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Commercial Law Update

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The world's biggest catfight: Barbie v Bratz

Google "Bratz and MGA" and you get 6,070,000 hits, but do the same with "Barbie and Mattel" and you get 11,600,000.

This suggests that while the cheeky urban Bratz dolls had a moment in the sun earlier this century, particularly in the United Kingdom and Australia, it was not enough to knock Barbara (Barbie) Millicent Roberts off her perch as the world's fashion doll diva. Barbie is still the queen of her category, even at the advanced age of 52.

Barbie was modelled on the blonde German fashion doll "Bild Lilli" (herself based on a cartoon character from the German *Bild-Zeitung* newspaper). Lilli, who was first manufactured as a novelty item for men, was sold in Germany from 1955 (four years before the first Barbie was manufactured in the United States). Barbie's owner, Mattel, did eventually purchase the rights to Bild Lilli in 1964 and stopped her production. Mattel has, on Barbie's slender shoulders, gone on to become the world's biggest toy maker. Judging from the photographs below, Bild Lilli and the 1959 Barbie Mark 1 could be twins.



Bild Lilli, 1955-64



Barbie Mark 1 1959²

The above history, together with Barbie's continuing pre-eminence among children and collectors alike, makes it even harder to understand why Mattel has been waging a seven-year war³ against the company responsible for Bratz, a law-suit based on breach of copyright and misuse of trade secrets. MGA Entertainment (MGA) is, like Mattel, located in California, but is a relatively small toy company founded by Iranian immigrant, Isaac Larian.

Footnotes

¹ See, www.newamerica.net.

² See, www.dollreference.com.

³ Above note 1 – a suit was first filed by Mattel against its former employee Carter Bryant in April 2004.

The rise and fall of Bratz dolls

Bratz were launched in 2001⁴ by the (then) tiny MGA, and sales appear to have peaked in around 2005/6. The doll segment of the toy industry has continued to decline as a whole since the mid-noughties. This is thought to be attributable to girls spending more of their playtime online and on hi-tech devices, and also exacerbated by the post global financial crisis recession. Following the recession, MGA has brought out two new, more “low key” product lines, Moxie Girlz⁵ and Moxie Teenz.



This file product image, provided by MGA Entertainment, shows part of the 2010 collection of Bratz dolls.

The Barbie/Bratz litigation (so far)

Another reason for the development of the new lines was a 2008 victory by Mattel in the ongoing litigation between the two companies, after which it looked as though MGA was going to be forced to transfer the Bratz line to Mattel following a \$10 million jury verdict. (It should be noted, however, that Mattel had sought \$1 billion in copyright damages in the trial).

Phase 1

The jury for phase 1 of the claim (the question as to which company owned the Bratz dolls) had found that Carter Bryant (Bryant), a former Mattel employee, had developed the Bratz dolls while employed at Mattel, and that the Bratz dolls therefore breached Mattel’s copyright and the assignment provisions in Bryant’s employment contract with Mattel. The jury awarded the damages referred to above, and the court ordered the following equitable relief based on the jury’s findings:

1. a *constructive trust* in favour of Mattel over the entire Bratz trade mark portfolio; and
2. an *injunction* prohibiting MGA from producing and marketing virtually every version of the Bratz dolls, effectively handing the Bratz product over to Mattel.

The appeal court’s decision on the phase 1 case

MGA won an appeal from this verdict last year.⁶ Bryant was found during the trial to have pitched the idea for the Bratz dolls, and the names “Bratz” and “Jade”, and to have provided some sketches and worked on a sculpt (a model of the doll) for MGA in the period of August-October 2000, while he was still employed by Mattel.

Footnotes

- 4 The Bratz dolls and the (now discontinued) Mattel Diva Stars of 2000, and My Scene Dolls of 2002, all look very much like pop artist Lisa Frank’s female characters of magazine fame in the early 1990s. See www.youtube.com. I’m not sure what the current range of Mattel’s “Monster High” dolls look like.
- 5 See, www.newsday.com.
- 6 *Mattel Inc v MGA Entertainment Inc, Isaac Larian, Carter Bryant* 616 F3d 904,907 (9th Cir 2010).

The “ideas” versus the “inventions” – the constructive trust of the trade marks

The appeal court found that the lower court had erred in its instructions to the jury in construing Bryant’s contract as an assignment of all Bryant’s *ideas* when he was in Mattel’s employ, as well as his *inventions*, as defined in his contract.

The appeal court held that “ideas are markedly different from the listed examples” in Bryant’s contract of the term “inventions”, which were expressed to “include, but (not be) limited to, all discoveries, improvements, processes, developments, designs, know-how, data computer programs and formulae, whether patentable or unpatentable”, so that even though the examples given in the above definition were illustrative rather than exclusive, Bryant’s ideas for the Bratz line, and for the names “Bratz” and “Jade”, could not be included in the definition of “inventions” without consideration of extrinsic evidence as to the parties’ respective interpretation of what the term “inventions” included.

