



# Publications

## CASES OF INTEREST

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### IP/ENTERTAINMENT LAW WEEKLY CASE UPDATE FOR MOTION PICTURE STUDIOS AND TELEVISION NETWORKS

August 11, 2011

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#### **Perfect 10, Inc. v. Google, Inc.**, USCA Ninth Circuit, August 3, 2011

 [Click here for a copy of the full decision.](#)

- Ninth Circuit holds that Supreme Court's *eBay* decision applies in copyright cases and requires that plaintiff seeking preliminary injunction show irreparable harm, and concludes that plaintiff failed to establish it.

Plaintiff, operator of a subscription website featuring photos of nude models, sued and sought a preliminary injunction against Google, claiming that Google's search and archiving functions allowed users to circumvent the website's paywall and view the photos for free. Plaintiff also alleged that Google's copyright-infringement notification policy was itself infringing, because when Google receives a take-down notice alerting it to infringement on a website that can be accessed through its search engine, it forwards that notice to chillingeffects.org, a nonprofit website concerned with free speech on the Internet, which publicly posts the notice along with a link to the infringing website.

The Ninth Circuit affirmed the district court's denial of plaintiff's preliminary injunction motion. The court explicitly agreed with the Second Circuit decision in the case of *Salinger v. Colting*, 607 F.3d 68, 75, 79 (2d Cir. 2010 ) and held that the Supreme Court's reasoning in its decision in *eBay Inc. v. MercExchange, L.L.C.* applied equally to copyright cases as to patent cases, and required courts to inquire into the existence of, rather than simply presume, irreparable harm in copyright cases (as some courts, including the Ninth Circuit, had in the past). The court also held that this reasoning applied equally to both permanent and preliminary injunctions. Next, the court found that Plaintiff failed to establish irreparable harm, having submitted several affidavits from its founder that suggested that without an injunction, plaintiff would be forced into bankruptcy. The court found that plaintiff was never financially sound, did not establish that its inability to obtain an injunction would force it into bankruptcy and that it had failed to submit evidence that it was losing customers as a result of its content being freely accessible through Google.

#### **Mattel, Inc. v. MGA Entertainment, Inc.**, USDC C.D. California, August 4, 2011

 [Click here for a copy of the full decision.](#)

- After jury verdict in favor of MGA for improper misappropriation of trade secrets, district court denies Mattel's motion for judgment as a matter of law or for a new trial, and orders remittitur of \$88.5 million award to \$85 million to correct mathematical error and duplicate award by jury.



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After the second trial in litigation between Mattel, Inc., the maker of Barbie dolls, and MGA Entertainment, Inc., maker of Bratz dolls, the jury returned a verdict in favor of MGA on its counterclaim for misappropriation of trade secrets, finding that Mattel had misappropriated 26 trade secrets and awarding \$3.4 million for each trade secret, for a total award of \$88.5 million. MGA's claim arose out of the activities of Mattel's so-called "Market Intelligence" Group; a collection of employees dispatched to international toy fairs and directed to gather information from Mattel's competitors' private showrooms through the use of false pretenses. MGA alleged that Mattel misappropriated 114 trade secrets from private toy fair showrooms. The jury found that MGA had established that 40 of the 114 claimed trade secrets qualified as trade secrets under the California Uniform Trade Secrets Act (CUTSA) and, of those 40, Mattel had misappropriated 26 using improper means.

Mattel moved for judgment as a matter of law or, in the alternative, for a new trial, as well as for remittitur of the award, on the grounds, *inter alia*, that MGA had not shown that it took sufficient steps to protect its trade secrets and that MGA had not proven damages with respect to each separate trade secret allegedly misappropriated. The district court denied the motion for judgment as a matter of law and for a new trial, finding that the jury's verdict in favor of MGA was supported by the evidence. The court granted the request for remittitur and reduced the award to \$85 million dollars, finding that the jury had awarded MGA \$3.4 million twice for misappropriation of information related to the same product and had made a \$100,000 mathematical error.

