
Nos. 09-55673, 09-55812

**IN THE UNITED STATES COURT OF APPEALS
FOR THE NINTH CIRCUIT**

**MGA ENTERTAINMENT, INC.,
MGA ENTERTAINMENT HK LTD., and ISAAC LARIAN,**

Appellants/Cross-Appellees,

vs.

MATTEL, INC., a Delaware Corporation,

Appellee/Cross-Appellants.

On Appeal from the United States District Court
for the Central District of California, DC No. 04-cv-9049 SGL (RNBx)
(Honorable Stephen G. Larson, Presiding)

**EXPEDITED APPEAL
REPLY AND ANSWERING BRIEF OF APPELLANTS/CROSS-APPELLEES MGA
ENTERTAINMENT, INC.,
MGA ENTERTAINMENT HK LTD., AND ISAAC LARIAN
(PUBLIC VERSION)**

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INTRODUCTION

Welcome to the world according to Mattel. It is a dismal dystopia, where:

- An employer can claim the ideas in an employee's head—even if the ideas have nothing to do with the employee's job; the employer does not consider the ideas proprietary; and the employer gave no written notice of any intention to co-opt ideas.
- The employer can claim not just the right to *know* those ideas, but the right to *own* them to the exclusion of all others, including the thinker himself, and the right to muzzle the employee from uttering a word about his own ideas.
- An at-will employee can be branded “disloyal” as a matter of law because he signs a contract for a better position before emptying out his desk, or because he gives two weeks' notice rather than leaving the employer high and dry, or because he does not alert his employer to his job negotiations and preparations.
- A business can be subjected to crushing tort liability for doing nothing more than excuting an agreement to work with a competitor's at-will employee.
- A court can order a transfer of the entire worldwide trademark portfolio from an upstart that spent hundreds of millions of dollars and eight years to build up the brand to a fierce monopolist whose only claim to the mark is that a low level employee thought up (but never used) the name during his tenure.
- The most powerful toymaker in history can claim a monopoly on features of dolls that have been part of the creative idiom and prior art for decades.

This monopolist-employer’s fantasy—which could only be imagined by a toymaker—is the world the District Court endorsed in this case. But this fantasy world is not sanctioned by law.¹

Ownership. In Mattel’s view, the assignment clause in the Inventions Agreement unambiguously assigns employees’ ideas to the employer even though: (1) it never mentions the word “ideas”; (2) Mattel does not contest that other versions of its agreement have expressly covered “ideas”; and (3) Mattel does not dispute that ideas cannot be property, which must mean that they are different from everything else on the list. Yet, Mattel never makes the one argument that it must make to vindicate its view as a matter of law on this preprinted form contract: that MGA’s reading of the clause is unreasonable (or even awkward or unnatural). The absence of any such argument dooms Mattel’s position.

Similarly, Mattel does not deny that it is *possible* to read the assignment clause to cover only ideas or designs developed in the course of doing one’s job—as opposed to every idea that pops into the employee’s head or every creative work the employee produces. Mattel admits that the expansive reading would be an “absurdity.” Resp. 27. So Mattel embraces it, but only subject to a “common-sense” limitation that bears no relation to the text of the clause. *Id.* Again, Mattel

¹ MGA’s supplemental excerpts of record are cited as “SAER.”

overlooks the point that MGA must prevail because it has proposed a reasonable reading, especially because it's the only reading that does not require any creative rewriting.

State law claims. Bryant's status as a fiduciary also depends upon Mattel's contract interpretation—*i.e.*, Mattel's insistence that the terms "position of trust" in the confidentiality clause is meant to communicate to each of the thousands of employees who sign it that they are undertaking the ultimate position of trust, replete with burdens and tort liability that courts have refused to impose on rank-and-file employees. But Mattel does not even suggest that it would be unreasonable for an employee reading those words to think that this is merely a commitment to be trustworthy.

On duty of loyalty, Mattel abandons the District Court's ruling, which was based on the patently false legal proposition that an employee who signs a contract with a competitor while still employed necessarily, and as a matter of law, violates his duty of loyalty. Instead, Mattel changes the subject, offering several fact-specific reasons why it believes Bryant violated his duty of loyalty—none of which were the basis for the District Court's decision, none of which constitute the requisite direct competition with Mattel, and all of which are disputed and therefore were not a basis for the summary judgment decision.

On tortious interference, Mattel concedes that the upshot of the District Court's instructions was to direct the jury that Mattel had "established that there was some disruption in Bryant's performance of the contract," Resp. 40 (emphasis omitted), simply because he "enter[ed] into a contract with MGA," 20ER 4364. But Mattel does not defend that instruction. And for good reason; the instruction is plainly wrong, because Bryant, as an at-will employee, had no obligation to turn down offers of better employment.

Copyright. Mattel's defense of the District Court's filtering process boils down to little more than the proposition that the District Court must have filtered correctly, because it announced that it was applying the "'appropriate dissection and filtration' analysis," Resp. 51 (quoting 5ER 1023-24), even though the District Court failed at every one of the three required steps. At the heart of Mattel's position is the proposition that the District Court had no obligation to consider various elements in isolation—*i.e.*, to dissect the work in question and run *specific elements* through the battery of filters—a position that defies what this Court has directed, and has done, time and again.

Constructive trust. Everyone agrees that a constructive trust is invalid unless Mattel points to a piece of *property* that MGA *wrongfully acquired*. The problem is Mattel and the District Court disagree as to what property was wrongfully acquired. The District Court said it was the idea for the name Bratz

(which is not property) and Mattel insists it was the trademark (which was not wrongfully taken). Either way, Mattel declines to address the weighty body of law prohibiting a court from imposing a constructive trust to grant a plaintiff the fruits of another's labor.

At every level, the District Court's injunctive orders have all the structural integrity of a house of cards, and Mattel's efforts to prop it up are about as effective as licking the joints to make them stick.

ARGUMENT

I. ALL EQUITABLE RELIEF MUST BE VACATED BECAUSE THE DISTRICT COURT ERRED IN HOLDING, AS A MATTER OF LAW, THAT MATTEL OWNED BOTH BRYANT'S DESIGNS AND HIS IDEAS JUST BECAUSE BRYANT CAME UP WITH THEM WHILE EMPLOYED BY MATTEL.

Mattel does not deny that it has quite a high hurdle to overcome. It is hard enough for Mattel to prove that it is *possible* to read the Inventions Agreement as it does. It is even harder for Mattel to prove that its proposed reading is so far superior to MGA's that Mattel can overcome the rule that "the contract should be interpreted most strongly against" it as the drafter. Cal. Civ. Code § 1654. But in contracts of adhesion like this preprinted Inventions Agreement, "*any* ambiguous provision should be resolved against the draftsman and in favor of the other party"—and not just "as a mere tie breaker." *Goddard v. South Bay Union High Sch. Dist.*, 144 Cal. Rptr. 701, 706 (Cal. App. 1978) (quoting *Steven v. Fid. & Cas.*

Co., 377 P.2d 284, 290 (Cal. 1963)) (emphasis added). OB 32.² So Mattel has to bear the downright Sisyphean burden of trying to prove that its reading of the contract is free from ambiguity—that no other interpretation is plausible. Mattel fails by a wide margin on both issues of contract interpretation.

