at 1341.

31/ Morton-Norwich, supra, 671 F.2d at 1341.

32/ "Since the effect upon competition 'is really the crux of the matter,' it is, of course, significant that there are other alternatives available. Nims, Unfair Competition and Trade-Marks at 377; compare, Time Mechanisms, Inc. v. Qonaar Corp., 422 F. Supp. 905, 913, 194 USPQ 500, 506 (D.N.J. 1976) ('the parking meter mechanism can be contained by housings of many different configurations') and In re World's Finest Chocolate, Inc., 474 F.2d 1012, 1014, 177 USPQ 205, 206 (CCPA 1973) ('We think competitors can readily meet the demand for packaged candy bars by use of other packaging styles, and we find no utilitarian advantages flowing from this package design as opposed to others as was found in the rhomboidally-shaped deck involved in Deister.') and In re Mogen David Wine Corp., 51 CCPA supra at 1270, 328 F.2d at 933, 140 USPQ at 581 (Rich, J., concurring. 'Others can meet any real or imagined demand for wine in decanter-type bottles--assuming there is any such thing--without being in the least hampered in competition by inability to copy the Mogen David bottle design.') and In re Minnesota Mining and Mfg. Co., 51 CCPA supra at 1551, 335 F.2d at 840, 142 USPQ at 369 (It was noted to be an undisputed fact of record that the article whose design was sought to be registered 'could be formed into almost any shape.') and Fotomat Corp. v. Cochran, 437 F. Supp., supra at 1235, 194 USPQ at 131 (The court noted that the design of plaintiff's building functioned 'no better than a myriad of other building designs.') with In re Honewell, Inc., 532 F.2d at 182, 189 USPQ at 344 (A portion of the broad opinion which the court adopted noted that there 'are only so many basic shapes in which a thermostat or its cover can be made,' but then concluded that, 'The fact that thermostat covers may be produced in other forms or shapes does not and cannot detract from the functional character of the configuration here involved.')" Morton-Norwich, supra, 671 F.2d at 1341.

As a fourth factor, the Court stated that it is significant that a particular design results from a comparatively simple or cheap method of manufacturing. 33/

In that case, Morton-Norwich, the Court found that the spray pump container design sought to be registered there was not functional. A molded plastic spray bottle, it found, "can have an infinite variety of forms or designs and still function to hold liquid. No one form is necessary or appears to be "superior." 34/ The Court also found that the spray top "can take a number of diverse forms, all of which are equally suitable for the pump and spray mechanisms," despite the appellant's ownership of a patent on the pump mechanism. 35/

The facts of this case are quite different.

As a preliminary matter, I do not consider the size of a product to be part of its configuration. I therefore do not consider the size of the STOMPER vehicle necessary to my analysis. However, it will become apparent from the following discussion relating to the de jure functionality of oversized tires and exaggerated tread features of the STOMPER toy vehicles that there is substantial evidence of the de jure functionality of the size of those toy vehicles as well.

33/ Morton-Norwich, supra, 671 F.2d at 1342.

34/ Morton-Norwich, supra, 671 F.2d at 1342.

35/ Morton-Norwich, supra, 671 F.2d at 1342.

As to the relative scale of the oversized tires to the body of the STOMPER toy vehicle, and the gear-tooth tread of the tires of the STOMPER toy vehicle, respondents rightly state that the utilitarian advantage of these features is specifically pointed out in the '375 patent:

Taking the interaxle spacing to establish the scale for a standard-looking miniature toy vehicle body, climbing characteristics are enhanced by using tires which are overscale by as much as a factor of two. Traction is improved by making the tires of a soft, pliable material--preferably plastic foam whose cell structure is open to the ambient, particularly the periphery of the tire where it grips the operating surface. Traction is further improved by defining extremely exaggerated treads in the tires . . . Column 1, lines 61 to Column 2, line 2.

* * *

Best traction also requires that the tires be configured with extremely exaggerated or pronounced tread cut patterns such as 38. Column 4, lines 2-4.

* * *

It will be apparent from Fig. 4 that the tires 237 and 247 are substantially overscale--that is, oversize with respect to the otherwise consistent model body and wheelbase. In fact, we have found that making the body 74 at roughly 56:1 scale and the tires 237 and 247 overscale by about a factor of two, or at least by a factor exceeding about 1.5, results in producing relatively extreme "ground" clearance both between the wheels and fore and aft of the wheels. Scale-model bodies in the range from about 45:1 to about 70:1 would also be suitable. As a result, and in combination with the other features described herein, the toy is able to clamber over objects substantially higher than its front axles (that is to say, taller than the tire radius), as suggested by the vertical step 82 in Fig. 2 . . . Column 5, lines 15-30.

* * *

Due to the open foam cells of the tires, and the very pronounced tread, the vehicles can find a grip on all but the slipperiest surfaces, even on very steep grades . . . Column 5, lines 36-38.

The claims contain similar statements, particularly claims 17, 34 and 35. Figures 1, 4, 5 and 8 illustrate the preferred embodiment of the invention of the '375 patent, the very embodiment employed by complainants in their STOMPER toy vehicle. Oversize wheels 237 and 247, both with the exaggerated gear-like tread, are plainly depicted.