The court rejected Mattel's arguments that MGA had failed to make reasonable efforts to maintain the secrecy of the claimed trade secrets, both generally and specifically, as to the 26 products and on a trade secret-by-trade secret basis. The court concluded that the factual record provided legally sufficient grounds for a reasonable jury to conclude that information about all 26 products at issue was subject to reasonable efforts to maintain secrecy. In evaluating whether MGA had satisfied its burden of proof as to a particular claimed trade secret, the jury was not required to "myopically restrict" its consideration to direct evidence about that particular trade secret, but rather could consider all of the evidence in the record. This evidence included information about (1) MGA's attempts to maintain the secrecy of other, similarly situated, trade secrets; (2) industry-wide practices like sign-in sheets and non-disclosure agreements at toy fairs; and (3) the extent and nature of Mattel's improper conduct in gaining access to the information.

The court likewise rejected Mattel's challenges to the jury's finding of damages from its misappropriation. The California statute provides that a claimant may recover the damages it suffers as a result of the misappropriation of its trade secrets as well as the difference in value between its damages and the misappropriator's unjust enrichment. Mattel argued that there was no evidence that Mattel designed any product on the basis of any of the 26 categories of misappropriated trade secrets and that the jury's damage award was based, at least in part, on the unreliable testimony of MGA's damages expert.

Noting that Mattel's argument was falsely based on the premise that MGA only attempted to prove that Mattel was unjustly enriched, and only by creating matching Mattel products, the court found that a reasonable jury could have concluded that MGA suffered actual damage as a result of the misappropriation, as well as unjust enrichment by Mattel. Specifically, the court noted evidence that established that misappropriation of advertising plans would lead to lost sales, lost profit and lost shelf space that would ultimately hurt MGA financially. Mattel could use advertising information to adjust their marketing plans and use freight on board pricing information to change their pricing. A reasonable jury could have concluded both that MGA suffered actual damage as a result of the misappropriation and that Mattel's unjust enrichment extended beyond



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profits from the sale of toys that matched MGA's unreleased products.

In support of its motion for a new trial, Mattel also argued that the \$88.5 million verdict rendered by the jury – \$3.4 million for the misappropriation of each of 26 categories of trade secrets — lacked evidentiary support. The court disagreed. While Mattel's actual use of the improperly acquired pricing, advertising and product development information was largely undocumented, MGA's expert witness testified that Mattel generated approximately \$3.4 million in profits from each instance of trade secret misappropriation. The jury's reliance on his testimony was proper, since the expert used sales data from a broad and representative cross section of Mattel MyScene products to reach conservative conclusions about the unjust enrichment that flowed from Mattel's acts of misappropriation. The court also instructed the jury that Mattel's independent contributions to the success of its products did not qualify as unjust enrichment and the expert's opinion included methods the jury could use to deduct those amounts.

The court granted Mattel's request to remit the damages award from \$88.5 million to \$85 million, finding that the jury had made a mathematical error that resulted in an award of \$100,000 more than the sum total of \$3.4 million for each of the 26 individual awards – or \$88.4 million. The court also remitted the \$88.4 million award to \$85 million, concluding that the jury may have twice awarded MGA a \$3.4 million recovery for the misappropriation of information about one product.

**Mattel, Inc. v. MGA Entertainment, Inc.**, USDC C.D. California, August 4, 2011

 [Click here for a copy of the full decision.](#)

- District court awards MGA attorneys' fees of more than \$105 million and costs of more than \$31 million as prevailing party under the Copyright Act.

In the ongoing litigation between Mattel, Inc., the maker of Barbie dolls, and MGA Entertainment, Inc., maker of Bratz dolls, the district court awarded MGA attorneys' fees of more than \$105 million and costs of more than \$31 million in connection with MGA's successful defense of Mattel's copyright claims. Mattel had claimed that virtually the entire line of Bratz dolls were infringing. The court found "compelling equitable reasons" to award MGA its attorneys' fees, including that MGA's successful defense had secured the public's interest in a robust market for trendy fashion dolls populated by multiple toy companies, not just Mattel or MGA. MGA's defense also moved copyright law in the direction of "free expression" by appealing to basic principles about the unprotectability of ideas, rather than technical defenses such as the statute of limitations, laches or the copyright registration requirements, a contribution to copyright law that, according to the court, cannot be understated. The court found that Mattel's claim for exclusive ownership of all female fashion dolls with a certain type of look, its claim for \$1 billion in damage and for injunctive relief against the sale of all Bratz dolls "was stunning in scope and unreasonable in the relief it requested. The claim imperiled free expression, competition, and the only serious competitor Mattel had faced in the fashion doll market in nearly 50 years. MGA's successful defense ensured that well-resourced plaintiffs cannot bend the law to suit their pecuniary interests." MGA's failure to vigorously defend against Mattel's claims in a case of such magnitude and notoriety "could have ushered in a new era of copyright litigation aimed not at promoting expression but at stifling the 'competition' upon which America thrives." The court also found that a fee award would ameliorate the lawsuit's detrimental impact on MGA's sales, as well as compensate for the economic benefit Mattel may have obtained by distracting its primary competitor with litigation.