A. The District Court Erred in Concluding That Ideas Were Unambiguously Within the Scope of the Inventions Agreement.

1. Mattel has failed to show, as it must, that its interpretation is the only plausible one.

On the question whether the Inventions Agreement must be read to cover “ideas,” Mattel left out the most important argument: that MGA’s reading of the contract is irrational—that the contract makes no sense unless it is read to cover ideas. The argument cannot be made. That should end the matter.

² This was a classic contract of adhesion, “a standardized contract, which, imposed and drafted by the party of superior bargaining strength, relegates to the subscribing party only the opportunity to adhere to the contract or reject it.” *Armendariz v. Found. Health Psychcare Servs., Inc.* 6 P.3d 669, 689 (Cal. 2000) (citation omitted); *Goddard*, 144 Cal. Rptr. at 706 (holding that a form employment contract was a contract of adhesion). Contrary to Mattel’s assertion (Resp. 25), there was no evidence that Bryant had the option to wordsmith his own personal assignment clause. All Mattel points to is evidence that a couple of *executives* (out of the thousands of employees who had signed the preprinted agreement) sought acknowledgment up front that they had *already* created certain works before joining Mattel, so that these would fall outside the immutable terms of what Mattel claimed to own. Notably, these executives did not change the terms of the Inventions Agreement. SER 305-09; 1SAER 93-100, 107-09, 171-75; *see also Bruni v. Didion*, 73 Cal. Rptr. 3d 395, 413 (Cal. App. 2008) (noting relevant inquiry is whether party could negotiate term at issue as opposed to other terms).

Mattel does not dispute that other versions of this agreement explicitly covered ideas. OB 29. But Mattel never explains why it would ever have needed to mention ideas in other versions if the contract automatically—and unambiguously—covered ideas without that reference. That alone exposes at least an ambiguity.

Mattel offers two arguments as to why the Inventions Agreement *should* be read to encompass an idea for a name (which is not the same as proving that it must be read that way). Both fail. The first argument is that an idea for a doll name is a “‘design,’ ‘improvement,’ or ‘know-how’ within the meaning of the Agreement.” Resp. 23. But the other Mattel agreements that included the term “idea” also enumerated “design,” “improvement,” or “know-how.” 12ER 2581M-Q, 26ER 6207A. That would have been unnecessary if “ideas” also qualified as “designs,” “improvements,” or “know-how,” or vice-versa.³

Mattel’s second argument is that “the Agreement expressly declares that the term ‘inventions’ *is not limited to* the enumerated items, but instead encompasses all ‘inventions ... conceived or reduced to practice’ by Bryant.” Resp. 23. That is

³ If Mattel’s point is that *sometimes* a name can be “an integral part of” a “design,” within the meaning of the Inventions Agreement (Resp. 23), the argument fares no better as a matter of contract interpretation. But it is also flawed for the separate reason that the question whether that standard of “integralness” has been met with respect to *these particular names* and *these particular designs*, is a factual point that the District Court could not resolve as a matter of law.

an argument for why it is possible to add *something* to the list. But it is not an argument for why it is necessary to add “ideas” to the list. It would not be appropriate (much less necessary) to add to the list an item that is different in character from all the items that are listed—as in, “designs, know-how, ... and *journal entries*.” See *Nygaard, Inc. v. Uusi-Kerttula*, 72 Cal. Rptr. 3d 210, 223-24 (Cal. App. 2008).

“Ideas,” generally—and “ideas for product names,” in particular—are good examples of such mismatched members of the class. To take the specific point first, an idea for a product name can ripen into a trademark, just as an idea for a drawing could ripen into copyrightable material and the idea for a device could result in a patent. The assignment provision mentions “patents” and “copyrights.” 23ER 5415 ¶ 2(a). It also mentions “patent applications” and “copyright applications.” *Id.* It does not, however, mention trademarks or applications for trademarks. If the drafters of this provision purposely excluded the fully ripened trademark, then surely they did not intend that a court would later insinuate into the list the inchoate idea for a trademark.

More generally, as the opening brief explained, ideas have a different status from all the expressly enumerated items. Every item listed can be treated as property. OB 29. In contrast, “California does not now accord individual property type protection to abstract ideas.” *Desny v. Wilder*, 299 P.2d 257, 265 (Cal. 1956);

see Weitzenkorn v. Lesser, 256 P.2d 947, 956 (Cal. 1953); BERNARD E. WITKIN, 13 SUMMARY OF CALIFORNIA LAW § 69 (“No Property Right”) (10th ed. 2005) (collecting cases).

The proposition that ideas *cannot be property* is so ingrained in California law that Mattel does not dispute it; in fact, later in its brief, Mattel acknowledges it. Resp. 42 n.13 (acknowledging, in a bit of understatement, that an idea is not “a full-blown property right”). Instead, Mattel tries to prove a completely different proposition—that “‘ideas’ are ... assignable under contract law.” Resp. 24. That is not the same thing. So the proposition does nothing to prove that ideas belong on a list reserved for property. In any event, the proposition is also wrong. Witkin captures the point in an entire entry entitled, “Rights in Ideas Nonassignable.”

13 SUMMARY OF CALIFORNIA LAW, *supra*, § 72 (collecting cases). That categorical rule stands in contradistinction to another rule (under the rubric “Transfer of Idea as Consideration”) “that the idea, though not property, has value, and may be consideration for an express or implied-in-fact contract, or a basis of recovery in quasi-contract.” *Id.* § 70. Every case Mattel cites falls in the latter category. *See* Resp. 24-25. These cases prove that if Mattel had told Bryant, “We will pay you \$10,000 if you’ll tell us a great name for our edgy new doll,” Bryant would be able to force Mattel to pay upon learning that they used the name he disclosed. But these cases do not support the proposition (and so far as we know, no California

case does) that Mattel could validly secure an *assignment* of an employee's ideas. In fact, in raising this assignability point, Mattel has accentuated yet another reason to reject its interpretation. Given two readings—one legal and the other illegal, or at least dubious—the plainly legal interpretation should prevail. *See Badie v. Bank of Am.*, 79 Cal. Rptr. 2d 273, 287 (Cal. App. 1998).

This particular effort to claim an assignment of ideas is especially questionable, because Mattel is not only claiming the right to force Bryant to disclose his ideas; it is claiming to own them *exclusively*—and not just to the exclusion of all others, but to the exclusion of the thinker himself. Any such notion was decisively rejected in *Summerhays v. Scheu*, 52 P.2d 512 (Cal. App. 1935). There, the owner of a business, purporting to be on the verge of retirement, made a deal to assign the plaintiff the most valuable assets of his business—certain patent applications involving various inventions for orchard heaters. *Id.* at 512-13. The buyer started a business using the inventions. To his surprise, however, the seller immediately reestablished a new competing business using the same inventions.