In the face of this evidence of de jure functionality of these design features, complainants offered demonstrations to show that alternative wheel sizes and treads functioned as well or better than those described in the '375 patent and used on their STOMPER toy vehicles, arguing that, as a result, these features could not be found de jure functional under Morton-Norwich.

However, the number of alternative wheels and tread sizes demonstrated by complainants numbered only three, and it appears that there can be no great number of variations of such designs. I do not believe that Morton-Norwich permits a finding of de jure nonfunctionality where only such a small range of wheel size and tread alternatives is established, particularly when it appears no one was aware of even those alternatives until they were developed during the course of this investigation. 36/

As to the exposed chassis design feature, this appears to be a direct consequence of the de jure functionality of the wheel size and exaggerated

36/ Complainants designated the three alternative designs they demonstrated as confidential, perhaps with a view to effecting a proprietary interest therein.

tread. Complainants mount miniature scale-model vehicle bodies to the chassis of their STOMPER vehicles. These are similar to real vehicle bodies in which complainants assert no rights. Indeed, complainants obtain the permission of the manufacturer of the related full-scale vehicles to reproduce these bodies with their concomitant trade dress markings in miniature. Complainants' argument that the vehicle bodies are stylized adaptations of those bodies with certain dimensions and proportions altered has perhaps some merit, but the adaptations and alterations do not appear to be great 37/, and their scale appears to require the chassis to be exposed partly to permit accommodation of the scale vehicle bodies to the overscale wheels.

Distinctiveness, Secondary Meaning

Even if the design features relied upon are not de jure functional, there is too little evidence from which to conclude that they have acquired secondary meaning in the marketplace, i.e., that there is a mental association in buyers' minds between complainants' product configuration and a single source of the product, namely, complainants, although buyers need not know complainants' actual identity. 38/

37/ Indeed, they could not be great and still resemble the full-size vehicles upon which they are modeled.

38/ See McCarthy, section 15.2.

The comparatively short length of time that complainants' STOMPER vehicles have been on the market does not preclude a finding of secondary meaning. There is no fixed period during which a mark which is capable of acquiring secondary meaning must wait until it achieves such meaning. ^{39/} Likewise, it is appropriate to consider sales levels and advertising of complainants' STOMPER toy vehicles. However, this type of evidence is circumstantial. It is a measure of effort, not success. As Judge Augustus Hand said in the Cellophane case:

It therefore makes no difference what efforts or money the DuPont Company expended in order to persuade the public that "cellophane" means an article of DuPont manufacture. So far as it did not succeed in actually converting the world to its gospel, it can have no relief. DuPont Cellophane Co. v. World Products Co., 85 F.2d 75 (2nd Cir. 1935).

The ALJ also considered evidence of copying of the trade dress by a junior competitor. However, I do not find such evidence persuasive. The evidence of copying relates to the miniature toy vehicle body and the blister pack in which it is sold. However, as mentioned above, the design of the miniature toy vehicle body is not claimed by complainants to be a primary feature of their brand-identifying product configuration, and the blister pack clearly has nothing to do with that product configuration.

^{39/} McCarthy, section 15.20.

This leaves only the two surveys, the "Stomper Identification Study"
40/ and the "Stomper Wheel Study" 41/ submitted by complainants.

The ALJ found that the "Stomper Wheel Study" showed "a significant tendency (94 percent) upon the participating children to associate correctly the STOMPER wheels to its body." 42/ I do not feel that the results of this survey are probative of the question of secondary meaning. Complainants' expert testified that boys aged 5 to 11 are the target market for this type of product, i.e., like the STOMPERS. And while it appears that the screeners employed in this survey did have access to a reasonably random sample of boys aged 5 to 11 in the shopping malls in which the field work for the survey was conducted, the screeners were instructed to eliminate from the sample to be interviewed any boys who either did not own one of the complainants' STOMPER toy vehicles or who did not have familiarity with it. Thus, the population actually interviewed was limited to a preselected segment of the "target market," a segment comprised of owners or those who were familiar with complainants' STOMPER toy vehicles. Thus, those interviewed were not a representative sample of the "target market." Further, even if the sample population were a random sample of the appropriate "target market," it is clear that the only conclusion which

40/ CX 21.

41/ CX 19.

42/ RD 89.

can be drawn from the survey is that a very high percentage of boys aged 5 to 11 who either own or are familiar with STOMPERS toy vehicles, know that the STOMPER toy vehicles have tires with exaggerated tread as opposed to tires with no tread at all. There is no necessary connection between this conclusion and the ultimate conclusion which must be drawn in order to establish secondary meaning here, i.e., that the product configuration of the STOMPERS toy vehicles identifies them with a unique source and that that source is complainants. Although, as mentioned, purchasers need not be aware of the actual identify of complainants.

As to the "Stomper Identification Study," the ALJ found that it showed that "80 percent of the subject respondents, boys aged 5-11, identified the STOMPER vehicle by appearance alone from among a set of toy vehicles." 43/ Again, however, I find the results of this survey to be ambiguous. Like the "Stomper Wheel Study," while the screeners were instructed to select boys between the ages 5 to 11 years, only those boys who had seen or heard of complainants' STOMPER toy vehicles were selected for interviewing. 44/

43/ RD 89.

44/ CX 21; TR (ALJ) 564.

