

Date: 20080214

Docket: T-161-05

Citation: 2008 FC 188

Ottawa, Ontario, February 14, 2008

PRESENT: The Honourable Mr. Justice Hugessen

BETWEEN:

CROCS CANADA INC. and CROCS, INC.

Plaintiffs

and

HOLEY SOLES HOLDINGS LTD.

Defendant

REASONS FOR ORDER AND ORDER

I. Introduction

[1] This is a motion for summary judgment brought by the defendant Holey Soles Holdings Ltd. (Holey Soles) against the plaintiff, Foam Creations Inc. (now Crocs Canada Inc.) and Crocs, Inc. (herein after jointly referred to as Crocs), seeking dismissal of Crocs' claims for passing off under the *Trade-marks Act*, R.S.C. 1985, c.T-13 (*Trade-marks Act*) and for alleged infringement of copyright. It is the defendant's contention that Crocs' claims disclose no triable issue because they are barred by the doctrine of functionality and because Crocs is attempting to create a monopoly in respect to design elements contrary to subsection 64(2) of the *Copyright Act*, R.S.C. 1985, c.C-42 (*Copyright Act*).

II. Facts

[2] Crocs' was the first company in North America to specialize in uniquely formulated expanded ethylene based footwear which are now widely known as Crocs clogs. Holey Soles began purchasing three models of shoes from Crocs in September 2002 for distribution and sale. Those models included the Aqua Clog, the Garden Clog and the Aqua Slide. These shoes bore Crocs' REBOUND trade-mark on the bottom of the shoe. Holey Soles sold the shoes under their own brand and gave the shoes different names "Holey Sole", "Unholey Sole" and the "Sole Mate". Prior to 2004, other distributors, including Holey Soles were permitted by Crocs to sell the shoes under their own brand and names.

[3] Six features or designs are said to be present in the various models of Crocs' footwear and to make up Crocs' trade dress or distinguishing guise. These include:

1. The *crown design* is the raised and bumpy part at the upper edge of the top of the clog;
2. The *circles design* are the holes on the top of the upper portion of the clog which total 13;
3. The *semi-circles design* refers to the vents on the side of the upper portion of the clog and total 7;
4. The *nubs design* are plastic nubs found in the heel of the shoe;
5. The *tread design* which is found on the sole; and
6. The *composite design* in which Crocs claims copyright.

[4] Because they are the most prominent and permit a discussion of all the questions of law raised by the present motion, I shall largely limit my comments to the circle and semi circle designs.

[5] In August of 2003 Holey Soles inquired of Crocs as to whether they could put the HOLEY SOLES name on the bottom of the Crocs shoes being sold to Holey Soles. Crocs refused but agreed

to place the name on the bottom of any moulds of Holey Soles' own designs. No new footwear design was ever received by Crocs from Holey Soles.

[6] In April of 2004 Holey Soles began selling two models of foam shoes that had been manufactured for it in China. These shoes were sold as "Holey Soles Original" and the "Holey Soles with Strap" to Mountain Equipment Co-op in Canada. These shoes, like the Aqua Clog have holes in the upper surface and vents on the side, raised nubs on the interior of the clog, a crown shaped design and a similar tread to those of Crocs. Crocs claims that the shoes are virtually identical to their products, the only difference being that "Holey Soles" was inscribed on the sole where "REBOUND" use to be found.

[7] On January 28, 2005 this action was commenced. Later in 2005, Holey Soles stopped selling Crocs' products and has not purchased, distributed or sold any of Crocs' products since. Holey Soles did begin selling a new line of footwear in the summer of 2005 consisting of three models: the Explorer, the Provider and the Social. Crocs' claims that the modifications to these shoes are so minor that they are still confusingly similar to Crocs' designs.

[8] Crocs has applied for a patent over "Footwear Pieces and Methods for Manufacturing Such" but no patent has been issued to date.

III. Issues

- [9] 1. Are Crocs' claims in passing off under paragraph 7(b) and (c) of the *Trade-marks Act* defeated by application of the doctrine of functionality?
2. Is Crocs barred from claiming copyright rights by subsection 64(2) of the *Copyright Act*, or can Crocs benefit from the exception at paragraph 64(3)(c)?

[10] There is no issue on the present motion as to the proper test to be applied on a motion for summary judgment. It appears to be common ground that the motion can only be granted if the Court is satisfied that there is no genuine issue of fact for trial.

