

Ty Inc. v. Perryman: The Seventh Circuit Disarms Trademark Owner of Power to Enjoin Under Dilution Theory for Threat of “Beanies” Mark Becoming Generic

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I. OVERVIEW

Ty Inc. (Ty) manufactures and sells plush bean bag toys marketed as “Beanie Babies.”¹ Ruth Perryman (Perryman) is a second-hand dealer in bean bag toys, including Ty’s “Beanie Babies,” which she sells over the Internet.² Perryman’s Internet address, bargainbeanies.com, is the particular focus of Ty’s concern.³ Ty filed an action for injunction, among other things, to prohibit Perryman from using “Beanie” or “Beanies,” in connection with her Web site, contending that such use will dilute Ty’s protectable trademark.⁴

The district court granted summary judgment in favor of Ty and entered an injunction forbidding Perryman to use “Beanie” or “Beanies” as a component of her business name, Internet domain name, or trademark, or in connection with any non-Ty products.⁵ The United States Court of Appeals for the Seventh Circuit disagreed in part and *held* that use of bargainbeanies.com was not a violation of the federal antidilution statute, however, the injunction prohibiting Perryman from using “Beanie” or “Beanies” in connection with any products not associated with the holder of the trademark “Beanie Babies” was warranted. *Ty Inc. v. Perryman*, 306 F.3d 509, 514-15 (7th Cir. 2002).

1. *Ty Inc. v. Perryman*, 306 F.3d 509, 510 (7th Cir. 2002).
2. *Id.*
3. *Id.*
4. *Id.*
5. *Id.*

II. BACKGROUND

Congress is empowered to enact trademark legislation pursuant to its constitutional power to regulate commerce.⁶ Congress enacted the 1946 Lanham Act which was intended to make “actionable the deceptive and misleading use of marks” and “to protect persons engaged in . . . commerce against unfair competition.”⁷ A trademark is defined as including “any word, name, symbol, or device, or any combination thereof” used by any person “to identify and distinguish his or her goods, including a unique product, from those manufactured or sold by others and to indicate the source of the goods, even if that source is unknown.”⁸

Legal protection of trademarks is more circumscribed compared to other forms of intellectual property.⁹ Unlike patent and copyright laws of the United States, trademark rights in gross are not warranted because protection only extends to prevent public deception.¹⁰

The Federal Trademark Dilution Act, enacted in 1996, amended section 43 of the Lanham Act to provide protection for “famous” trademarks.¹¹ The Act defines “dilution” as “the lessening of the capacity of a famous mark to identify and distinguish goods or services, regardless of the presence or absence of—(1) competition between the owner of the famous mark and other parties, or (2) likelihood of confusion, mistake, or deception.”¹² The legislative history indicates that Congress reasoned that dilution might result either from “uses that blur the distinctiveness of [a famous] mark or [that] tarnish or disparage it.”¹³

The primary purpose of the dilution doctrine is to provide for an independent commercial tort that addresses the “gradual diminution or whittling away of the value of a trademark” as a result of use by another.¹⁴ Since its enactment, the courts have inconsistently applied the dilution doctrine, thus risking disturbance of the balance between the

6. See *Trademark Cases*, 100 U.S. 82, 86 (U.S. 1879).

7. 15 U.S.C. § 1127 (2000).

8. *Id.*

9. See Robert N. Klieger, *Trademark Dilution: The Whittling Away of the Rational Basis for Trademark Protection*, 58 U. PITT. L. REV. 789, 792 (1997).

10. See *id.* (citing *Bonito Boats, Inc. v. Thunder Craft Boats, Inc.*, 489 U.S. 141, 157 (1989)); see also *Int'l Order of Job's Daughters v. Lindeburg & Co.*, 633 F.2d 912, 919 (9th Cir. 1980) (stating that “a trademark owner has a property right [in his trademark] only insofar as is necessary to prevent consumer confusion as to who produced the goods and to facilitate differentiation of the . . . goods”).

11. See 15 U.S.C. § 1125(c).

12. *Id.* § 1127.

