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"America thrives on competition; Barbie … will too"

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Mattel, Inc. v MGA Entertainment, Inc., Nos. 09-55673, 09-55812, 2009 US App. LEXIS 29187, US Court of Appeals for the Ninth Circuit, 22 July 2010.

Abstract
An overly broad constructive trust for the Bratz marks was overturned due to an improper ruling on summary judgment regarding the meaning of an employment agreement and other errors.

Legal context
'Who owns Bratz?', as Chief Judge Kozinski puts it, is what *Mattel, Inc. v MGA Entertainment, Inc.*, Nos. 09-55673, 09-55812, 2009 US App. LEXIS 29187 (9th Cir. 22 July 2010) is all about. In a protracted and contentious litigation, toy giants Mattel, maker of the iconic Barbie dolls, and MGA, maker of the upstart Bratz dolls, have been fighting over the ownership of the Bratz line of toys. The commercial implications of this dispute affect the billion euro empires of these giants and the availability of the Bratz line of toys to influence another generation of young women.

Facts
Under a 1999 employment agreement with Mattel, Carter Bryant, a Mattel employee, agreed 'to communicate to the Company as promptly and fully as practicable all *inventions* (as defined below) conceived or reduced to practice by me (alone or jointly by others) at any time during my employment by the Company. I hereby assign to the Company … all my right, title and interest in such *inventions*, and all my right, title and interest in any patents, copyrights, patent applications or copyright applications based thereon. [*Id.* at *7' (emphasis supplied in original).]

In August 2000 Bryant worked in the 'Barbie Collectibles' department of Mattel, where he designed fashion and hair styles for high-end Barbie dolls. During this time Bryant made a pitch to MGA for a new line of Bratz dolls, culminating in a meeting with MGA's CEO, Isaac Larian. At this meeting Bryant presented preliminary sketches of his proposed Zoe, Lupe, Hallidae and Jade dolls and a crude doll consisting of a Barbie doll body, Ken boots, and a doll head taken from a Mattel bin. Ultimately, the first generation of the Bratz doll line included Cloe, Yasmin, Sasha and Jade dolls. Other generations of Bratz doll lines followed.

In October 2000 Bryant and MGA entered into a consulting agreement. On the same day Bryant gave two weeks' notice to Mattel, where Bryant continued to work. During those two weeks Bryant also worked for MGA to develop the Bratz dolls, and was found by the jury to have created a preliminary Bratz sculpt.

While Bryant's role in the development of the Bratz line was initially kept secret, when it became public, a series of lawsuits were brought and consolidated into a single district court proceeding. The proceeding was broken into two phases, of which Phase I addressed the ownership issues over the Bratz line, while Phase II addressed the remaining issues.

As part of Phase I, the Court entered a summary judgment decision interpreting the 1999 agreement and providing that Mattel owned 'any doll or doll fashions [Bryant] designed during the period of his employment with Mattel.' (*Id.* at *17.) This decision rejected arguments by MGA/Bryant that, since Bryant did not work on the designs in question during his working hours at Mattel, Mattel did not own them, thus taking this issue away from the jury when it came time for the Phase I trial.

At the Phase I trial, the jury found:

1. Bryant thought of the 'Bratz' and 'Jade' names, and created the preliminary sketches and sculpt, while he was employed by Mattel.
2. MGA committed three state-law violations relating to Bryant's involvement with Bratz.

The jury issued a general verdict finding MGA liable for infringing Mattel's copyrights in Bryant's preliminary Bratz works. Although Mattel sought more than $1 billion in copyright damages, the jury awarded it only $10 million, or about 1% of the amount sought.

After the Phase I trial, the district court entered broad and sweeping equitable relief in Mattel's favour as follows:

1. As to the state-law violations, the district court imposed a constructive trust over all trade marks including the terms 'Bratz' and 'Jade', essentially transferring the Bratz trade mark portfolio to Mattel and prohibiting MGA from marketing any Bratz-branded product. This far-reaching remedy extended not only to dolls with the Bratz mark itself, but also to dolls using other related marks (*eg*, Bratz Boyz, Lil' Bratz, Bratz Lil' Angelz), doll accessories using other Bratz-related marks (*eg*, Bratz World House, Bratz Cowgirlz Stable, Bratz Spring Break Pool), video games, and even *Bratz* the movie.