The court refused to prohibit the seller from continuing to use the inventions. *Id.* at 513. The court noted that it could “find no language” in the assignment provision of the contract that “*imposes any obligation upon [the seller] to refrain from the sale or use of the inventions in controversy.*” *Id.* (emphasis added). The

court found it improper to infer from the seller's conveyance of the inventions an exclusive right to use the inventions in the absence of an issued patent. To imply such exclusivity from a bare contractual assignment provision would run afoul of California's statutory policy against restraining individuals from engaging in their chosen trade. *Id.* (citing Cal. Civ. Code § 1673); *see* Cal. Bus. & Prof. Code § 16600 (successor to Cal. Civ. Code § 1673, prohibiting contracts that restrain anyone "from engaging in a lawful profession, trade, or business of any kind"); *Edwards v. Arthur Andersen LLP*, 189 P.3d 285, 290-92 (Cal. 2008) (confirming broad application of § 16600 to invalidate employee agreements with effect of restraining trade). Thus, even were it possible for Mattel to secure an assignment of all Bryant's ideas on a particular subject by clear contractual terms, it would be impermissible to do it by implication—particularly since the consequence would have been to prohibit Bryant from taking his own ideas with him as he left for another professional endeavor.

2. MGA repeatedly preserved its objection to the District Court's contract interpretation.

Contrary to Mattel's assertion (Resp. 21), MGA repeatedly preserved its position that the idea for the name was not encompassed by the Inventions Agreement. Bryant filed an opposition to Mattel's motion for partial summary judgment over whether the defined term "inventions" included ideas. CR 2506 at 21; CR 2540 at 8. MGA expressly joined the opposition, CR 2755 at 1, which

argued at length that: “By its plain terms, the Agreement does not encompass Bryant’s Bratz *idea*, sketches, and other material, because none of Bryant’s work was an ‘invention’ under the Agreement.” CR 2761 at 8 (emphasis added).

After Mattel came up with the argument that the Inventions Agreement assigned it the “idea for the ‘Bratz’ name”—which was not until the eve of trial, 14ER 2848—MGA renewed its objection. In discussing jury instructions, MGA argued: “The MGA parties would object to the use of the word ideas in the instruction, ... on the grounds that the contract does not provide or define the term ideas within it.... We would ask similarly and for the same reasons that the phrase idea for the name Bratz be stricken because the contract in the inventions agreement does not cover ideas.” 19ER 4223.

Short of chiseling its objections on the judge’s bench, there was nothing more MGA could have done to preserve. Nevertheless, Mattel contends that MGA waived the entire argument when it raised the point yet a third time—this time, in its “post-verdict motion for judgment as a matter of law ... under Fed. R. Civ. P. 50(b)” —but did so without having “rais[ed] it in its *pre-verdict* Rule 50(a) motion.” Resp. 21 (emphasis in original). When the District Court said that MGA “waived” the issue, it obviously meant only that MGA could not raise in a Rule 50(b) motion an issue that it had not addressed in the Rule 50(a) motion. 1ER 20. The District Court gave no indication that it meant that MGA’s decision to

mention the issue in its Rule 50(b) motion somehow erased all of MGA's prior objections, which would have been error. The District Court had already decided the issue of contract interpretation as a matter of law, and the decision to raise the issue again gratuitously could not have wiped out all the efforts MGA took to preserve the issue for review. *See Harper House, Inc. v. Thomas Nelson, Inc.*, 889 F.2d 197, 207 (9th Cir. 1989) (objection is preserved so long as "the party's position has previously been clearly made to the court and it is plain that further objection would be unavailing").⁴

B. The District Court Erred in Concluding That the Inventions Agreement Unambiguously Covers Designs and Ideas Conceived Outside the Scope of Employment.

With respect to the second interpretive issue, the relevant language of the assignment is succinct. It purports to assign to Mattel "all inventions ... conceived or reduced to practice by me ... at any time *during my employment* by the company." 23ER 5415 ¶ 2(a) (emphasis added). "During my employment" could have either of two meanings. It could be read expansively, as Mattel has read it, to mean that Mattel has claimed all inventions (including, according to Mattel, all ideas) that the employee has conceived "at any time" *throughout the duration* of

⁴ Mattel also argues that MGA waived the waiver issue on appeal by failing to mention it in its opening brief. Resp. 22. But it cites no authority for the proposition that a challenge to a frivolous assertion of waiver has to appear in a particular appellate brief.

his employment. Or it could mean, as MGA asserts, that the employer is laying claim only to those inventions that the employee conceived of “*in the course of*” his employment—*i.e.*, as part of his job responsibilities. OXFORD ENGLISH DICTIONARY 1134 (2d ed. 1989) (emphasis added).

There is no middle ground. If the expansive interpretation is correct, then the terms of the Inventions Agreement must mean that Mattel has laid claim to every idea that pops into the employee’s head, and everything the employee writes, draws, photographs, or makes during the period of his tenure. This is exactly what Mattel CEO Bob Eckert said it means, when he testified that he thought Mattel might own the songs written at home by one of its employees. 1SAER 130-32. Mattel now seeks to denounces its CEO’s interpretation as an “absurdity.” Resp. 27. In the end, Mattel scarcely challenges MGA’s interpretation, and tries to temper the absurdity of its own interpretation. Both efforts are unpersuasive.

1. Mattel’s argument against MGA’s interpretation is unpersuasive.

Here, again, the key argument is missing. Mattel does not suggest that MGA’s reading of the phrase “during my employment” is unreasonable as a matter of plain language. Nor does Mattel deny that MGA’s reading traces the contours of the Copyright Act’s work-made-for-hire doctrine, which, as Mattel acknowledges makes an employer the author of a work prepared by an employee within the scope of his or her employment, Resp. 29, and which would ordinarily

apply to the very sorts of designs and artistic works that are at issue here. OB 31-32. That, too, is a powerful reason to read the Inventions Agreement as MGA does.

Paradoxically, Mattel tries to turn that strength into a weakness. Mattel argues that this reading must be rejected because it would grant Mattel little more than it would receive anyway, by operation of law. Resp. 29. As an initial matter, it is not at all rare for a boilerplate employment agreement to alert employees to obligations imposed on them as a matter of law.

But in any event, Mattel is wrong. First, the Inventions Agreement applies to more than just copyrightable works, like Bryant's drawings. It applies also to patentable inventions, which are not subject to a work-made-for-hire doctrine. It also applies to "processes," "discoveries," and, in Mattel's interpretation, "ideas," all of which are beyond the scope of copyright protection. *See* 17 U.S.C. § 102(b). Second, even as to copyrightable works, Mattel has a compelling reason to adopt an assignment provision that mirrors the Copyright Act's work-made-for-hire protections: Mattel is a multinational corporation with business operations in many other countries, most of which do not recognize the work-made-for-hire doctrine. *See generally* WILLIAM F. PATRY, 7 PATRY ON COPYRIGHT § 24:31 (1st ed. 2007) ("One important relevant difference between many foreign laws and U.S. law is our work-made-for-hire provision, which vests copyright initially in the

employer as ‘author,’ a practice not generally followed in foreign countries.”). Thus, Mattel has form agreements explicitly adopting the work-for-hire doctrine (notwithstanding the redundancy with U.S. copyright law) and even agreements both reciting that doctrine *and* including an assignments clause like the one at issue here. 12ER 2581M-Q.