13. H.R. REP. NO. 104-374, at 2 (1995), reprinted in 1995 U.S.C.C.A.N. 1029, 1029.

14. 4 J. THOMAS MCCARTHY, MCCARTHY ON TRADEMARKS AND UNFAIR COMPETITION § 24:71 (4th ed. 2002).

larger principles of trademark protection: free competition and fair competition.¹⁵

The first case decided solely on dilution grounds was *Dawn v. Sterling Drug, Inc.*¹⁶ In *Dawn*, plaintiff E. Christman Dawn had registered the name “Tower of Babble” as a trademark for an educational language game and sold only 4000 units over five years before venturing on to other endeavors.¹⁷ Plaintiff sought to enjoin defendant Sterling Drugs, manufacturer of Bayer Aspirin, from using the phrase “Tower of Babble” in its national advertising campaign.¹⁸ The plaintiff’s claim alleged that the “trade public is likely to assume that there is a connection” between his vanishing educational language game and defendant’s nationally accepted headache remedy.¹⁹

The court recognized that they were without guidance to implement the new statute, and yet made no attempt to provide for any meaningful formulation of the harm required for dilution protection. The court conceded that the words “Tower of Babble” are of “common usage and are hardly within the protective intent of the California statute” to warrant a damage award.²⁰ Nevertheless, the court decided “[o]ut of an abundance of fairness . . . to enjoin defendant from the further use of the phrase ‘Tower of Babble’ in its advertising.”²¹ Thus, the *Dawn* court provided relief without regard to any requirement of harm. One scholar recognized that the *Dawn* court provided a trademark right in gross for common phrases, which is incompatible with the traditional consumer protection model of trademark law.²²

More recently, the United States Court of Appeals for the Fourth Circuit refused to presume that dilution takes place without proof of actual damage, as this would improperly result in property rights in gross for famous marks.²³ The court supported its decision by interpreting the Act’s abandonment of the “likelihood of dilution” language of the state antidilution statutes to indicate that on its face, actual dilution is

15. See *id.* § 24:114 (“The balance between fair competition and free competition must always be maintained and kept fine-tuned for the economy to work at a reasonable rate of efficiency and competitiveness.”).

16. 319 F. Supp. 358, 363 (C.D. Cal. 1970).

17. *Id.* at 360.

18. *Id.*

19. *Id.*

20. *Id.* at 363.

21. *Id.*

22. See Klieger, *supra* note 9, at 823.

23. See *Ringling Bros.-Barnum & Bailey Combined Shows, Inc. v. Utah Div. of Travel Dev.*, 170 F.3d 449, 460 (4th Cir.), *cert. denied*, 528 U.S. 923 (1999); see also *Westchester Media v. PRL U.S.A. Holdings, Inc.*, 214 F.3d 658, 671 (5th Cir. 2000) (requiring proof of actual harm).

required.²⁴ Accordingly, the Fourth Circuit suggests that a diluted senior mark may not recover under the Act, unless proof of actual economic harm is submitted.²⁵

However, the Seventh Circuit disagreed with the Fourth Circuit's holding and instead held that showing the defendant's trademark "causes dilution" of plaintiff's mark requires only proof of mere likelihood of dilution, not proof of actual dilution.²⁶ Although the court did not address the "property rights in gross" issue, it reasoned that holding plaintiffs to such a high level of proof would be unjust because it is possible for a mark to be diluted even as its sales are increasing.²⁷ Therefore, since the Seventh Circuit provides dilution protection in the absence of economic harm, this suggests it is the mark itself that is subject to compensable injury, which is a much broader application of the trademark dilution doctrine.

III. THE COURT'S DECISION

In the noted case, the Seventh Circuit seemed to take a logical, common sense approach in holding that "[a]n interpretation of antidilution law as arming trademark owners to enjoin uses of their mark that, while not confusing, threaten to render the mark generic may therefore not be in the public interest."²⁸ The Seventh Circuit found that this resolution is consistent and reconcilable under the traditional concern of trademark law, thereby limiting its interpretation of dilution law.²⁹

The court recognized that the underlying purpose of protecting consumers under trademark law creates the dual incentive of producers to maintain high quality while tempting unsuccessful competitors to pass off their inferior brand as the successful brand.³⁰ Adopting a confusingly similar trademark by the inferior brand is a central concern of trademark law and so it provides remedies to discourage this practice.³¹ The court began its analysis by rejecting confusion as a factor, since "Perryman is

24. See *Ringling Bros.*, 170 F.3d at 461.

25. See *id.*

26. See *Eli Lilly & Co. v. Natural Answers, Inc.*, 233 F.3d 456, 468 (7th Cir. 2000); see also *Nabisco, Inc. v. PF Brands, Inc.*, 191 F.3d 208, 223 (2d Cir. 1999) (arguing that dilution does not require proof of actual loss of revenue).

27. See *Eli Lilly*, 233 F.3d at 468.

28. *Ty Inc. v. Perryman*, 306 F.3d 509, 514 (7th Cir. 2002).

29. *Id.* at 510.