2. As to the copyright claim, the district court issued an injunction prohibiting MGA from producing or marketing virtually any Bratz female fashion doll, as well as any future dolls substantially similar to Mattel's copyright Bratz works. Thus, the injunction covered not merely the original four Bratz dolls, but also subsequent generations of Bratz dolls (*eg*, 'Bratz Slumber Party Sasha' and 'Bratz Girlfriendz Nite Out Cloe') and other doll characters (*eg*, 'Bratz Play Sportz Lilee' and 'Bratz Twins Phoebe and Roxxi').

An interlocutory appeal to the US Court of Appeals for the Ninth Circuit followed.

Analysis

On appeal, the Ninth Circuit (per Chief Judge Kozinski) found that the district court made numerous errors, reversing and remanding the case for further proceedings.

First, the trial court erred in its interpretation of the 1999 employment agreement between Bryant and Mattel, which the Ninth Circuit found to be ambiguous and to raise triable issues of fact to be resolved by the jury. Secondly, the Ninth Circuit found, in any event, that the constructive trust entered by the district court was overly broad and an abuse of discretion.

Ambiguity of the 1999 employment agreement

A fundamental error underlying the district court's decision to issue a constructive trust for the Bratz related marks, according to the Ninth Circuit, was the district court's decision that as a matter of law, Mattel owned any ideas that Bryant conceived while he was employed by Mattel.

The Ninth Circuit found several flaws with the district court's contract interpretation.

First, it took issue with the district court's interpretation of 'inventions' which were to be assigned to Mattel under the Agreement, under which 'the term "inventions" includes, but is not limited to, all discoveries, improvements, processes, developments, designs, know-how, data computer programs and formulae, whether patentable or unpatentable' (*id.* at *7-8) and concluded that:

> "the agreement could be interpreted to cover ideas, but the text doesn't compel that reading. The district court thus erred in holding that the agreement, by its terms, clearly covered ideas. (*Id.* at *9.)"

The Ninth Circuit found that the district court's failure to consider extrinsic evidence on this point of ambiguity, which it understood to be conflicting, made the remaining conclusions erroneous, requiring that the decision be vacated and remanded to be readdressed, along with the other errors identified by the appellate court.

The Ninth Circuit also found as error the district court's conclusion that 'any time during my employment by the Company' unambiguously covers inventions created by Bryant during nights and weekends: 'It could easily refer to the entire calendar period Bryant worked for Mattel, including nights and weekends. But it can also be read more narrowly to encompass only those inventions created during work hours ("during my employment"), possibly including lunch and coffee breaks ("at any time").' (*Id.* at *17.) The Ninth Circuit noted contradictory extrinsic evidence to support either interpretation, concluding that '[t]he issue should have been submitted to the jury, which could then have been instructed to determine (1) whether Bryant's agreement assigned works created outside the scope of his employment at Mattel, and (2) whether Bryant's creation of the Bratz sketches and sculpt was outside the scope of his employment.' (*Id.* at *18-19.)

Overbroad nature of the constructive trust

The Ninth Circuit also held that '[t]he very broad constructive trust the district court imposed must be vacated regardless of whether Bryant's employment agreement assigned his ideas to Mattel.' (*Id.* at *10.) While the appellate court recognized that certain enhanced value of property held in a constructive trust should be awarded to its beneficiary, it also recognized that not all enhancements should be treated as such. In particular, the Ninth Circuit distinguished between enhancements such as appreciated value of an asset held in trust (which should be awarded to the beneficiary), and increased value associated with hard work and value added by the trustee (which should not be awarded to the beneficiary).

This distinction was illustrated by the following example:

> "If an artist acquired paints by fraud and used them in producing a valuable portrait we would not suggest that the defrauded party would be entitled to the portrait, or to the proceeds of its sale."

[*Id.* at *12 (cf. Janigan, 344 F.2d at 787).]

Applied to the Bratz example, the Ninth Circuit explained:

> "Even assuming that MGA took some ideas wrongfully, it added tremendous value by turning the ideas into products and, eventually, a popular and highly profitable brand. The value added by MGA's hard work and creativity dwarfs the value of the original ideas Bryant brought with him, even recognizing the significance of those ideas. We infer that the jury made much the same judgment when it awarded Mattel only a small fraction of the more than $ 1 billion in interest-adjusted profit MGA made from the brand. (*Id.* at *12-13.)"

