

## Reverse Confusion and A Beanie Blunder 1998

by Marc S. Cooperman

The recent decision in *Imperial Toy Corporation v. Ty, Inc.*, 1998 WL 601875 (N.D. Ill.), bolstered the evolving law of "reverse" confusion under the Lanham Act, and provided a couple of interesting twists for trademark owners along the way.

A reverse confusion case arises where the junior user of a trademark is larger or more well known than the senior user of a confusingly similar mark. By the junior user's saturation of the market with the trademark, the senior user is injured because, despite being the rightful trademark owner, the public assumes that the senior user is the infringer or is somehow associated with the larger junior user. This is the "reverse" of the typical trademark case in which the senior user is the more well known of the parties and the junior user enters the market in an attempt to profit from the good will of the senior user's mark. The seminal case of *Big O Tire Dealers v. Goodyear Tire & Rubber Co.*, 561 F.2d 1365 (10th Cir. 1977) is considered the origin of the reverse confusion claim.

In *Imperial Toy*, the junior user was Ty, Inc., marketer of the extraordinarily popular "Beanie Babies" bean bag animals. Ty began selling its "Roary" the lion bean bag animal in May of 1997. Challenging Ty's use of the "Roary" trademark was Imperial Toy Corporation. Imperial sells a line of bean bag animals known as Friendly Pebble Pets," one of which is a lion also named "Roary" that Imperial first sold in 1996.

While Imperial, as the senior user, is a well known toy manufacturer with a history dating back thirty years in the toy industry, its Friendly Pebble Pets have been far outsold by Ty's Beanie Babies, which, according to Ty Warner, have sold over one billion units. The makings of a classic case of reverse confusion were, thus, at hand.

Imperial sued Ty alleging reverse confusion and seeking over \$17 million based on Ty's profits. Imperial also asked the Court to preliminarily enjoin Ty from selling its "Roary" the lion. After conducting a two day evidentiary hearing and considering several briefs of the parties, the Court granted Imperial's motion. Among the facts the Court relied upon in granting the injunction against Ty were that the marks of the two companies were identical and the products of the parties, bean bag lions, were markedly similar.

Ty raised several arguments against the preliminary injunction motion. First, Ty argued that Imperial did not have protectible trademark rights because (1) Imperial uses its "Roary" name solely as a style or grade indicator, not as an origin indicator; and (2) Imperial uses "Roary" on the inside of a hang tag attached to its product, and on the back of product boxes, so the name is not easily visible by consumers. The Court rejected both arguments, reasoning that the fact that Imperial gave its Friendly Pebble Pets names in the first place, instead of referring to them merely by their generic species names, indicates the names are functioning as trademarks. The Court also concluded that Imperial's manner of use of the "Roary" name inside tags and on its packages creates a "separate and distinct" commercial impression, entitling the names to trademark status.

Ty also argued that its Beanie Babies were sold in specialty gift stores in contrast to the types of stores in which Imperial's Friendly Pebble Pets were sold, resulting in no significant competition between the two products. Noting that there was some overlap in the stores in which the products were sold, the virtual identity of the consumers (preteen girls) to whom the products are sold, and the comparable suggested retail prices for the products, the Court again rejected Ty's argument. In particular, the Court specifically found the testimony of Ty Warner (President of Ty, Inc.) that the two products do not compete "incredible" in light of Mr. Warner's contrary testimony that the products were "in competition" in a prior case in which Ty had sued Imperial.

Finally, the Court turned to Ty's intent. In the reverse confusion context, the Court stated that the intent inquiry should focus on whether the junior user ignored the trademark rights of the senior user. The Court rejected Ty's argument that it was unaware of Imperial's "Roary" the lion trademark when Ty adopted the identical name. Based on evidence from the prior litigation between the parties, the Court found that "Ty, Inc. was aware that Imperial used the name 'Roary' for the toy lion in its Friendly Pebble Pets line at least five months before Ty, Inc. introduced its own Beanie Baby named 'Roary' into the market." This led the Court to conclude that despite Ty's awareness of Imperial's senior rights to the mark, Ty ignored Imperial's rights.

Subsequent to the entry of the preliminary injunction, Imperial and Ty entered into settlement discussions. The case settled five days before the trial was to begin.

The *Imperial Toy* case confirms the increasing significance of reverse confusion claims. When entering the market with a new trademark, it is clear that all prior users of the mark, no matter their size, must be seriously evaluated.

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