30. *Id.*

31. *Id.*

not a competing producer of beanbag stuffed animals, and her Web site clearly disclaims any affiliation with Ty.”³²

However, the court did not let Perryman off the hook because federal law now provides a remedy against “dilution” of a “famous” trademark caused by commercial uses that take place in interstate or foreign commerce.³³ The court reasoned that because Ty’s trademarks are household words, and Perryman’s use of the words are commercial in nature and took place in interstate commerce, a dilution analysis is warranted.³⁴

The court outlined three possible types of dilution that are relevant to this case.³⁵ First, the court explained that if a trademark becomes “associated with a variety of unrelated products,” consumers will have to think harder to recognize the senior mark, and thus “blurring” would have occurred.³⁶ However, the court found that Perryman is not producing a product or service distinct from Ty’s product, rather she is selling Ty’s actual product, which cannot be done without using its brand name, or its trademark.³⁷ Therefore, the court found that no dilution by blurring has occurred.³⁸

Second, the court explained that “tarnishment” reduces the distinctness of a trademark by linking it to unrelated products of lesser prestige or in an unsavory context.³⁹ Again, the court held that there can be no rational argument for tarnishment when Perryman is selling Ty’s actual product.⁴⁰

Third, and most far-reaching in the scope of dilution is the concept of “free riding,” applicable when neither blurring nor tarnishment is found.⁴¹ The court explained that a junior user who benefits from the investment of the prestigious senior trademark owner by using the name in an isolated and unrelated market is still diluting the famous name even though the efficacy of the trademark as an identifier will not be

32. *Id.* at 510-11.

33. *Id.* at 511; 15 U.S.C. § 1125(c) (2000).

34. *Ty*, 306 F.3d at 511.

35. *Id.* at 511-12.

36. *Id.* at 511; *Mead Data Cent., Inc. v. Toyota Motor Sales, U.S.A., Inc.*, 875 F.2d 1026,1031 (2d Cir. 1989) (citing Dupont shoes, Buick aspirin, and Kodak Pianos as examples of blurring).

37. *Ty*, 306 F.3d at 512.

38. *Id.* at 512-13.

39. *Id.* at 511; *Hormel Foods Corp. v. Jim Henson Prods., Inc.*, 73 F.3d 497, 507 (2d Cir. 1996) (“[A] mark is tarnished when its likeness is placed in the context of sexual activity, obscenity, or illegal activity.”).

40. *Ty*, 306 F.3d at 512.

41. *Id.*

impaired.⁴² Although the court doubted the validity of this rationale and recognized that expanding antidilution law beyond blurring and tarnishment has not yet been articulated in the case law, the court nevertheless applied this rationale to the case analysis.⁴³ The court found that Perryman is not free riding on Ty's investment in its mark because, again, she is not dealing in an unrelated market.⁴⁴ The court concluded that Perryman could not possibly be blurring, tarnishing or free riding on Ty's investment in its mark; to say otherwise would be to find infringement of all sellers dealing in a trademarked good's aftermarket.⁴⁵

The court explained that Ty's argument for dilution is especially strained due to Ty's own marketing strategy.⁴⁶ Ty deliberately produces a limited quantity of each Beanie Baby, furthering the high demand by children, creating a secondary market, which in turn bids up scarce Beanie Baby prices to a "market-clearing level."⁴⁷ As a result of Ty's marketing strategy, the court found Perryman is the middleman in this secondary market and it is necessary for her to use "Beanies" to identify her business.⁴⁸

The court addressed Ty's next contention that the use of "Beanies" in Perryman's Web page, for advertising or otherwise, should be enjoined because Web search-engines do not stop with the Web address.⁴⁹ Thus, a consumer conducting a search for the word "Beanies" will be directed to Perryman's Web page.⁵⁰ While acknowledging that many firms value having a Web address that signals their product, the court disagreed that producers own their aftermarkets by virtue of trademark law.⁵¹ Therefore, the court concluded that Ty would not be authorized to impede Perryman, as a seller in Ty's aftermarket, from marketing the trademarked product.⁵²

42. *Id.* The court's hypothetical uses the "Tiffany" upscale jewelry store mark as the name of a restaurant located in Kuala Lumpur, where people who patronize the restaurant are unlikely to purchase goods from the jewelry store.

43. *Id.*

44. *Id.* at 512-13.

45. *Id.* at 512. The court analogizes Perryman's business to that of a used car dealer truthfully advertising that it sells Toyotas.

46. *Id.*

47. *Id.* at 512-13.

48. *Id.* at 513.

49. *Id.*

50. *Id.*

51. *Id.* *But see* Panavision Int'l v. Toeppen, 141 F.3d 1316, 1326 (9th Cir. 1998) (citing Intermatic Inc. v. Toeppen, 947 F. Supp. 1227, 1240 (N.D. Ill. 1996)) (arguing that dilution occurs in cyberspace when defendant's use "lessens the capacity of [plaintiff] to identify and distinguish its goods and services by means of the Internet").