Likelihood of Confusion

Even if the design features relied upon had acquired secondary meaning in the market place, there has not been a showing of likelihood of confusion. The essence of likelihood of confusion is that purchasers will be likely to buy respondents' products thinking that they are getting complainants' product. In concluding that the product configuration of respondents' SUPER CLIMBER vehicle will confuse purchasers as to their source, i.e., mislead them into believing that the source of respondents' SUPER CLIMBER toy vehicles is the same as the source of the STOMPER toy vehicles, the complainants and the ALJ rely on the degree of similarity between the product configuration of the toy articles, respondents' intent, the relation in use and manner of marketing of the two articles, and the degree of care likely to be exercised by purchasers. 45/ The ALJ also considered the consumer survey evidence discussed above and found that the existence of secondary meaning in this case was also evidence of likelihood of confusion. 46/

I agree with the ALJ that the product configuration of respondents' toy SUPER CLIMBER vehicles are identical to or similar in appearance to the product configuration of complainants' STOMPER toy vehicles, except for respondents' MILITARY SUPER CLIMBER. Respondents have pointed to a number of distinctions between the configurations of the two products,

45/ RD 90; FF 109-121.

46/ RD 90; FF 109-121.

primarily relating to the fact that their present SUPER CLIMBER toy vehicles have a larger number of gear-like treads on their wheels and that the treads are of square shape as opposed to the triangular-shape of the STOMPER toy vehicle. These specific differences are trivial when viewing the overall appearance of the product configurations. However, when considered with respect to the MILITARY SUPER CLIMBER of respondents, these differences are not trivial since the bodies of the MILITARY SUPER CLIMBER toy vehicles are quite different from anything manufactured or sold by complainants. The toy vehicles of Fishel are also identical to or similar in appearance to the product configuration of complainants' STOMPER toy vehicles.

As to intent, the evidence of copying relied on to establish intent appears to relate to a part of complainants' product configuration in which complainants assert no rights and do not primarily rely upon, i.e., the vehicle body. In addition, there is record evidence which shows respondents' SUPER CLIMBER toy vehicle undergoing a rapid design progression, beginning with its SUPER CLIMBER Design A which is virtually identical in appearance to complainants' STOMPER toy vehicles, through its SUPER CLIMBER Designs B and C which incorporate those specific, but trivial, differences in tread shape and number referred to above. It also reflects a progression from a design which admittedly infringes to a design which does not infringe complainants' '375 patent. While this type of evidence might be considered probative of an intent to confuse as regards its early stage (Design A), the later stages of the progression

(Designs B and C) appear less probative of this point and indeed may evince an intent to avoid infringement of the patent and complainants' product configuration.

I find that the differences between the sales display packages of respondents and those of complainants, particularly the color and the presence of the distinct name SUPER CLIMBER (as opposed to STOMPER), outweigh any similarities and militate against an intent to confuse. I do not feel that evidence suggesting solicitation by certain respondents of complainants' toy vehicle customers is evidence of any intent by respondents to mislead customers into believing that they are obtaining toy vehicles from complainants.

Respondents' toy vehicles do compete directly with complainants' STOMPER toy vehicles, and both respondents' and complainants' toy vehicles are displayed side by side on retail store shelves. There is evidence that the primary purchasing group for these articles consists of children, primarily boys, between 5 and 11 years old, and their parents, thus establishing that respondents' and complainants' toy vehicles are offered to the same general class of consumers.

I agree with the ALJ that the degree of care likely to be exercised by purchasers is relatively low, but disagree with his conclusion that this relatively low degree of care is not mitigated by the fact that respondents' toy vehicles are sold in packages clearly marked with the name SUPER CLIMBER, for reasons which will be discussed below.

Complainants offer a consumer survey entitled the "Stomper Identity Study" 47/ as further evidence of likelihood of confusion. However, I find this survey ambiguous on the ultimate question presented, which is whether purchasers are confused in the sense of believing that respondents' SUPER CLIMBER toy vehicles emanate from the same source as the STOMPER toy vehicles, i.e., from complainants. Taking the children's portion of the survey, while it is apparent that a significant number of children who own or are familiar with complainants' STOMPER toy vehicles also identify respondents' SUPER CLIMBER toy vehicles as STOMPER toy vehicles, this may only indicate that the term STOMPER is perceived as a generic term for all small, battery-operated, all-terrain, wheeled vehicles. Indeed, complainants' expert testified as to this possibility:

Q.

A.

Q.

A.

48/

Even if the problem of genericness was overcome by showing the children "what a STOMPERS was," this raises the question of whether the children merely compared the three packaged samples they were shown with the STOMPER toy vehicle they had just previously been shown by the interviewer.

As to the parent portion of the study, this involved unpackaged samples of complainants' and respondents' products and thus did not present these products as they appear in the market place. Since the packages were clearly differentiated at least by brand names, i.e., STOMPERS, SUPER CLIMBERS, ROUGH RIDERS, and since it can be assumed that the parents surveyed could read, it is possible that many, if not most, would have clearly differentiated these products, and indeed complainants' expert so testified. 49/

48/ TR (ALJ) 606-607.

49/ TR (ALJ) 590.