IV. Analysis

1. Are Crocs' claims in passing off barred by application of the doctrine of functionality?

[11] At the outset let me say that in my view there is an extremely high degree of similarity between the pattern or design formed by the circles and semi circles on the tops and sides of many of the defendant's clogs and what is found on the plaintiff's models. Not to put too fine a point on it, the defendant seems to have produced rather obvious "knock-offs" whose only purpose can be to induce consumers into thinking that they are buying genuine Crocs clogs. There are also other less obvious similarities in the get up or appearance of some of defendant's products but it is not necessary at this stage of the action to go into them in any detail.

[12] It is also clear to me, and not contested seriously by the plaintiff, that the circles and semi circles have a functional role, namely that of allowing air and/or water to flow in and out of the shoe. The question thus becomes, in my view, to know whether the pattern of the circles and semi circles can qualify as a distinguishing guise or get up so as to receive protection under the *Trade-marks Act* in that their functional role can properly be viewed as separate and different from the distinguishing role of the pattern in which they are built into the clogs.

[13] Both parties, of course, rely heavily on the recent decision of the Supreme Court in *Kirkbi AG v. Ritvik Holdings Inc.*, [2005] 3 S.C.R. 302 (the *Lego* case.) In that case the Court denied trade mark protection to the plaintiff's well-known toy building blocks on the ground that the alleged distinguishing guise claimed by plaintiff was purely functional in nature.

[14] The Court said:

[42] The doctrine of functionality appears to be a logical principle of trade-marks law. It reflects the purpose of a trade-mark, which is the protection of the distinctiveness of the product, not of a monopoly on the product. The *Trade-marks Act* explicitly adopts that doctrine, when it provides, at para. 13(2), that the registration of a mark will not interfere with the use of the utilitarian features it may incorporate:

13. ...

2) No registration of a distinguishing guise interferes with the use of any utilitarian feature embodied in the distinguishing guise.

[43] In these few words, the Act clearly recognizes that it does not protect the utilitarian features of a distinguishing guise. In this manner, it acknowledges the existence and relevance of a doctrine of long standing in the law of trade-marks. This doctrine recognizes that

trade-marks law is not intended to prevent the competitive use of utilitarian features of products, but that it fulfills a source-distinguishing function. This doctrine of functionality goes to the essence of what is a trade-mark.

[15] The Court went on to confirm, at paragraph 67, that “the doctrine of passing off did not develop to protect monopolies in respect of products but guises, get-ups, names and symbols which identify the distinctiveness of a source”.

[16] Also of particular relevance for present purposes is the following passage and the quotation with evident approval of the Reasons of Justice Sexton in the Federal Court of Appeal:

[59] The second part of the argument raised by the appellant, which is based on changes to the statute, also fails. Kirkbi first asserts that *The Unfair Competition Act*, 1932, S.C. 1932, c. 38, included a definition at s. 2(d) which expressly mentioned functionality:

(d) "distinguishing guise" means a mode of shaping, moulding, wrapping or packing wares entering into trade or commerce which, by reason only of the sensory impression thereby given and independently of any element of utility or convenience it may have, is adapted to distinguish the wares so treated from other similar wares and is used by some person in association with his wares in such a way as to indicate to dealers in and/or users of similar wares that the wares so treated have been manufactured or sold by him; [emphasis in original]

Kirkbi then submits that the present definition of a distinguishing guise no longer includes any reference to functionality:

“distinguishing guise” means

(a) a shaping of wares or their containers, or

(b) a mode of wrapping or packaging wares

the appearance of which is used by a person for the purpose of distinguishing or so as to distinguish wares or services manufactured, sold, leased, hired or performed by him from those manufactured, sold, leased, hired or performed by others;

Kirkbi argues that the present law limits the application of the doctrine to registered marks only, under s. 13(2).

[60] This interpretation of the legislative changes is clearly wrong. The changes in the drafting of the statute did not signal any intention to remove a doctrine of long standing, with the strange result that unregistered marks might have been granted broader protection than marks registered under the *Trade-marks Act*. The purpose of s. 13(2) was rather to make sure that the public or competitors might keep on using utilitarian features of an otherwise distinguishing guise, as Sexton J.A. found:

Indeed, in my view, subsection 13(2) reinforces the concept that the doctrine of functionality invalidates a mark which is primarily functional. It makes clear that the public is not constrained from using any utilitarian features of a distinguishing guise. It follows that if a distinguishing guise is wholly or primarily functional, then the public is not constrained from using the distinguishing guise in its entirety. Thus a distinguishing guise which is primarily functional provides no rights to exclusive use and hence no trade-mark protection. In other words the fact that the distinguishing guise is primarily functional means that it cannot be a trade-mark. The appellants have simply misconstrued subsection 13(2). [para. 59]

