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The Greatest Generation vs. Generation Y: Barbie® vs. Bratz® -- The Battle Continues

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On July 22, 2010, a panel of the Ninth Circuit Court of Appeals issued its opinion in *Mattel, Inc. v. MGA Entertainment, Inc. et al.*, 616 F.3d 904, 2010 WL 2853761 (9th Cir., July 22, 2010) – a closely-watched copyright and employment law case between Mattel and its competitor MGA Entertainment.

Proceedings before the Trial Court

MGA introduced the Bratz® line of dolls in 2001, and quickly grew the brand into a serious competitor to Mattel's Barbie® franchise – which had long dominated the market for fashion dolls in the United States. However, when Mattel learned that a former employee, Carter Bryant, had developed the Bratz concept and pitched it to MGA while still employed at Mattel, the battle between the competitors spread to the courtroom. Mattel sued MGA, Bryant and others alleging, among other things, that it owned the rights to the Bratz product line and that Bryant had breached his employment agreement by not assigning his concept to Mattel.

The trial court bifurcated the proceedings—Phase I dealt with the claims related to the ownership of Bratz. The trial court ruled that, as a matter of law, Bryant's employment agreement: (1) required him to assign his Bratz ideas to Mattel, and (2) applied to works Bryant created at any time while an employee whether or not the work was within the scope of his employment or used Mattel's resources. The jury found that MGA had violated various state laws and infringed Mattel's copyrights in the preliminary Bratz works, and awarded Mattel $10 million in copyright damages. The district court also imposed a constructive trust over all Bratz trademarks, and ordered MGA not to market any Bratz-branded product or any future dolls substantially similar to Mattel's copyrighted Bratz works. MGA immediately appealed.

The Appeal

A panel of the Ninth Circuit Court of Appeals vacated the $10 million verdict as well as the constructive trust and injunctions imposed by the trial court. The court held that:

- Bryant's employment agreement with Mattel did not unambiguously require that Bryant assign his *ideas* to Mattel, because "ideas" may be different than "inventions" as defined in the agreement. Based on the intrinsic evidence, and on extrinsic evidence the trial court did not consider, that remained an open issue and the trial court erred by holding otherwise.
- Even if Bryant's employment agreement *did* require him to assign his Bratz ideas to Mattel, and MGA had misappropriated those ideas, the broad constructive trust imposed by the lower court was an abuse of discretion. The panel ruled that, because the value of the Bratz properties had increased significantly since 2001 due to MGA's hard work, strategy, and marketing efforts, and because "the value added by MGA's hard work dwarfs the value of the original ideas Bryant brought with him" it was inequitable and an abuse of discretion to transfer the billion dollar brand to Mattel even if MGA "may have started [it] with two misappropriated names." On remand, the district court could impose a narrower trust if it properly determined that Mattel owns Bryant's ideas.
- The language of Bryant's employment agreement was ambiguous about whether it applied to works created off duty and without company resources, and some extrinsic evidence supported each side. Therefore, the district court had erred by granting Mattel summary judgment on these issues, which should have been submitted to the jury.
- Even assuming that Mattel owns Bryant's preliminary drawings and doll "sculpt," the district court erred by: (1) awarding the sculpt broad copyright protection (using the "substantially similar" standard rather than "virtually identical"), and (2) failing to properly filter out all of the unprotectable elements of the sketches and sculpt.

- Copyright protects a particular *expression* of ideas rather than the ideas themselves. Thus, the appellate court ruled that the trendy style and "bratty look or attitude" of the Bratz were unprotectable ideas which could not be used as evidence of "substantial similarity" between the dolls and Bryant's preliminary sketches. "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. But we fail to see how the district court could have found the vast majority of Bratz dolls . . . substantially similar -- even though their fashions and hair styles are nothing like anything Bryant drew – unless it was relying on similarity in ideas."

These rulings seem to have dealt a devastating blow to Mattel's case by severely limiting the scope of any injunction or constructive trust that it is likely to receive on remand even if it proves misappropriation and/or copyright infringement.

Practice Tips

Employers should draft their employment and non-competition agreements to be as explicit as possible. For example, if an employer wants to be sure it has the rights to its employees' intangible ideas, including those conceived and developed outside the scope of their employment, the agreement should expressly say so. Such agreements, however, must be drafted to comply with applicable state laws, and an employee would likely argue that the employer cannot enforce such an all-encompassing agreement.

The appellate opinion is worthwhile reading for anyone with copyright infringement cases where a constructive trust or an injunction for misappropriated work are an issue. The court sets forth an illuminating analysis of the equities and proper scope of constructive trusts, as well as the proofs required for a copyright injunction.