52. *Ty*, 306 F.3d at 513.

Furthermore, the court presumed that Ty is seeking “an extension of antidilution law to forbid commercial uses that accelerate the transition from trademarks . . . to generic names.”⁵³ As a result, the trademark no longer functions and competition is undermined.⁵⁴ The court surmised that it is this danger of “beanies” becoming a generic name and subsequently casting about for a new trademark, that Ty is seeking to prevent.⁵⁵ Since “Beanies” is descriptive of the product they denote, the court pointed out that Ty’s product is especially at risk of becoming generic.⁵⁶

In concluding that such an extension of antidilution law is not permissible, the court addressed the public interest implications. The court acknowledged that although there is a social cost when a trademark becomes generic compelling the owner to invest in a new trademark, there is a larger social benefit because a new word is added to ordinary language.⁵⁷ Additionally, the court is concerned that arming trademark owners with the power to enjoin uses of their mark that threaten to render the mark generic will invite a flood of litigation.⁵⁸

Ty’s final contention is that twenty percent of Perryman’s products are not Ty’s products but are listed under the caption of “Other Beanies” on her Web page and should be enjoined.⁵⁹ The court agreed and supported the prohibition in the injunction against using “Beanie” or “Beanies” in connection with any non-Ty products.⁶⁰ The court reasoned that plain misdescription and false advertising warrant that part of the injunction, but concluded that “Ty has not demonstrated any basis for enjoining Perryman from using the terms in ‘any business name, Internet domain name, or trademark.’”⁶¹ The court then vacated the judgment and remanded the case back to the district court with instructions to reformulate the injunction in conformity with the rules announced in the decision.⁶²

53. *Id.* Words that started off as trademarks, but eventually lost their significance as source identifiers and instead became popular names of the product are described as generic.

54. *Id.*

55. *Id.* at 514.

56. *Id.* at 513-14.

57. *Id.* at 514.

58. *Id.*

59. *Id.*

60. *Id.*

61. *Id.*

62. *Id.*

IV. ANALYSIS

The Seventh Circuit reached a correct result by not extending antidilution law to prohibit commercial use that hastens the transition of trademarks to a generic state. The court was able to reconcile the conflict of trademark ownership, by not vesting the trademark owner with a property right in gross, and vesting in the public the benefits flowing from free and fair competition. The court's reasoning aligns with the intent embodied in the Lanham Act. The Lanham Act primarily seeks to prevent consumer confusion, which implies that granting property rights in gross to the trademark owner is not necessary, especially in the absence of any real harm.⁶³

While it appears that the court is limiting extension of the dilution doctrine, its proposal of "free riding" indicates that other such expansions may not be forbidden. By articulating an alternative rationale for dilution, beyond blurring and tarnishment, the court leaves open the possibility of recovery even when the trademark as an identifier has not been in any way impaired. The court asserts "free riding" as a rationale despite lack of precedent in other circuit courts; this implies that the court believes in greater owner protection in the mark itself—a property right in gross.

The court does cast doubt on an owner of a trademark recovering when someone takes a "free ride" on his or her investment in creating a prestigious name.⁶⁴ However, the court does so based on the inevitable fate of economics: the prestigious name owner will be unable to demand a substantial licensing fee when every prestigious name will essentially become a substitute for every other name in unrelated markets.⁶⁵ Hence, the court predicts that competition will drive the fee to zero.⁶⁶ The court does not lend credence to the undesirable effect of the "free riding" rationale enabling prestigious trademark owners to realize a property right in gross. Instead, the court rests its skepticism in "free riding" on the lack of monetary benefit to the trademark owner. Therefore, the court would be ready and willing to invoke "free riding," but only to the extent that the owner of the trademark can fully internalize the amount invested in the trademark. Thus, the court's view is consistent with the belief that trademark owners are entitled to protect their mark as property, on the same level as patent and copyright creators.

63. 15 U.S.C. § 1127 (2000).

64. *See Ty*, 306 F.3d at 512.

65. *See id.*

66. *See id.*

V. CONCLUSION

The court is inconspicuously asserting a biased policy in favor of the rights of trademark owners while overlooking the primary objectives of trademark law. The legislature should work to resolve this conflict by making clear the harm required before a trademark owner is able to recover under the Federal Trademark Dilution Act. Otherwise, the district courts will be empowered to award property rights in gross to trademark owners, while frustrating the fundamental objectives embodied in trademark law.

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