2. Mattel’s effort to moderate its expansive reading of the Inventions Agreement with an atextual limitation confirms that it was improper to adopt its reading as a matter of law.

If, as everyone now agrees, the expansive interpretation is an “absurdity,” Resp. 27, then the only plausible alternative is MGA’s interpretation. Mattel, however, proffers a third alternative—one that the District Court did not endorse. Mattel’s approach is to affix a codicil of sorts to the expansive reading. Mattel’s codicil is based on what it describes as “the common-sense understanding that would be attached to the language of this Agreement between a designer and a toy manufacturer.” *Id.* Mattel does not specify exactly what line can be etched by “common sense.” It offers two alternative formulations. In one version—let us call it the “doll-or-fashions codicil”—Mattel would “‘lay claim to Bryant’s rights to any *doll or doll fashions* he designed during his period of employment with Mattel.’” *Id.* (quoting 5ER 1074) (emphasis added). In the other version—call it, the “line-of-business codicil”—Mattel would claim to own any “subject that has an indisputably direct relation to a *principal Mattel line of business*” (which would

cover not only dolls and doll fashions, but board games, puzzles, rattles, toy cars, electronics, and just about any toy known to child). *Id.* (emphasis added).

Neither codicil bears any correlation to the language of the assignment clause. And Mattel does not invoke any other source of evidence or other authority that gives content to “common sense,” and, in particular, no principled reason to prefer these made-up limitations to the one proposed by MGA, which inheres in the plain language of the provision.

The only point Mattel musters in support of its atextual approach is that it is “consistent with California Labor Code § 2870.” Resp. 28. Under that statute, an employer may not seek to own an invention if (1) the employee created the invention on his own time; (2) he created it without the employer’s materials; and (3) the invention does not relate to the employer’s “business or its actual or demonstrably anticipated research or development.” Cal. Lab. Code § 2870. Other provisions require an employer to insert this exclusion into any contract that purports to require assignments. *See id.* § 2872. Mattel dutifully did that in the boilerplate Inventions Agreement Bryant signed, 23ER 5415 ¶2(c), which is why, as Mattel points out, the District Court found the Inventions Agreement consistent with § 2870.

The result of compliance with § 2872 is that the Inventions Agreement has a clause that looks sort of (but not exactly) like Mattel’s proposed line-of-business

codicil, but nothing like Mattel’s proposed dolls-or-fashions codicil. Mattel is careful not to say—and the District Court never found—that the statutory exclusion actually applies to the ideas and doll drawings at issue, thereby actually limiting the assignment clause in this instance. Instead, Mattel says only that the Agreement was “consistent with” and “complied with § 2870.” Resp. 28. The reason for the circumlocution is that this statutory exclusion does not apply to the drawings—and most assuredly does not apply to the ideas—that Mattel seeks to own under the assignment clause.

The statutorily induced term in the Agreement reads as follows: “Any provision in this agreement requiring me to assign my rights in any invention does not apply to *an invention which qualifies under the provision of Section 2870 of the California Labor Code.*” 23ER 5415 ¶2(c) (emphasis added). The ideas and drawings that Mattel claims to own do not “qualif[y]” as “inventions” *within the meaning of § 2870*—even if *Mattel* calls them “inventions” for purposes of its own broadly defined assignment clause. When the California Legislature intends to encompass a wider universe of intellectual property, it refers to “products of the mind.” Cal. Civ. Code §§ 980-89.⁵ Section 2870, in contrast, was more narrowly

⁵ This broad term may include “works of authorship,” “letters in composition and art,” and “inventions *or* designs.” *Id.* §§ 980(b), 982(b), 983, 984 (emphasis added).

drawn to define the minimum level of protection for *scientific* and *technical* inventors who happen to be employed. Thus, the Legislature declined to cover all “products of the mind,” “ideas,” “designs,” or “original works of authorship,” in favor of the much more limited term, “inventions,” and the legislative history is crawling with references to the United States Patent Act and technical subject matter—but is devoid of references to the Copyright Act or expressive subject matter that could be protected only by copyright laws.⁶ In light of this background, it is unsurprising that every single case applying § 2870 (or analogs from other states) has involved technical or scientific subject matter—not mere ideas and not expressive drawings.⁷

⁶ See, e.g., SAER 270, Bill Digest prepared for Assembly Committee on Judiciary, May 17, 1976 (“[t]he bill applies to patents made in an employment capacity”); SAER 275, Letter from the Legislative Counsel of California (Mar. 29, 1976) (opining that proposed legislation would not be preempted by the Patent Act, without any mention of the Copyright Act); SAER 280, A.B. 474 Statement, Assembly Committee on Labor, Employment & Consumer Affairs (Mar. 20, 1979) (§ 2870’s author says it “guarantees patent rights to employed inventors” with no mention of copyrights).

⁷ See *IpVenture, Inc. v. Prostar Computer, Inc.*, 503 F.3d 1324, 1326 (Fed. Cir. 2007) (management of computer systems); *Eaton Corp. v. Giere*, 971 F.2d 136, 137 (8th Cir. 1992) (device related to hydrostatic transmission device); *Applera Corp. v. Illumina Inc.*, No. C 07-02845 WHA, 2008 U.S. Dist. LEXIS 5719 at *3-5 (N.D. Cal. Jan. 17, 2008) (DNA sequencing); *Cadence Design Sys., Inc. v. Bhandari*, No. C 07-00823 MHP, 2007 U.S. Dist. LEXIS 83078 at *12, *20-21 (N.D. Cal. Nov. 8, 2007) (electronic design automation tool); *Silicon Graphics, Inc. v. ATI Techs., Inc.*, No. 06-C-611-C, 2007 U.S. Dist. LEXIS 43782 at *9-11 (W.D. Wis. June 14, 2007) (advanced graphics processing technology); *Rita*

The upshot is this: Nothing in the Inventions Agreement supports Mattel's effort to engraft any codicil at all to save its reading from "absurdity." The assignment clause does not, and the statutory exclusion dictated by § 2872 does not. So Mattel's approach presents the Court with a choice: (1) MGA's reading, which is perfectly reasonable and also has the virtue of consistency with the prevailing law on work-made-for-hire; versus (2) the expansive reading, which is absurd unless tempered by a "common-sense" codicil that is untethered to any contract language.

Given this choice, the District Court should have adopted MGA's reading as a matter of law, particularly in view of the rule that ambiguities should be interpreted against Mattel. At a minimum, the District Court should have

Medical Sys., Inc. v. Resect Med., Inc., No. C 05-03291 WHA, 2007 U.S. Dist. LEXIS 7810, at *4-8 (N.D. Cal. Jan. 17, 2007) (medical devices); *Enreach Tech., Inc. v. Embedded Internet Solutions*, 403 F. Supp. 2d 968, 971-72 (N.D. Cal. 2005) (software for embedded internet browser products); *VEC Tech., L.L.C. v. Acrylon Plastics, Inc.*, No. 04-3086 (DWF/JSM), 2004 . LEXIS 23161 at *6-7, *10, (D. Minn. Nov. 12, 2004) (Rapid Adjustment Molds technology); *Waterjet Tech. v. Flow Int'l Corp.*, 996 P.2d 598, 600-02 (Wash. 2000) (milling technique using high pressure water jet; defining Washington's comparable statute as "a remedy to employees subjected to an overreaching *patent assignment*" (emphasis added)); *Lewis v. Am. Airlines*, 678 N.E.2d 728, 732 (Ill. App. 1997) (applying comparable Illinois statute entitled the "Employee Patent Act" to an invention of a flexible tractor door); *Cubic Corp v. Marty*, 229 Cal. Rptr. 828, 830-34 (Cal. App. 1986) (electronic warfare simulator).