The "Stomper Identity Survey," certain letters, Schaper return records, and return of vehicles were submitted as evidence of actual confusion to support the existence of likelihood of confusion. The survey has been dealt with above. I do not find the mistaken returns to be anything more than ambiguous as a demonstration of actual confusion. In fact, the ALJ found that the misdirected correspondence and returns to Schaper could have been occasioned by factors other than the similarity among the subject toy vehicles. 50/

3. Importation and Sale

Respondents do not dispute that the Soma SUPER CLIMBER toy vehicles (Designs A, B and C) have all been imported into the United States. Nor do they deny that the toy vehicles have been sold or offered for sale in the United States. These imports and sales are set out in the recommended determination. 51/ Respondent Soma contends that it no longer exports its SUPER CLIMBER Design A or Design B. Complainants do not dispute this, but contend that sales of the SUPER CLIMBER Design A are relevant to the question of past injury and that Design B remains in the inventories of the wholesaler respondents and thus they will continue to be sold in the United States until those inventories run out. 52/ That SUPER CLIMBER Design B does remain in inventory here has been confirmed in the testimony of one of the witnesses for the wholesaler respondents. There has been a prima facie showing of importation and sale by respondent Fishel.

50/ RD 95.

51/ FF 122-145.

52/ TR (Com) 82.

4. Efficient and Economic Operation

There is no dispute that the business activities of complainants, both in the United States and in Hong Kong, with respect to the manufacture and sale of its STOMPER toy vehicles are efficiently and economically operated. 53/

5. Injury

The other major element which complainants failed to demonstrate concerns the matter of injury. Section 337(a) requires that the unfair methods of competition and unfair acts in the importation and sale of the involved articles have "the effect or tendency to destroy or substantially injure" the domestic industry. Since there is no industry in the United States involved here, there can be no injury to such an industry. Nevertheless, had a domestic industry been found in complainants' business activities which relate to its STOMPER toy vehicles, I conclude that there has been no effect or tendency to destroy or substantially injure that domestic industry.

It is not disputed that complainants and respondents market their respective toy vehicles both directly to wholesalers and to large retail chain store organizations and that they share many of the same customers. From this, the ALJ concluded that "every sale of an imported vehicle is a lost sale to Schaper." 54/ This is not a necessary inference, however, since there is no evidence that if respondents had not made the sale they did, it would have gone to complainants, and there is no evidence of lost customers. Also, any sales lost to respondents which could

53/ See FF 164-181; RD 102-104.

54/ RD 106.

represent a loss of royalty income to Goldfarb is not an additional injury to complainants, since these royalties are deductions from complainant Schaper's of their STOMPER toy vehicles. And, in this investigation, it appears that to consider loss of royalty income as injury would be merely to protect the property in the patent and other intellectual property owned by Goldfarb.

The ALJ pointed out that Schaper has revised downward its 1982 projections of sales, profits, and employment in general. However, from the record these projections appear speculative, and I give them little weight. Schaper's labor utilization for the STOMPER product line is down from 1982 projections in the first six months of 1982. However, this may be merely the result of over-optimistic projections.

The evidence of record indicates that complainant Schaper's unit sales of its STOMPER toy vehicles,

, increased in like periods,

. 55/ This increase took place despite consecutive price increases every year from 1980 to 1982 and the first introduction of allegedly infringing imports in 1981. 56/

The ALJ attributed the injury he found to the imported toy vehicles stating "these facts are not surprising when one realizes that the

55/ CX 110.

56/ CX 30; TR (ALJ) 362.

penetration of imported vehicles exceeds 50 percent of complainants' sales." 57/ However, in calculating the penetration of the imported vehicles, he included certain toy vehicles made by LJN and known as ROUGH RIDERS. But, LJN has signed a license agreement with complainants permitting them to import and sell in the United States their ROUGH RIDER vehicles. In considering the LJN imports, the ALJ relied upon the Commission's decision in Certain Food Slicers and Components Thereof, Investigation No. 337-TA-76 (June 1981), page 19. However, it is clear from that decision that "[t]he relevance of such imports will be dependent on the facts presented." Here, it is clear that LJN is by far the largest source of imports of the subject toy vehicles (compare Complaint, para. 6 with the data on imports from Soma in the recommended determination) and that its license agreement includes a sum which must be considered compensation for past injury (if any) to complainants. Under these circumstances, I feel that it is inappropriate to aggregate the imports from LJN with those of the respondents. This means that the import penetration is considerably less than that set out in the recommended determination.

Moreover, in the same period that the allegedly infringing imports began entering the market, complainant introduced its own cheaper version of toy truck made not in Hong Kong, but in Taiwan. So import penetration must be analyzed being careful to isolate out complainant's imports.

It also follows that it is inappropriate to infer as did the ALJ that every sale lost was a sale made by Soma. Sales lost by Schaper's STOMPER may very well have gone to Schaper's HILL HUSTLER or its licensee, LJN.

Regarding respondents' impact on pricing, the evidence of record clearly demonstrates that the wholesale price of respondents' SUPER CLIMBER is considerably less than that of complainants' STOMPER toy vehicles. However, as pointed out above, complainants themselves undersell their STOMPER toy vehicles with their lower priced HILL HUSTLER toy vehicles which are virtually identical to its STOMPER toy vehicles, but have fewer features, e.g., do not have the working headlights of the STOMPER toy vehicles. 58/ Thus, it is not possible to implicate respondents as the cause of underselling or price suppression or price depression.