[17] Finally, I think that it is important to remember that in *Lego* the Supreme Court was not concerned with an alleged mark that was both functional in part and distinguishing in part:

On the facts, the trial judge found that the LEGO indicia and the asserted unregistered mark were purely functional. The mark was the product (see Gibson J., at para. 61). Those findings were accepted by the Federal Court of Appeal and were not challenged in our Court. (at p. 330)

[18] Thus, the Lego decision confirmed that trade mark protection was not available for a mark or get up that was “purely” functional. It did not, in my view, exclude from protection any and every mark which displayed some functional features. Indeed, the text of subsection 13(2) quoted above in my opinion clearly suggests a policy choice to permit some functional (or utilitarian) features in a mark so long as they do not create a monopoly of the function. I believe that that same policy choice is reflected in s. 5.1 of the *Industrial Design Act*, R.S.C. 1985, c. I-9 (*Industrial Design Act*) which reads:

5.1 No protection afforded by this Act shall extend to

- (a) features applied to a useful article that are dictated solely by a utilitarian function of the article; or
- (b) any method or principle of manufacture or construction.

[19] Returning to the present motion for summary judgment, it is my view that the question of whether the design and pattern of the circles and semi circles on the plaintiff's clogs is primarily functional is one of fact which cannot and should not be decided at this stage. There is certainly ample evidence that the circles and semi circles perform a function; there is no evidence however clearly linking that function, or indeed any function, to their pattern and arrangement on the tops and sides of the shoes and it will certainly be open to the Court at trial to find that that pattern and arrangement constitute in themselves a distinguishing guise. I leave to another day and to heads wiser than mine, the teasing out of the distinctions, if any, between “primarily”, “purely” and

“solely”, as well as between “functional” and “utilitarian” and other variations in the language used in the various cases and the two quoted statutes. I think, however, that the underlying policy is the prevention of the obtaining of a monopoly by means of a trade mark in circumstances where a patent either cannot be granted or has expired and it is not without significance that the evidence on the present motion shows that other manufacturers, including the defendant, have been able to use some of the purely functional features of the plaintiffs' clogs without mimicking their get up. This, too, is a matter which must be further examined at trial.

[20] The first leg of the defendant's motion accordingly fails.

2. Is Crocs' barred from claiming copyright rights by subsection 64(2) of the *Copyright Act*, or can Crocs benefit from the exception at paragraph 64(3)(c)?

[21] Subsection 64(2) of the *Copyright Act* states that there will be no copyright infringement where:

(2) Where copyright subsists in a design applied to a useful article or in an artistic work from which the design is derived and, by or under the authority of any person who owns the copyright in Canada or who owns the copyright elsewhere,

(a) the article is reproduced in a quantity of more than fifty, or

(b) where the article is a plate, engraving or cast, the article is used for producing more than fifty useful articles.

[22] The defendant claims that Crocs' shoes are clearly useful articles, produced in numbers far exceeding 50 and that the claim in copyright is therefore barred on its face by subsection 64(2).

[23] Paragraph 64(3)(b) and (c) of the *Copyright Act* state that subsection 64(2) of the Act does not apply in respect of the copyright or moral rights in an artistic work in so far as the work is used as a trade-mark or a representation or a label or for material suitable for making wearing apparel. In order to benefit from the protection of subsection 64(3), the designs in question must be used as or for a trade-mark. Crocs' designs alone or in combination form its distinctive trade dress and therefore qualify as a trade-mark pursuant to the section 2 definition in the *Trade-marks Act*. At the very least, the defendant's contention that the designs are not a trade mark, as I have just decided, is not a question which should be determined on summary judgment.

[24] Shoes are clearly wearing apparel (as was admitted by defendant's representative on discovery) and Crocs' shoes are created by injecting a material into a mold, a process which incorporates the designs into the material.

[25] Here again, in my view, Crocs' have raised sufficient evidence that there is a serious issue to be tried on their right to claim the benefit of subsection 64(3).

V. Conclusion

[26] For the reasons above, I would conclude that this motion for summary judgment should be dismissed.

VI. Costs

[27] In circumstances such as this I would normally award cost in a lump sum approaching a solicitor and client scale. Plaintiff shall file written representations on the matter of costs within ten days and defendant shall respond thereto within a further ten days.

ORDER

THIS COURT ORDERS that the motion be dismissed. Costs reserved.

“James K. Hugessen”

Judge

FEDERAL COURT

SOLICITORS OF RECORD

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**REASONS FOR ORDER
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