The same goes for the case Mattel cites. Resp. 28 n.8 (citing *Iconix, Inc. v. Tokuda*, 457 F. Supp. 2d 969 (N.D. Cal. 2006)). Although it does discuss copyright law, it involved software, which is also patentable.

entertained extrinsic evidence that would have fleshed out what “common-sense understanding ... would be attached to the language of this Agreement between a designer and a toy manufacturer,” Resp. 27—or allowed the jury to determine the disputed factual question. *See Pac. Gas & Elec. Co. v. G.W. Thomas Drayage & Rigging Co.*, 442 P.2d 641, 645-46 (Cal. 1968). The only route that should have been foreclosed was the one the District Court chose—to conclude that Mattel’s reading (with or without the atextual limitation) was the only plausible reading and adopt it as a matter of law.

II. THE CONSTRUCTIVE TRUST MUST BE VACATED BECAUSE THE STATE LAW VERDICTS ON WHICH IT IS BASED ARE INVALID.

A. The District Court Erred in Directing, as a Matter of Law, That Bryant Became a Fiduciary Merely by Signing a Boilerplate Confidentiality Agreement.

Mattel agrees on (or at least does not contest) four key points about the District Court’s ruling that Bryant was a fiduciary as a matter of law:

1. Bryant did not become a fiduciary just by virtue of either his position as a designer or his access to confidential information. OB 34; Resp. 31.⁸

⁸ Mattel plays up this point, Resp. 32, yet makes the curious decision to begin its argument by pointing out that Bryant was a “designer,” which is “a position involving regular access to confidential information.” Resp. 31. Mattel does not contest that every employee who came to work at Mattel’s El Segundo Design Center—thousands of employees in all, with a variety of job titles—signed the same Inventions Agreement with the same confidentiality clause. OB 14 (citing record). Presumably, the contract means the same thing for all of them.

2. Whether Bryant became a fiduciary at all depends on whether the words in the Inventions Agreement established, beyond dispute, that he knowingly undertook the status of a fiduciary. OB 35; Resp. 31.
3. Signing a standard confidentiality agreement memorializing the agreement to keep information confidential does not give rise to a fiduciary duty. OB 37-38.
4. California law resists imposing fiduciary duties on rank-and-file employees or reading fiduciary duties into boilerplate contracts. OB 35.

Thus, the question of contract interpretation boils down to a simple choice: Is ¶ 1 of the Inventions Agreement just a basic confidentiality agreement (which everyone agrees does not create fiduciary obligations)? Or has Mattel demonstrated that this provision is a whole lot more—that it unambiguously communicates the signatory’s knowing assumption of the heightened obligation of a fiduciary, with duties more fulsome and obligations and liabilities far graver than those that ordinarily attach to a confidentiality agreement? Here, again, since this is a question of contract interpretation, any doubt as to the answer must be resolved against Mattel. *See supra* at 5-6 & n.2.

Perhaps the most powerful answer to the question lies in how Mattel described the provision in question. One would expect a provision that imposes such ponderous duties to call itself “Fiduciary Duties” or “Heightened Obligations & Liability.” But the Inventions Agreement Mattel drafted labels it “Provisions Related to Trade Secrets,” which bespeaks a standard confidentiality clause. 23ER 5415.

The Trade Secrets Provision also quacks like a confidentiality agreement. Like the typical confidentiality provision, this one: (1) "acknowledge[s] that the Company possesses and will continue to develop and acquire valuable ... [i]nformation"; (2) defines the scope of the confidential information (here, "Proprietary Information," which is equivalent to trade secrets); (3) "acknowledges ... that [t]he value of that ... [i]nformation depends on it remaining confidential"; (4) promises "to maintain that confidentiality"; and (5) specifies that that promise means that the employee "will not disclose or use [the information] at any time except for the exclusive benefit of the Company as required by my duties for the Company." 23ER 5415; *see* TRADE SECRETS PRACTICE IN CALIFORNIA, CEB §§ 6.17 to 6.20 (2d ed. 1996) (providing template confidentiality agreement with all these features).

According to Mattel, its Trade Secrets Provision is different from the typical confidentiality clause because it says, "I accept that position of trust," 23ER 5415 ¶ 1(a), and alerts the employee that "this agreement creates important obligations of trust," 23ER 5415 (capitalization omitted). But terms like that are common in standard confidentiality clauses. *See* ADVISING CALIFORNIA EMPLOYERS AND EMPLOYEES §§ 11.75 to 11.80-2 (Cal. CEB 2009) (including "Duty of Trust and Confidentiality" in template confidentiality agreement).

Moreover, Mattel has not responded to MGA's point that the only natural reading of the words "I accept *that* position of trust" is to refer back to the antecedent of "that," which is the need "to maintain that confidentiality." OB 36-37. Nor has Mattel explained how this phrase could convey unambiguously to *every* rational employee that he is taking on the *ultimate* duty of loyalty, rather than simply confirming that he is worthy of trust.

Beyond that, Mattel also notes that the Inventions Agreement elsewhere states that the employee "will not use ... any Proprietary Information except for the exclusive benefit of the Company as required by my duties for the Company." 23ER 5415 ¶ 1(c). Mattel reads this clause as proof that Bryant "entered into the contract 'with the view of acting primarily for the benefit of [Mattel].'" Resp. 34. Hardly. An employee who promises to use an employer's property only for the employer's benefit is just conveying the obvious point that main the reason to keep information confidential is so that only the employer can use it. That is why standard confidentiality clauses often acknowledge that the employee will not use confidential information "except for the benefit of Employer." TRADE SECRETS PRACTICE IN CALIFORNIA, *supra*, § 6.20 at 2 (recommending such language); ADVISING CALIFORNIA EMPLOYERS AND EMPLOYEES, *supra*, § 11.76 (same).

In the end, Mattel's assertion that the Trade Secret Provision created a "limited" "'fiduciary duty vis-à-vis [a party's] confidential information,'" Resp. 31

(quoting 5ER 1063), is nothing but a way to turn every breach of a contractual confidentiality agreement into a tort, which is impermissible. *See Erlich v. Menezes*, 981 P.2d 978, 983-85 (Cal. 1993). Tellingly, Mattel offers no response to the point that, under California law, “it makes sense *not to impose fiduciary duties concomitantly with confidentiality agreements.*” *City Solutions, Inc. v. Clear Channel Commc’ns, Inc.* 201 F. Supp. 2d 1048, 1049 (N.D. Cal. 2002) (quoted at OB 37-38) (emphasis added).

