Mattel v. MGA: Much Bigger than Barbie and Bratz

Thomas G. Field, Jr.

As recounted in Mattel, Inc. v. MGA Entertainment, Inc., 616 F.3d 904, 907 (9th Cir. 2010) (Mattel), "Barbie was the unrivaled queen of the fashion-doll market throughout the latter half of the 20th Century. But 2001 saw [MGA's] introduction of Bratz…, an overnight success. Mattel, which produces Barbie… was particularly unhappy when it learned that the man behind Bratz was its own former employee, Carter Bryant."

After Mattel concluded that it had rights in the Bratz dolls, it sued Bryant for $35 million in 2004, reportedly settling for $2 million in 2008. Also a suit against MGA for more than $1 billion resulted in a 2008 award of $10 million and rights to "MGA's entire Bratz trademark portfolio." 616 F.3d at 910. The Ninth Circuit, however, upset those determinations because of errors in construing Bryant's contract. *Id.* at 910 and 913.

Now, a new three month trial has turned the tables. Mattel owes $88.4 million, subject to possibly tripling under Ca. Civ. Code § 3426.3(c), for misappropriation of trade secrets. That, too, is likely to be appealed.

Mattel and MGA are reported to have so far spent $400 million and $170 million, respectively. Meanwhile, Bratz products are said to occupy roughly 10% of their former shelf space, and sales have dwindled from $800 million to $50 million.

One notable aspect of the interlocutory opinion reported after the first trial is the appropriate scope of constructive trusts in such cases.

If property is transferred voluntarily and a bilateral expectation of payment established, the proper remedy is its agreed price or its fair market value. This is equally true of ideas, whether they be for toys, as in Nadel v. Play-by-Play Toys & Novelties, Inc., 208 F3d 368 (2d Cir. 2000); screen plays, as in Benay v. Warner Bros. Entertainment, 607 F.3d 620 (9th Cir. 2010); or a new scheme for issuing municipal securities, as in Apfel v. Prudential-Bache Securities, Inc., 81 N.Y.2d 470 (1993).

It may be difficult to measure recovery when ideas are voluntarily transferred, but it is more difficult when they are not. In the latter circumstances, injunctions (more or less equivalent to requiring that stolen property be returned) seem appropriate. Moreover, an accounting of profits may be required or a constructive trust be imposed to prevent unjust enrichment or to disgorge ill-gotten gains. Difficulties multiply when courts are as concerned about the plaintiff's as the defendant's unjust enrichment. Here *Mattel* may have the largest impact.

"Prior to [the first] trial, the district court held that Bryant's employment agreement assigned his ideas to Mattel, and so instructed the jury. What was left for the jury to decide was which ideas Bryant came up with during his time with Mattel." 616 F.3d at 909. Based on that, the jury awarded Mattel $10 million of $1 billion of profits sought for infringement of copyright in sketches prepared during that time. *Id*. at 908. The district court then prohibited MGA from selling "not just the original four dolls, but also subsequent generations." *Id.* Because the jury also found that Mattel had rights to the names "Bratz" and "Jade" and that MGA aided and abetted Bryant in breaching his agreement, "the district court imposed a constructive trust over all Bratz-related trademarks." *Id*. at 909.

The Ninth Circuit concluded that summary judgment on the scope of Mattel's rights to Bryant's sketches and ideas was improper. *Id*. at 917. It also concluded that the copyright injunction was too broad, saying, "we fail to see how the district court could have found the vast majority of Bratz dolls… substantially similar… unless it was relying on similarities in ideas." *Id*. at 917. Shifting from that to the names, the court says, "Even if Bryant did assign his ideas, the district court abused its discretion in transferring the entire Bratz trademark portfolio to Mattel. …. The district court may impose a narrower constructive trust on remand only if there's a proper determination that Mattel owns Bryant's ideas." *Id.*

More was at stake, however, than the infringement of copyright in crude sketches and the misappropriation of prospective brand names. Excluding some ideas from the copyright injunction was justified, but failing to include the same ideas with brand-related ideas potentially subject to a constructive trust would have been difficult had the district court addressed them there rather than improperly in the context of copyright infringement.

Still, the Ninth Circuit cautions, "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 911.

The court concludes by saying, "Nothing we say here precludes the entry of equitable relief based on appropriate findings." Whether a portion of interest-adjusted profit, past and future, might have been awarded for misappropriation of brand- or image-related ideas is unknown and likely to remain so, but it poses issues far more difficult than awarding compensation for freely-transferred ideas.