This part of the decision is in some way an exploration of the principle of interpretation known as “*Expressio unius est exclusio alterius*” (ie, the express mention of one thing excludes all others). In any event, even if it would have been correct to have included the ideas, the appeal court held the imposition of a constructive trust of the Bratz trade mark portfolio went too far, as it denied MGA the benefits of its own research and development in developing the Bratz line of products.

In the words of Kozinski CJ, “the value added by MGA’s hard work and creativity dwarfs the value of the original ideas Bryant brought with him, even recognising the significance of those ideas”. The judge also referred to the Bratz brand as having been built up through MGA’s “sweat equity”.

The sculpt and the sketches – the injunction

As mentioned above, Bryant also did some preliminary sketches and a sculpt of the new doll for MGA while still employed at Mattel, and the appeal court agreed that these did fall within the definition of “inventions” in his contract of employment with Mattel. However, the appeal court held that the lower court had erred in construing the words of Bryant’s contract on its plain language to mean that the assignment covered all works, whether created *inside or outside the scope of Bryant’s employment*, and that this was a question which the lower court should have asked the jury to consider, based on extrinsic evidence presented of what the parties understood by the use of the term “invention”. This finding vacated the copyright injunction, but the court went even further in its reasoning.

The sculpt

The appeal court also found that Mattel was only entitled to “thin” copyright protection against the copying of the sculpt – ie, the Bratz dolls had to be virtually identical to the sculpt in order to infringe copyright, not just be substantially similar, because “producing small plastic dolls that resemble young females is a staple of the fashion doll market” and therefore “the concept of depicting a young, fashion forward female with exaggerated features, including an oversized head and feet, is therefore unoriginal as well as an unprotectable idea”.⁷

The sketches

As far as the sketches that Bryant did for MGA were concerned, the problem was that, while substantial similarity was the correct standard to be applied, there were unprotectable elements in the sketches that the court should have eliminated from the comparison before making it.

In other words, the fact that the Bratz dolls were not substantially similar to the sketches (beyond the fact that they expressed the idea of making fashion dolls with a bratty look or attitude) meant that the Bratz dolls were *not* a breach of copyright in the sketches, they were merely substantially similar to the *ideas* that the sketches expressed.

Footnotes

⁷ Above note 6.

In vacating the equitable relief ordered by the lower court, the appeal court made several references in its judgement to the relatively small award of damages (\$10 million) the jury made compared to the amount being sought by Mattel (\$1 billion), and also stated that, because of the errors it had identified in the instructions to the jury, a significant portion of the jury verdict and damage award should be vacated, and that “the entire [phase 1] case will probably need to be re-tried”.

Phase 2

Mediation following the above appeal decision was unsuccessful in resolving the remaining claims and cross claims between the parties. Undeterred, Mattel ran phase 2 of the case for about three months earlier this year before a new jury, but in a verdict handed down on 21 April, the jury found overwhelmingly against Mattel and in favour of MGA's counterclaims in the suit.

The jury did agree with Mattel that MGA and Isaac Larian had induced Bryant to breach his employment contract, but only awarded Mattel \$10,000 in damages as a result – \$5000 to come from MGA and \$5000 from Isaac Larian. (Bryant had settled out of court with Mattel back in 2008).

In contrast, the jury awarded MGA over \$88 million in damages against Mattel for stealing MGA's trade secrets by, among other things, sending spies to toy fairs using false identification. Other unfair business practices that MGA had originally claimed Mattel had engaged in included cornering the market in Saran (or polyvinylidene chloride – PVDC), which is used to make both Barbie and the Bratz dolls' hair.

The wash up

The most recent episode in this epic battle is MGA's application on 25 May of this year to have the court award MGA \$177 million in punitive damages and \$162 million in legal fees and expenses, on the basis that Mattel's unrelenting attitude to the litigation has brought MGA to its knees, or as one of MGA's lawyers, Annette Hurst put it, “hundreds of people lost jobs, the company was nearly destroyed, the brand was nearly destroyed and the full amount sought by MGA at this hearing is just one step on the path to remedying that harm”.⁸

Mattel's counter to that argument is that MGA has not been successful on all its claims and there are actually many claims that it lost or were abandoned along the way, so it is not entitled to recover all its legal costs. It is notable that in awarding the \$88.4 million to MGA in damages in the phase 2 trial, the jury found that only 26 of the 114 trade secrets listed by MGA had been stolen by Mattel.⁹

The hearing on post trial issues is continuing, but one thing is clear – these opponents are likely to have been better off spending the \$200 million so far in legal costs (or the \$400 million, in Mattel's case) in developing a cool online Barbie (or Bratz) World for girls to play in, rather than slugging it out in court. As it is, it is noted the current (rather lame) Barbie World, located at BarbieGirls.com, closed on 1 June this year.

An opportunity missed? Barbie would surely not approve.

In the meantime, Mattel and its CEO, Robert A Eckert, has filed a motion to dismiss MGA's new antitrust, abuse of process and predatory pricing claims, to which MGA claims the “ninth circuit's ruling gave birth”.¹⁰

Footnotes

⁸ See, www.therepublic.com.

⁹ The jury's award of damages for each breach was \$3.4 million, which is how they arrived at the figure of \$88.4 million.

¹⁰ See, www.docs.justia.com.

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