If Mattel wishes to defy the settled expectations of armies of rank-and-file employees and convert them into fiduciaries, it must do it clearly; it cannot just announce that there are “obligations of trust,” and send them on a treasure hunt sifting the contract’s words to guess what they are and what they mean. *E.g., Comm. on Children’s Television, Inc. v. Gen. Foods Corp.*, 673 P.2d 660, 676 (Cal. 1983) (finding that a party must *knowingly* agree to act as a fiduciary for a contractual fiduciary relationship to arise).

Which brings us back to the ramifications of Mattel’s position. Mattel unpersuasively contests the argument that “the district court’s ruling here will lead to the ‘extraordinary’ conclusion that untold thousands of ‘rank-and-file employees’ must act for their employers’ benefit.” Resp. 35 (quoting OB 35-36, 38). While it might be technically accurate to say that “[t]he court simply analyzed the specific language of *this particular Agreement* between Mattel and *one* of its

designers,” Resp. 35 (emphasis added), the undisputed reality is that this one designer signed the same preprinted agreement as thousands of other Mattel employees. More broadly, if Mattel can convert these droves of employees into fiduciaries simply by sprinkling words like “position of trust” and “exclusive benefit” into a barely legible preprinted form, then every other employer in the country can do the same on orientation day with every employee.

B. The District Court Erred by Directing, as a Matter of Law, That Bryant Breached His Duty of Loyalty (and Therefore His Fiduciary Duty) Merely by Signing a Contract With MGA.

1. The focus of the District Court’s ruling, and of the jury verdict, was on Bryant’s signing of a contract with MGA, not on the other conduct Mattel accuses of disloyalty.

There is no dispute that the District Court directed the jury that “[a]s a matter of law, Mr. Bryant breached his duty of loyalty to Mattel” with one simple act: “[w]hen he entered into a contract with MGA, Mattel’s competitor, while still employed by Mattel, to produce a line of fashion dolls to be marketed in competition with Mattel’s products.” 20ER 4367. To defend this ruling, Mattel would have to explain not only how an employee could *ever* breach his duty of loyalty merely by committing that act, but why an employee *necessarily* breaches his duty of loyalty, as a matter of law, by doing so.

Mattel offers no such defense—which should be no surprise, because Mattel never took that position below either. Instead, Mattel changes the subject. It

focuses on disputed facts that were not the basis of the District Court’s ruling—what Mattel characterizes as the “ongoing disloyal relationship between Bryant and MGA that was” supposedly “in existence well before he left Mattel.”

Resp. 36. Mattel refers to “work” that it claims “Bryant performed ... for MGA both *before* and *after* formally signing his MGA contract.” Resp. 37 (emphasis added). It invokes purported payments by Mattel on invoices that predated the signing of the contract and what it characterizes as an “email chain regarding pay for Bryant for work done since September 2000.” Resp. 37. And it highlights a purported “key design drawing for the Bratz doll sculpt,” produced after Bryant signed the contract but before the end of his two-week notice period. Resp. 37.

Even accepting for the moment Mattel’s (highly disputable) factual characterizations, the simple point is that not a single one of them supports the District Court’s holding and direction to the jury. According to the jury instructions, Bryant violated his duty of loyalty as a matter of law not by conduct he committed before or after signing the contract, but only by the act of signing itself. Mattel cannot change that inconvenient reality by choosing to characterize the contract as simply “memorializ[ing] an ongoing disloyal relationship that was in existence well before [Bryant] left Mattel,” Resp. 37, especially since the contract is about the future collaboration and “memorializes” nothing about the past.

Even if it were appropriate to peer beyond the actual basis for the District Court's ruling and the jury's verdict, the effort would be unavailing, because both the facts and the implications to be drawn from them were subject to dispute. 1SAER 2-4. To take an example, MGA disputed that the design process was anywhere near as advanced as Mattel portrayed it, and contested that any particular drawing was "key." *Id.* MGA would not characterize the "email chain" as "regarding pay for Bryant for work done since September 2000," Resp. 37, since the chain ended with Larian's command to pay him "from the date he signed the contract," SER 677, which was on *October* 4. 18ER 3988, 23ER 5414. While it might not be sanctionable for Mattel to say that "Bryant's formal signing of a contract" was "weeks before he left Mattel," Resp. 37, it would be quite a bit more candid to say that it was *two* weeks. A jury was surely entitled to conclude that loyalty to Mattel is what compelled Bryant to stay those two weeks rather than walking out the door without transition the moment before signing the contract. 18ER 3989-90.

2. Neither signing a contract nor Bryant's other conduct justifies directing a verdict on disloyalty.

Mattel agrees that Bryant could not be held liable merely for making "preparations to compete." Resp. 36 (quoting *Huong Que, Inc. v. Luu*, 150 Cal. App. 4th 400, 414 (2007)); *see* OB 40. Mattel failed to establish that no reasonable juror could view Bryant's conduct as "preparations to compete."

The conduct that the District Court singled out—the signing of a contract with a view toward competing with Mattel—unquestionably qualifies as mere “preparation[s] to compete.” OB 41 (citing *Mamou v. Trendwest Resorts, Inc.*, 81 Cal. Rptr. 3d 406, 433-34 (Cal. App. 2008)); *see also Reeves v. Hanlon*, 95 P.3d 513, 517-18 (Cal. 2004) (solicitation and hiring of employees from current employer not actionable). Mattel does not argue otherwise.

The other conduct Mattel highlights also falls within the rubric of “preparations to compete”—and certainly cannot be placed outside that rubric as a matter of law. Drawing and commenting on designs, scavenging for hair samples, and shopping for fabrics were all quintessential preparations to develop a doll that would not directly compete with Mattel for more than half a year. While emphasizing that there are “no ironclad rules as to the type of conduct that is permissible,” Resp. 38 (citation, internal quotes, and brackets omitted), Mattel nevertheless takes the ironclad position that any reasonable juror confronting this scenario would have to reach the conclusion that this conduct extends beyond mere preparation. This is nothing but antithesis masquerading as analysis.

In arguing otherwise, Mattel rejects MGA’s argument that permissible plans to compete do not cross the line into an impermissible breach of the duty of loyalty unless the employee actually engages in ““direct competition”” with the employer in the marketplace. OB 40 (quoting *Eckard Brandes, Inc. v. Riley*, 338 F.3d 1082,

1085-86 (9th Cir. 2003), but mistakenly attributing quote to *Bancroft-Whitney*).

But Mattel does not point to a single case in which: (1) a court allowed a duty-of-loyalty claim even to go to the jury (much less established it as a matter of law); and (2) the employee had not competed with the employer in the marketplace.