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Section 505 of the Copyright Act allows for the award of full costs and reasonable attorney's fees to the prevailing party. Noting that the prevailing party is not always entitled to recover its costs, the court reasoned that that the exercise of its discretion in this case is guided by a single equitable inquiry: did the successful prosecution or defense further the purposes of the Copyright Act?

The court dismissed as "factually and legally incomplete" Mattel's argument that MGA's defense could not have furthered the purposes of copyright law because Mattel's underlying claim was reasonable. Acknowledging that a fee award would be inappropriate in cases involving reasonable claims if a successful defense did not further the purposes of copyright law, the court found objective unreasonableness was not a prerequisite to the recovery of costs. The court also indicated that it found Mattel's underlying claim – that MGA's reproduction of a doll with the look of a "girl with too much makeup on" must be remedied by damages of a billion dollars and injunctive relief — to be unreasonable. Mattel had claimed that the types and placement of features depicted in the concept sketches and sculpts were protectable because they made the dolls "look younger," despite well-established law that copyright protection does not extend to ideas, especially not ubiquitous ideas like young and fashionable females.

The court rejected Mattel argument that its claim could not have been unreasonable because the prior district court had granted the injunctive relief it sought. The fact that Mattel convinced a judicial officer to commit legal error further established the value of MGA's persistent defense, since MGA prevented that error from affecting the outcome of the lawsuit and setting poor precedent in the field of copyright. Likewise, the court dismissed Mattel's argument that its copyright claim did not offend the policies served by copyright law because some evidence did exist that supported its claim of ownership over the concept sketches and sculpts for the dolls, even though those claims were ultimately unsuccessful. Ownership is only one element of a successful copyright claim and even if a plaintiff's assertion of ownership is reasonable or even uncontested, its claim may still seek to stifle works that "build freely upon the ideas and information" in the public domain, and a successful defense against that claim would further the purposes of the Act. Mattel's over-aggressive copyright prosecution was exemplified not by its assertion of ownership over the copyrighted works but by its pursuit of grossly overbroad monetary and injunctive relief.

Finally, the court dismissed as irrelevant Mattel's argument that it filed its action in good faith, noting that a finding of bad faith, frivolous or vexatious conduct is not required for an award of costs. Had Mattel filed a meritorious copyright claim, but with a nefarious motive, MGA might not have been entitled to a fee award. The court concluded that Mattel's claim posed a serious threat to the public's access to free and competitive expression, and good faith could neither excuse the possibility that Mattel ignored decades-old principles about the unprotectability nor diminish the benefits society will reap as a result of MGA's successful defense.

The court awarded MGA the reasonable attorneys' fees it incurred in defending against Mattel's copyright claim and all the related claims, rejecting Mattel's argument that MGA was not entitled to an award for claims that were not frivolous, under the Supreme Court's decision in *Fox v. Vice*. Unlike fee awards in civil right cases like *Fox v. Vice*, where the purpose is to compensate defendants for the burden of fending off frivolous claims, fee awards in copyright cases reward a successful defense that enriches the general public through access to creative works. Fee awards in copyright cases should encourage



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defendants to litigate meritorious copyright defenses to the same extent that they encourage plaintiffs to pursue meritorious claims. Society's interest having defendants assert meritorious defenses against both reasonable and unreasonable copyright claims would best be achieved through the award of all fees incurred in connection with the claim and related claims involving a common core of facts or legal theories.

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For more information, please contact [Jonathan Zavin](mailto:jzavin@loeb.com) at [jzavin@loeb.com](mailto:jzavin@loeb.com) or at 212.407.4161.

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