Litigation Alert

Ninth Circuit Reverses Broad Injunction Against Doll Manufacturer on the Basis of Employment Contract Interpretation and Thin Copyright

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Mattel v. MGA Entertainment, issued yesterday by the Ninth Circuit Court of Appeals, provides important lessons for drafting and interpreting employment and invention assignment agreements, clarifies the legal standards for examining similarity in copyright infringement cases, and provides guidance on the scope of equitable relief available in intellectual property cases.

FACTS AND BACKGROUND: BARBIE CAPTURES THE BRATZ

While he was employed at Mattel, Barbie fashion designer Carter Bryant approached Mattel's competitor MGA with the idea for a line of stylish dolls with exaggerated proportions called Bratz. MGA hired Bryant away from Mattel, but not before he had created preliminary sketches of the new dolls and a mannequin-like plastic doll form known as a "sculpt." The Bratz became wildly popular, spawning a billion-dollar product line of companion dolls, fashion lines, video games, and a movie.

When it learned of Bryant's involvement, Mattel sued MGA for copyright and trademark infringement, along with various state law claims, on the basis that Bryant's employment agreement assigned Mattel all rights in the Bratz name and Bryant's preparatory sketches and sculpt, which the subsequent Bratz dolls infringed. A jury ruled in Mattel's favor.

The Central District of California, in crafting equitable relief based on the jury's verdict, determined that Mattel was the rightful owner of the "Bratz" trademark and copyright in the sketches and sculpt. It imposed a constructive trust over all trademarks incorporating the "Bratz" name, prohibiting MGA from marketing any Bratz-branded product and effectively transferring the Bratz product line to Mattel. The district court also enjoined MGA from producing any doll that was substantially similar to Mattel's copyrighted Bratz works—which, it determined, included almost every Bratz doll on the market. As Chief Judge Alex Kozinski wrote, "In effect, Barbie captured the Bratz."

THE NINTH CIRCUIT REVERSES

Chief Judge Kozinski, writing for a unanimous panel, found three key errors in the decision below:

Contract interpretation

The Ninth Circuit began with the question of whether Bryant's employment agreement assigned his "Bratz" ideas to Mattel at all. The agreement assigned to Mattel all "inventions" conceived or reduced to practice "at any time during [Bryant's] employment." The panel found two ambiguities in this assignment, neither of which the district court had addressed. The agreement—as is common in many employment agreements—defined "inventions" as including, without limitation, "discoveries, improvements, processes, developments, designs, know-how, data computer programs and formulae, whether patentable or unpatentable." The Ninth Circuit held that it was ambiguous whether this list included "ideas." Although the list was not exclusive, the Court noted that ideas as ephemeral bursts of inspiration are markedly different from the concrete items in the list. Given this ambiguity, the district court should have considered extrinsic evidence about the meaning of "inventions." Further, the Ninth Circuit noted that, if such extrinsic evidence was conflicting, the question of whether the employment agreement reached ideas would have to be decided by the jury.

The Ninth Circuit also found an ambiguity in whether the Mattel employment agreement covered inventions developed in the employee's personal time. In the Agreement, Bryant assigned to Mattel inventions created "at any time during my employment by the Company." The Ninth Circuit found that the phrase "at any time during my employment" could refer to the entire calendar period Bryant worked for Mattel, including nights and weekends, or alternatively could be read more narrowly to cover only those inventions created during work hours. Again, because of this ambiguity, the district court should have considered extrinsic evidence as to the meaning of invention assignment agreement.

Constructive Trust Over the Bratz Brand

The Ninth Circuit also reversed the imposition of the constructive trust over the entire "Bratz" trademark portfolio as an abuse of discretion, because it attributed the entire value of the Bratz brand to the initial idea of the Bratz name and initial designs. Even if Bratz began with misappropriation, the Ninth Circuit observed that the now-substantial value of their trademarks owed to MGA's legitimate marketing and development: "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." Notably, in reaching this result, the Ninth Circuit referred to the jury verdict, which had awarding Mattel only a small fraction of the profit MGA had earned, to bolster its conclusion that 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."

Copyright Infringement

Because the jury verdict had left unclear which Bratz dolls the jury had found to be infringing, the district court made its own findings, concluding that the vast majority of Bratz dolls infringed. In reversing this order, the Ninth Circuit pointed to the importance of distinguishing between protectable expression and unprotectable ideas. In one of his characteristic nods to popular culture, Chief Judge Kozinski wrote: "[o]therwise, the first person to express any idea would have a monopoly over it. 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.'"

Turning first to the sculpt, the Ninth Circuit concluded that, because there was a limited range of possible ways to express the idea of a female doll with exaggerated proportions in a colorless mannequin, copyright in the sculpt was "thin," and could only be infringed by a "virtually identical" work. Accordingly, the district court had erred in applying a "substantial similarity" test for infringement.

The sketches, on the other hand, were entitled to the broad protection of the "substantially similar" standard, due to the wide range of possible expressions of a young, hip, complete doll. Nevertheless, the Ninth Circuit found that the district court also erred in failing to filter out all the unprotectable elements of the sketches before making its similarity comparison. The district court considered protectable the dolls' "particularized, synergistic compilation and expression of the human form and anatomy that expresses a unique style and conveys a distinct look or attitude"—in essence, permitting Mattel to claim ownership of the idea of dolls with a bratty attitude. The Ninth Circuit found this to be a "significant" error, and reiterated that "a finding of substantial similarity between two works can't be based on similarities in unprotectable elements." Just as Stephenie Meyer is free to use the idea of a vampire romance, so too are other dollmakers free to create bratty girl dolls. Although it was possible that some Bratz dolls infringed Bryant's preliminary sketches, that finding could not be based on the mere fact that both depict "young, stylish girls with big heads and an attitude."

PRACTICAL IMPLICATIONS

This decision reminds all employers of the importance of avoiding ambiguity in their invention assignment agreements. Agreements should be explicit as to what intellectual property belongs to the employer, especially in terms of the employee's non-work hours. California employers in particular will have to walk a thin line: to draft assignments that are clear and broad enough to capture the products of evenings and weekends without running afoul of California Labor Code § 2870, which voids such agreements when they purport to assign to an employer inventions that do not relate to the employee's work or the employer's business.

The decision also provides important guidance on the proper scope of injunctive relief, including the imposition of constructive trusts. The case adds extra ammunition to defendants who can credibly assert that their success owes to their own hard work and ingenuity. Plaintiffs who hope to eliminate competition by seeking overreaching injunctions should remember the closing line of Chief Judge Kozinski's opinion: "America thrives on competition; Barbie, the all-American girl, will too."

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