Mattel's featured case, *Huong Que*, only confirms the line MGA proposed. There, the court recognized that, under the rubric of "preparations to compete," an employee is "entitled to discuss *the formation* of [a competing business]" and possibly even to plan eventual employment with that entity, 58 Cal. Rptr. 3d 527, 540—which is all Bryant did. The employees in that case crossed the line by *entering the marketplace* and actively soliciting the company's customers for the competing company while still employed. *Id.* The active solicitation of customers is no longer a "preparation to compete" because it is doing immediate harm to the current employer. That was what the court meant when it said that "[t]he duty of loyalty is breached ... 'when the employee *takes action* which is inimical to the best interests of the employer.'" *Id.* (quoting *Stokes v. Dole Nut Co.*, 48 Cal. Rptr. 2d 673, 680 (Cal. App. 1995)) (emphasis added).

Mattel simply ignores the point, when it argues that Bryant was *making plans* that would be "inimical to the best interests of the employer" *once consummated*. Resp. 36 (quoting *Huong Que*, 150 Cal. App. 4th at 414). *Any* plan to compete with an employer is "inimical to the best interests of the employer"

once consummated. But no unconsummated plan has ever hurt an employer. Mere planning, however ambitious, is not the same as “taking action.” *See Diodes, Inc. v. Franzen*, 67 Cal. Rptr. 18, 25 (Cal. App. 1968) (finding that there was no claim for breach because there was no showing of detriment to employer).

Mattel protests that this yields the “illogical” result “that an employee of one company may freely perform services for a competitor ... so long as the competitor has not yet brought the ultimate product to market.” Resp. 37-38. If the services are all in preparation to compete, that is not at all illogical. It is perfectly consistent with California’s strong public policy against any restraints on employee mobility. *E.g.*, Cal. Bus. & Prof. Code § 16600. In fact, the Restatement (Second) of Agency takes Mattel’s (supposedly extreme) example one step further: In codifying existing law, it explains that “before the end of [an employee’s] employment, he can properly *purchase a rival business* and upon termination of employment *immediately* compete.” RESTATEMENT (SECOND) OF AGENCY § 393, cmt. e (emphasis added). If an employee can actually *be* the competitor-in-waiting, then certainly he can “perform services for” it.⁹

⁹ MGA explained in the opening brief that if the duty of loyalty claim falls, then the fiduciary duty verdict must fall with it. OB 42-43. Mattel’s response misapprehends the point. Resp. 38 n.11. The point is that the District Court tainted the fiduciary duty verdict by giving the jury an improper short cut for finding disloyalty. Once the jury found that Bryant breached his duty of loyalty, it was practically a foregone conclusion that he also breached his fiduciary duty—

C. The District Court Erred in Directing the Jury That It Could Find That MGA Tortiously Interfered With Bryant's Contract Merely by Signing a Contract With Him.

MGA's challenge to the tortious interference instruction revolves around one simple sentence. OB 43-44. Everyone agrees that the District Court correctly instructed the jury that one element of the tortious interference claim (element 4) was "[t]hat the conduct of MGA ... prevent[ed] performance [of the contract between Mattel and Bryant] or made performance more difficult." 20ER 4364. But in the one critical sentence in dispute, the District Court *also* instructed the jury that "[a]s a matter of law, Mr. Bryant directly competed with Mattel *by entering into a contract with MGA*, Mattel's competitor, to produce a competing product while he was still employed at Mattel." *Id.* (emphasis added). As Mattel concedes, the latter instruction "establishes that there was some disruption in Bryant's performance of the contract." Resp. 40 (emphasis omitted).

This concession carries the day for MGA. MGA's whole point on tortious interference is that the connection the District Court "established" for the jury was legally wrong. There was no "disruption in Bryant's performance of [his] contract" with Mattel, just because Bryant "enter[ed] into a contract with MGA." There was nothing in Bryant's at-will relationship with Mattel that prohibited him

which is, at root, just a heightened duty of loyalty. *Wolf v. Superior Court*, 130 Cal. Rptr. 2d 860, 863-64 (Cal. App. 2003).

from entering into a contract with MGA. And even if there was some argument that could have led a *jury* to conclude that the signing of the contract disrupted Bryant's performance, the District Court was wrong to *direct* the jury that the point was established as a matter of law.

The upshot of this erroneous instruction was that the District Court did all the heavy lifting for the jury by establishing the disruption, leaving the jury to decide only whether MGA knowingly contributed to the disruption. This latter element was a no-brainer: If the disruption consisted of Bryant's "entering into a contract *with MGA*," then a juror could easily conclude that MGA knowingly contributed to that act.

Mattel does not dispute any of this. Nor does Mattel dispute that liability based upon MGA's knowingly inducing Bryant to "enter[] into a contract with MGA" is exactly the sort of liability from which MGA, like all employers, is immunized. OB 44.¹⁰

Mattel's only response is nonresponsive. It argues that MGA has improperly asserted that the instruction "directed a verdict as to the *entirety* of the

¹⁰ Mattel does not dispute the scope of immunity, but merely notes that MGA's "conduct exceeded" "merely induc[ing] the termination of Bryant's employment with a better offer." Resp. 41. Even so, the District Court's finding of disruption was based only on the signing of the contract with MGA. And our point is that MGA cannot be held liable for contributing to *that* act.

fourth element of the interference claim,” because the court still allowed the jury to decide the (simple) part of the element that relates to whether MGA contributed to the disruption. Resp. 40 (emphasis in original). In so arguing, Mattel is not denying the instruction was erroneous, but merely challenging MGA’s characterization of the error. It is still an error, and it still requires reversal.

Finally, Mattel is also incorrect in asserting that MGA failed to preserve the issue. Resp. 39. MGA made the same objection it is making now—focusing both on the disruption of Bryant’s contract and MGA’s role in it. First, it raised “the concern” that “your Honor is going to tell the jury at some point in some form or fashion that Mr. Bryant’s signing a contract with MGA is a breach.” 19ER 4097. MGA asserted that that is wrong—that “the jury needs to understand that there has to be something wrongful about that” signing in order to make it actionable. *Id.* Second, MGA also objected that: “In California an employee has an absolute right to seek employment. *And a prospective employer has the right to hire someone who is employed by another company.*” *Id.* (emphasis added).

* * *

In sum, all three state law predicates that the District Court invoked in support of the constructive trust fail. But even if only one or two fail, the constructive trust must fall. Some of the state law claims simply will not support a constructive trust. For example, as we have seen, both the duty of loyalty claim

and the tortious interference claim are based on nothing but the fact that Bryant signed a contract while he was still employed. But by the time Bryant signed that contract, he had already revealed the name Bratz. There was no connection between the tort found by the jury or directed by the judge—the signing of the contract—and the tortious act that the constructive trust was supposed to remedy.

In any event, since the District Court indiscriminately intertwined all three state law verdicts into its constructive trust analysis, there is no way to know whether the District Court would reach the same result with only one or two state law bases. With stakes this high, this Court should allow MGA to make its case to the District Court as to why this tripod cannot stand with a leg or two missing.

III. THE COPYRIGHT INJUNCTION MUST BE VACATED BECAUSE THE DISTRICT COURT APPLIED, AND INSTRUCTED THE JURY ON, THE WRONG STANDARD FOR INFRINGEMENT.