Conclusion

Based on the lack of a showing of a domestic industry and no showing of substantial injury by reason of the subject imports, I determine that there is no violation of section 337 of the Tariff Act of 1930 in the importation and sale of certain miniature, battery-operated, all-terrain wheeled vehicles.

ADDITIONAL VIEWS OF COMMISSIONER HAGGART

The threshold issue presented in this case involves the scope of section 337. Specifically, the Commission must determine whether complainants' activities comprise "an industry . . . in the United States."

This Commission, from the very beginning of its administration of section 337, has defined industry by referring to production, particularly in cases involving patents. Summarizing its past decisions, the Commission stated in Certain Ultra-Microtome Freezing Attachments, Inv. No. 337-TA-10, USITC Pub. 771 (April 1976) at page 8:

Past Commission decisions, from Bakelite through Electronic Pianos, have defined "industry" in section 337 investigations, based upon claims of patent infringement, as the domestic manufacture or production of the patented product by the patentee or his licensee. (Emphasis supplied.) 1/

The legislative history of section 337, 2/ while not extensive, does provide some guidance as to Congressional intent regarding the nature and significance of the domestic activities required to constitute a domestic industry. The House report accompanying the Trade Act of 1974 states in relevant part:

In cases involving the claims of U.S. patents, the patent must be exploited by production in the United States, and the industry in the United States generally consists of the

1/ This position has been consistently taken by the Commission since Ultra-Microtome. See, e.g., Reclosable Plastic Bags, Inv. No. 337-TA-22, USITC Pub. 801 (Jan. 1977); Certain Luggage Products, Inv. No. 337-TA-39, USITC Pub. 932 (Nov. 1978); Certain Muticellular Plastic Film, Inv. No. 337-TA-54, USITC Pub. 987 (June 1979); Certain Surveying Devices, Inv. No. 337-TA-68, USITC Pub. 1085 (July 1980); Certain Headboxes and Papermaking Machine Forming Sections for the Continuous Production of Paper, and Components Therefor, Inv. No. 337-TA-82, USITC Pub. 1138 (April 1981); and Certain Molded-In Sandwich Panels Inserts and Methods for Their Installation, Inv. No. 337-TA-99, USITC Pub. 1246 (May 1982).

2/ Originally enacted as the Act of June 17, 1930, ch. 497, Title III, § 337, 46 Stat. 703. 19 U.S.C. § 1337 (1980).

domestic operations of the patent owner, his assignees and licensees devoted to such exploitation of the patent. (Emphasis supplied.) H. Rep. No. 93-571, 93d Cong. 1st Sess. 78 (1973).

Thus, when Congress amended section 337 in 1974, it not only acquiesced in the Commission's longstanding administrative interpretation, but expressly approved it.

The legislative history of section 316, 3/ the predecessor to section 337, also supports the conclusion that this provision was intended to protect production activities in the United States. With regard to the 1922 statute, Senator Smoot stated:

In the economic uncertainty of the present, manufacturers in some lines of merchandise have asked for high tariff rates more because of what they fear than because of what they are experiencing. Such a law as I have suggested would assure American producers that they will not be subjected to unfair competition from countries abroad. (Emphasis supplied.) 62 Cong. Rec. 5879 (1922). 4/

Complainants in this case would have us find that their domestic business activities constitute a miniature toy vehicle "industry" in the United States, despite the fact that their miniature toy vehicles are essentially produced in Hong Kong. As authority for this proposition, they cite the Commission's decisions in Certain Airtight Cast-Iron Stoves, Inv. No. 337-TA-69, USITC Pub. 1126 (Jan. 1981) and Certain Airless Paint Spray Pumps, Inv. No. 337-TA-90, USITC Pub. 1199 (Nov. 1981).

3/ Act of September 21, 1922, ch. 356, Title III, § 316, 42 Stat. 943.

4/ The same may be said of how the term "industry" was understood when section 316 became section 337 of the Tariff Act of 1930. See 71 Cong. Rec. 4638, 4648 (1930). These references to the legislative history involve floor debates on amendments which passed the Senate but failed in conference for reasons unrelated to the question of what constitutes an "industry . . . in the United States." These Senate debates are therefore instructive as to how the term "industry" was then understood in the Congress.

In Stoves, the Commission found "a significant employment of land, labor, and capital [in the United States] for the creation of value" and thus concluded that complainant had established that it was "an industry . . . in the United States" for purposes of section 337. Such a broad test for defining "an industry . . . in the United States" is not supported by the statute or the legislative history. Rather, the legislative history supports a conclusion that the activities performed in the United States must be a part of the production process. In making this determination, the Commission should first look at the nature of domestic activity in the context of the particular industry involved in order to determine whether such activities are part of the production process. Next the Commission should compare the extent of such domestic activities with the total production process in order to determine whether sufficient production activities are performed in the United States. 5/ This analysis will necessarily vary depending on the facts of each case. 6/

To find that complainants in this case comprise a miniature toy vehicle "industry . . . in the United States" would be contrary to Congressional intent regarding section 337 and its logical and historical interpretation. Complainant Schaper 7/ purchases STOMPER vehicles which are manufactured

5/ It is suggested that in considering the nature and sufficiency of a complainant's activities in the United States, the following activities would be relevant: design, research and development, tooling, manufacture, assembly, quality control or packaging. This list is not intended to be all-inclusive, but merely illustrative.