The court summarized its holding by explaining the lack of equity imposed by the district court with its constructive trust:

> "It is not equitable to transfer this billion dollar brand— the value of which is overwhelmingly the result of MGA's legitimate efforts—because it may have started with two misappropriated names. The district court's imposition of a constructive trust forcing MGA to hand over its sweat equity was an abuse of discretion and must be vacated."

(*Id.* at *13.)

The copyright injunction

As a result of the improper contract interpretation, the Ninth Circuit also reversed the copyright injunction issued. Since on remand the jury may ultimately find in favour of Mattel's contract interpretation, the court found it 'prudent to address MGA's appeal of the district court's copyright rulings' (*id.* at *19), summarizing the points that Mattel needed to prove in order to win its copyright claim:

1. 'Mattel had to prove that it owned copyrights in the sketches and sculpt (it did).'
2. '[Mattel] had to show that MGA had access to the sketches and sculpt (obviously).'
3. '[Mattel] had to establish that MGA's dolls infringe the sketches and sculpt (the kicker).'

(*Id.*) With respect to the 'kicker', as the Ninth Circuit puts it, '[a]ssuming that Mattel owns Bryant's preliminary drawings and sculpt, its copyrights in the works would cover only its particular expression of the bratty-doll idea, not the idea itself. … Degas can't prohibit other artists from painting ballerinas, and Charlaine Harris can't stop Stephenie Meyer from publishing *Twilight* just because Sookie came first. Similarly, MGA was free to look at Bryant's sketches and say, "Good idea! We want to create bratty dolls too"' (*id.* at *19-20).

The Ninth Circuit explained the two-part 'extrinsic/intrinsic' test to distinguish between permissible lifting of ideas and impermissible copying of expression. First, the similarities between the copyrighted and challenged works are examined and then whether the similar elements are protectable or unprotectable is determined. Thus the unprotectable elements must first be filtered out to determine the protectable expression.

Ordinarily, if the challenged work is 'substantially similar' to the original work, the challenged work is considered 'infringing'. However, when 'there's only a narrow range of expression' available, the available copyright protection is considered 'thin' and the work must be 'virtually identical' to infringe.

Thus the question most often posed to juries is 'whether an ordinary reasonable observer would consider the copyrighted and challenged works substantially similar (or virtually identical)' (*id.* at *22). If so, then the challenged work is infringing.

With respect to the various Bryant designs, the Ninth Circuit directed as follows:

1. Doll Sculpt. The district court erred in affording broad protection against substantially similar works to the sculpt, and should have applied merely a 'thin' analysis based on 'virtually identical copying'.

2. Bratz Sketches. The district court did not err in affording the doll sketches broad copyright protection against substantially similar works, but did err, however, in failing to filter out all the unprotectable elements of Bryant's sketches from its analysis. The Ninth Circuit warned that 'Mattel can't claim a monopoly over fashion dolls with a bratty look or attitude, or dolls sporting trendy-clothing – these are all unprotectable ideas.' (*id.* at *30.) The Ninth Circuit took issue with the district court's reasoning because it appeared to be based on the improper finding that MGA's Bratz dolls were substantially similar simply because the dolls and sketches depict young, stylish girls with big heads and an attitude. Thus, the Ninth Circuit noted that while it might have been reasonable to hold that *some* of the Bratz dolls were substantially similar to Bryant's sketches, especially those in the first generation, it failed to see how the vast majority of the Bratz dolls – which had fashions and hair styles nothing like anything Bryant drew – could be found to be substantially similar.

Practical Significance

The Ninth Circuit concluded its analysis, explaining that 'America thrives on competition; Barbie, the all-American girl, will too' (*id.* at *34). Besides preserving MGA's control over at least a vast majority of the Bratz line of dolls, *Mattel v MGA* also provides useful guidance: on the scope of copyright protection that at least the Ninth Circuit provides to the original expressions of the human form in sculpts and drawings; on how seemingly clear contracts may nonetheless be perceived as ambiguous; and on the scope of equitable relief that may be granted to remedy a misappropriation.

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