6/ It should be noted that Stoves involved a "service industry" that was integrally associated with an imported product and therefore presents a factual situation distinct from that presented here. Similarly, Spray Pumps is factually distinguishable in that it involved not only servicing and warranty activities, but also production activity in the United States. The issue of whether a purely "service industry" falls within the scope of section 337 is not before us.

7/ With regard to the activities of complainant Goldfarb, see majority views, supra at 7.

abroad and imports them into the United States. 8/ Schaper only randomly samples and tests its imported miniature toy vehicles upon receipt in the United States. 9/ Schaper has failed to establish that its inspection activities are anything more than that of any other importer-purchaser. In addition, the great majority of Schaper's toy vehicles arrive in the United States already packaged for sale in blister packs. 10/

Complainant Schaper points to the considerable sums expended on promotion and advertising in the United States. 11/ Such activities should not be considered part of the production process for purposes of section 337. The same can be said of Schaper's sales activities in the United States. 12/

Complainants also argue that provision of design, engineering, and quality control programs to the Hong Kong manufacturer of the STOMPER toy vehicles should be considered in determining whether an industry exists in the United States. Under the facts of this case, these activities, when viewed in the context of the total production process, are not sufficient to meet the requirements of section 337. 13/

Consequently, I conclude that complainants do not comprise an "industry . . . in the United States" within the meaning of section 337.

8/ FF 158.

9/ FF 162; TR (ALJ) 456-470. CX 113.

10/ The remainder of the STOMPER toy vehicles are packaged as sets with accessories in the United States. FF 158, 160; TR (ALJ) 430.

11/ FF 158; TR (ALJ) 307-309; CX 108.

12/ See majority views, supra note 29 at 10.

13/ Id. at 7-10.

OPINION OF COMMISSIONER FRANK

I agree with the recommended determination of the ALJ that a violation of section 337 does exist in this investigation.

The treatment by the majority of the question of whether complainants constitute "an industry . . . in the United States" ignores the realities of the marketplace. In our previous decision in Certain Airtight Cast-Iron Stoves, - Investigation No. 337-TA-69 (January 1981), we stated that the use of American land, labor, and capital for the creation of value can comprise a domestic industry. In this case, the design of the STOMPER toy vehicle and the considerable capital investment which made it possible, took place and still takes place in the United States. Further, virtually all of the activities required to develop and market the STOMPER toy vehicle occur in the United States. Indeed, the overwhelming portion of the value of the STOMPER toy vehicle, calculated in terms of investment, is of United States origin. See, for example, CX 108. The accessories which are sold with the STOMPER toy vehicle sets are an integral part of complainants' operations with respect to the STOMPER toy vehicle. The design, manufacture, and marketing of these accessories occurs entirely in the United States. Thus, while complainants have gone off-shore for manufacture of the STOMPER toy vehicle, the value added by such manufacture is minimal compared with the domestic investment by

Schaper and Goldfarb in the design, development, tooling, quality control, packaging, warehousing, advertising, marketing, distribution, and sale of the STOMPER toy vehicles and accessories. Given the fact that virtually all of the value incorporated in the STOMPER toy vehicle and accessories is traceable to the business activities of Goldfarb and Schaper in the United States, there is ample evidence to find that complainants do comprise "an industry . . . in the United States" under the authority of our earlier decision in Stoves.

Further, it is important to note that some of the raw materials utilized in the Stomper toy vehicle may be of United States origin. The exact status or share is unknown. Many United States' products which are also protected from violations under section 337 do contain varying quantities of foreign components even though these products are assembled in the United States or further manufactured in the United States to some extent. There is no requirement for a specific percentage of assembly or manufacturing cost so far as Section 337 protection is concerned. I do not refer to Virgin Islands or other insular or other arrangements. I do not feel it is necessary to have twin plant or Section 806.30 or 807 considerations introduced in my opinion.

What is important is the fact that considerable expense is undertaken to obtain United States' patents and there are licensing, royalty and other benefits obtained by those obtaining United States' patents. Those who obtain United States' patents usually have licensing arrangements where royalty payments are returned from foreign licensees to the United States licensor. The licensor obtains funds to engage in more research, promotion, advertising, product introductions and distribution, and even perhaps later assembly or manufacturing in the United States. Royalty inflows into the United States are reflected in the United States' balance of payments position as a deserved plus and help to stimulate United States' activities partly mentioned above.

I will not seek in this investigation to compare the financing or incentives that may have allegedly swayed some buyers or manufacturers to consider assembly of some major items such as subway cars or commuter aircrafts in foreign locations. But I am always attempting to highlight the fact that past assembly or manufacture abroad need not continue. There are constantly shifting labor costs, raw material supply conditions, political stability conditions and other factors which may cause relocation of foreign operations to the United States.

Patent protection and rights in the United States are at the heart of this investigation in my opinion. It is my belief that to define and construe narrowly the intent of Congress with regard to Section 337 will markedly diminish the logic of the object of the United States patent system. It is not appropriate to say that a negative vote in this case does not mean an end to relief or remedy courses of action because other avenues are available such as United States District Courts, etc. To claim such a reason after proceeding to institute a case and then to determine negatively on one such basis appears to me not to fulfill the Commission's functions and mandates as fully as I expect them to be fulfilled.

The United States patent system is the basis for rewarding inventors and others. Movement by inventors or others to obtain patents in such locations as Hong Kong may be appropriate to protect sales in that market or in third country markets. A valid patent in the United States should be adequate protection in the United States markets where considerable costs in developing, advertising and distributing a product should not go unnoticed or unrewarded in any calculation of total corporate costs of doing business. It is not fair to allow others to unfairly "piggy-back" their product sales on the past costs or management wisdom of a United States patent holder. New

financial strength for the patent holder corporation and associates should occur and this will allow further research, development and other expenditures.

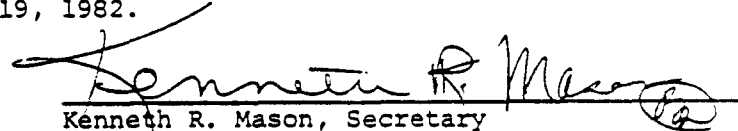
To stifle initiatives will curb future United States growth and productivity. I believe this country must squarely face the logic of not having our patent benefits flattened into the shape of a door mat to be stepped upon by any violators.

It is important to the United States to have patents which are respected for two basic reasons. First, the speed at which alleged United States patent violators gear-up to enter United States markets can be as short as nine months in products such as the "STOMPER". Second, the "alleged" diminutive nature of the United States patents under conditions of alleged non-enforcement causes potential investors in American enterprises not to commit their capital to United States enterprises because of "muddy waters" on the nature of patents rights and protection.

I clearly believe the ALJ is correct in his determination that a violation of Section 337 does exist in this investigation. There are many other factors which might be introduced in my opinion, but I conclude the major factors expressed above amply describe my determination in the Investigation No. 337-TA-122.

CERTIFICATE OF SERVICE

I, Kenneth R. Mason, hereby certify that the attached Notice of Termination of Investigation and Public Version was served upon Robert S. Bidoff, Esq., and upon the following parties via first class mail, and air mail where necessary, on October 19, 1982.



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U.S. International Trade Commission
701 E Street, N.W.

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CERTAIN MINIATURE, BATTERY-OPERATED,
ALL-TERRAIN, WHEELED VEHICLES

337-TA-122

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CERTAIN MINIATURE, BATTERY-OPERATED,
ALL-TERRAIN, WHEELED VEHICLES

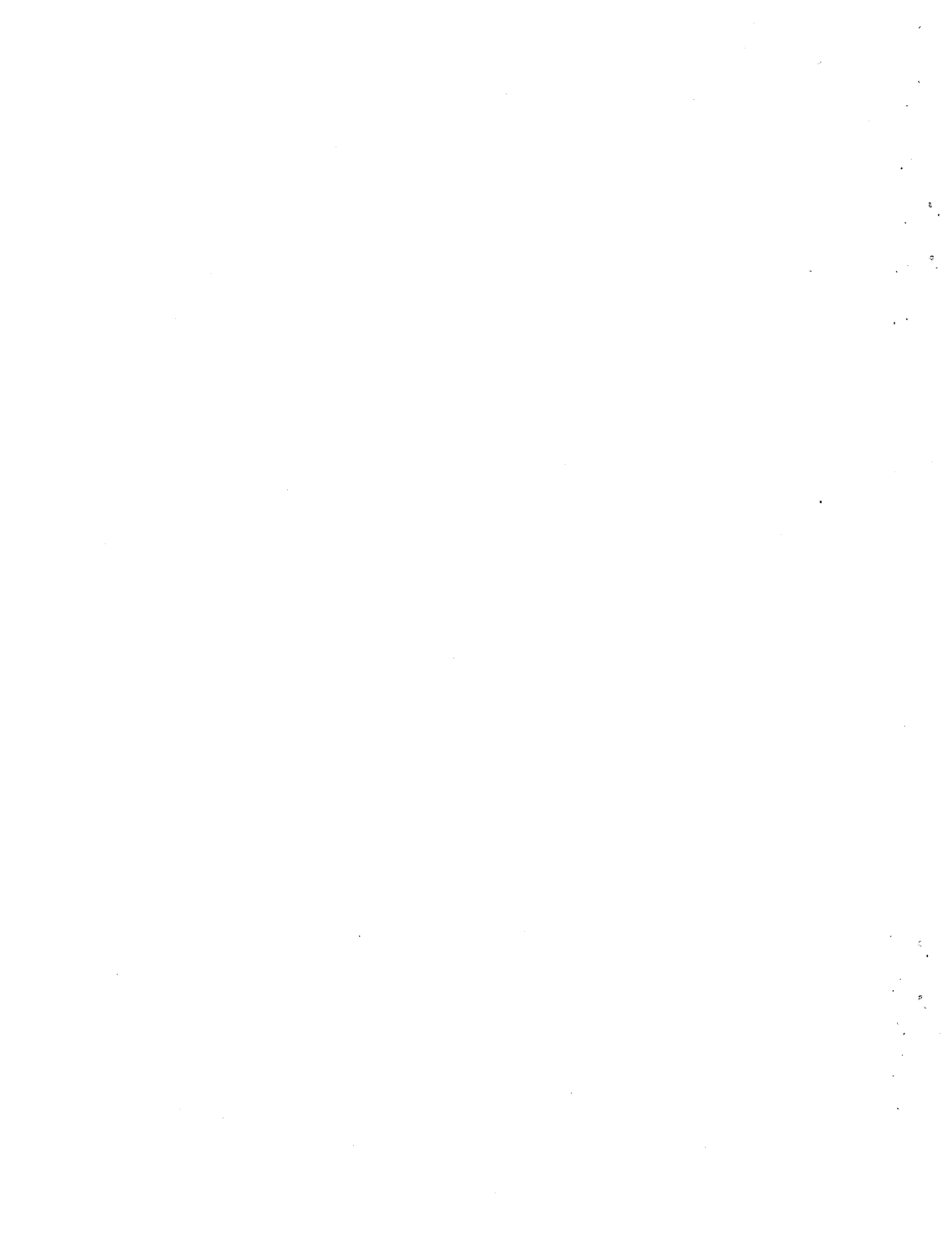
337-TA-122

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PUBLIC INSPECTION

UNITED STATES INTERNATIONAL TRADE COMMISSION

Washington, D.C. 20436

RECEIVED

OCT 15 1982

OFFICE OF THE SECRETARY
U.S. INTL. TRADE COMMISSION

In the Matter of)

CERTAIN MINIATURE, BATTERY-OPERATED,)
ALL-TERRAIN, WHEELED VEHICLES)

Investigation No. 337-TA-122

NOTICE OF TERMINATION OF INVESTIGATION

AGENCY: U.S. International Trade Commission.

ACTION: Termination of investigation upon a finding of no violation of section 337 of the Tariff Act of 1930.

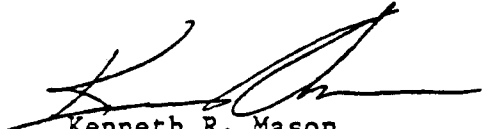
SUPPLEMENTARY INFORMATION: On the basis of a complaint filed on April 23, 1982, the Commission on May 19, 1982, published in the Federal Register (47 F.R. 21638) a notice of institution of an investigation pursuant to section 337 of the Tariff Act of 1930 (19 U.S.C. § 1337). The Commission's investigation covered alleged unfair methods of competition and unfair acts in the unauthorized importation and sale of certain miniature, battery-operated, all-terrain, wheeled vehicles alleged to infringe certain claims of U.S. - Letters Patent 4,306,375 and to involve a false designation of origin.

On October 7, 1982, the Commission determined that there was no violation of section 337 in investigation No. 337-TA-122 in the importation or sale of the miniature, battery-operated, all-terrain, wheeled vehicles in question.

Copies of the Commission's Action and Order, the Commissioners' opinions, and all other nonconfidential documents filed in connection with this investigation are available for inspection during official business hours (8:45 a.m. to 5:15 p.m.) in the Office of the Secretary, U.S. International Trade Commission, 701 E Street NW., Washington, D.C. 20436, telephone 202-523-0161.

FOR FURTHER INFORMATION CONTACT: Wayne W. Herrington, Esq., Office of the General Counsel, U.S. International Trade Commission, telephone 202-523-0480.

By order of the Commission.


Kenneth R. Mason
Secretary

Issued: October 15, 1982



notice of investigation were Esco Imports of Texas, San Antonio, Texas; Fishel Toys Ltd., Hong Kong; Greenman Bros. Inc., Farmingdale, New York; M. W. Kasch Co., Mequon, Wisconsin; Larco, Inc., Los Angeles, California; LJM Toys, Ltd., New York, New York; LJM Toys (Hong Kong) Ltd., Hong Kong; Milton D. Myer Co., Carnegie, Pennsylvania; Northern Specialties, Portland, Oregon; Novelty Distributing, Owensboro, Kentucky; Pensick & Gordon, Los Angeles, California; Soma Traders Ltd., Hong Kong; Universal International (Holdings) U.S.A. Ltd., New York, New York. Respondents Larco, Inc; LJM Toys, Ltd.; LJM Toys (Hong Kong) Ltd.; and Universal International (Holdings) U.S.A. Ltd. were terminated as parties to this investigation prior to its conclusion.

This Action and Order provides for the final disposition of investigation No. 337-TA-122 by the Commission. It is based upon the Commission's determination, made in public session at the Commission meeting of October 7, 1982, that there is no 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 administrative law judge (ALJ) and the exhibits accepted into evidence; (3) the ALJ's recommended determination; and (4) the arguments and presentations made at the Commission's public hearing on September 15, 1982, the Commission, on October 7, 1982, determined (Commissioner Frank dissenting) that with respect to all remaining respondents in investigation No. 337-TA-122, there is no violation of section 337 of the Tariff Act of 1930 in the importation into and sale in


the United States of certain miniature, battery-operated, all-terrain, wheeled vehicles.

Order

Accordingly, it is hereby ORDERED THAT--

1. Investigation No. 337-TA-122 is terminated as to all issues and all respondents;
2. The Secretary shall serve this Action and Order and the opinions issued in connection therewith upon each party of record in this investigation and upon the U.S. Department of Health and Human Services, the U.S. Department of Justice, the Federal Trade Commission, and the U.S. Customs Service; and
3. The Secretary shall publish notice of this Action and Order in the Federal Register.

By order of the Commission.



Kenneth R. Mason
Secretary

Issued: October 15, 1982