The parties agree that *if* Bryant's drawings and preliminary sculpt warranted only thin protection, then Mattel would have to prove that MGA's dolls were virtually identical to those early works. Moreover, Mattel does not dispute MGA's assertion that Mattel cannot meet this standard. OB 62-63. So the dispute on the copyright injunction boils down to one issue: Whether the District Court violated this Court's explicit instructions on how to conduct the filtering analysis. It plainly did.

A. The District Court Failed to Apply Any of the Three Steps Correctly.

Mattel agrees that *Apple Computer, Inc. v. Microsoft Corp.*, 35 F.3d 1435 (9th Cir. 1994), establishes a three-part test, which entails: “(1) having the plaintiff identify elements of similarity, and having the court decide (2) which elements are protectable and (3) the scope of protection.” Resp. 50 (citing *Apple*, 35 F.3d at 1443). But it incorrectly asserts that the District Court followed the steps in the manner prescribed.

Step 1: Dissecting elements of similarity. Everyone agrees what Step 1 requires: “[I]t is the plaintiff’s job” to list “the elements of similarity between the Bryant drawings and doll sculpt and the Bratz dolls,” and it was the District Court’s job to assess *those* elements. *Id.* (emphasis omitted). Mattel cites two documents in the record representing its list of elements. *Id.* (citing SER 6-13, 325-29). That was *not* the list the District Court considered, *see* 5ER 1024, 1041, as is immediately evident upon scanning the listed elements alphabetically, side by side:

Elements	Listed By Mattel	Considered By District Court
<i>Anatomical proportions:</i>		
Ankles	X	
Bodies		X
Breasts		X
Chin	X	X
Crotch	X	
Eyes	X	X

Eyebrows	X	X
Eye features		X
Knees	X	
Lips		X
Nose		X
Shoulders	X	
Waists	X	
<i>Eyes:</i>		
Eyebrows	X	X
Eye makeup	X	
Eye features		X
Pupil	X	
Shape	X	
<i>Facial features:</i>		
Cheek color	X	
Eye placement	X	
Eyes	X	X
Face shape		
Lips	X	X
Mole placement	X	
Nose		X
<i>Hairstyling</i>	X	
<i>Head</i>		X
<i>Make-up (generally)</i>	X	
<i>Postures</i>	X	
<i>Other:</i>		
Accessories	X	X
Clothing	X	X
Shoes	X	X

It is a mystery just how the District Court devised its list, but it did not come from Mattel. The District Court's failure to follow Step 1 deprived MGA of the opportunity to engage in meaningful analysis of the list before it applied steps two and three.

Step 2: Filtration. The filtration analysis in the District Court’s opinion consisted of exactly two sentences—a legal rule and a conclusion. The legal rule: “The Court shall determine the appropriate dissection and filtration of the copyrighted drawing and, through that process, determine the protectable elements of copyrighted materials.” 5ER 1023. The conclusion: “Based on all of the evidence submitted to date, the Court is able to tentatively identify the following protectable and non-protectable elements of the copyrighted Carter Bryan [sic] drawings.” *Id.* Mattel does not dispute that the District Court gave no indication of what evidence it found crucial as to each element, what filters it ran on each, or how it came to decide which elements were protectable and which were not. So there is no way to confirm that the District Court conducted the filtering analysis correctly, and there are ample indications in the rest of the opinion—and in the jury instructions that mirrored it—that the District Court did not.

Most significant among them is that the District Court obviously did not inspect *any* element in isolation. Nowhere in its opinions did the District Court so much as hint that it understood that a “nose” consisting of two small dots, might be analyzed differently from, say, the various elements that make up “eye features.” 5ER 1024; *see infra* at 45-48 (addressing specific features). Notably, Mattel does not argue that the District Court *did* examine the elements in isolation, but only that *it did not have to*. Resp. 55. As our opening brief details, that is exactly what

this Court requires—that is what “dissection” means—and exactly what it did in *Apple*, *Satava*, *Aliotti*, *Data East*, and numerous other cases. OB 45-50.

Without even trying to explain away the element-by-element approach that this Court followed in those cases, Mattel isolates one quote from a single case: “in the case of artistic works,” as distinguished from literary works, “the extrinsic test must consider ‘the similarity of the objective details in appearance,’ including ‘the subject matter, shapes, colors, materials, and arrangement of the representations.’” Resp. 55 (quoting *Cavalier v. Random House, Inc.* 297 F.3d 815, 826 (9th Cir. 2002)). Nothing in *Cavalier* purported to overrule the element-by-element approach this Court dictated in all the above-cited cases (including *Satava*, which post-dated *Cavalier*), all of which involved “artistic works.” To the contrary, *Cavalier* held that “[a] court must take care to inquire only whether ‘the protectible elements, standing alone, are substantially similar.’” *Id.* at 822 (quoting *Williams v. Crichton*, 84 F.3d 581, 588 (2d Cir. 1996) (emphasis in original)). It opined that “[t]he basic mode of analysis for comparison of the literary elements applies to comparison of the art work. As with literary works, unprotectible elements should not be considered when applying the extrinsic test to art work.” *Id.* at 825-26.

In fact, *Cavalier* followed the element-by-element protocol to a tee, particularly with regard to one of the works (which Mattel neglects to mention). It

found that the concept of “a star being polished” is uncopyrightable, as is the notion that a star could be “five-pointed,” could be “yellowish,” or could be “smiling.” *Id.* at 827. On the other hand, this Court held that “ping pong ball shaped eyes” and “red bulbous noses” were protectable (but, it turns out, not infringed). *Id.* In context, it is perfectly clear that when this Court listed five elements as examples to “consider” in works of art as opposed to literary works, *id.* at 826, it did not mean that those elements are supposed to be jumbled together and considered en masse in performing the extrinsic test.

Mattel exhibits the same flaw in logic when it says that the District Court “*applied* various limiting doctrines, including ‘scènes-à-faire.’” Resp. 51 (quoting 21ER 4779-80). The correct way to apply a filter is to run each element through it one by one. That is not what the District Court did. Rather, *after* concluding that the *entire* doll was entitled to full copyright protection, and rejecting the virtual identity standard, the District Court offered a list of unprotectable elements, and put “scènes-à-faire” and “common or standard anatomical features” on *that* list. 21ER 4779-80; *see also* 5ER 1024. Especially when viewed through the lens of the jury instructions, it is evident that the District Court did not apply those filters to individual elements, but was expecting the jury to apply them. 22ER 5023-25 (instruction to jury to filter out “common or standard anatomical features relative to others” and “common or standard treatment of fashion doll subject matter”).

That instruction was especially problematic because the court gave the jury no guidance on what these concepts mean, how to perform the function, or what to do with the results—and the jury lacked all the evidence and expert opinions the two sides had adduced to inform the filtering analysis. 21ER 4782.

Step 3: Determining scope of protection. Mattel’s defense of the District Court’s approach to Step 3 is limited to one sentence: “MGA effectively concedes ... that the district court followed this step when it held that the artistic works at issue are not limited to ‘thin’ protection against only ‘virtually identical copying.’” Resp. 51-52 (citations omitted). MGA’s complaint is not that the District Court failed to give an ultimate answer to the question. Its complaint is that the District Court did not follow the correct approach—and specifically as to Step 3, that “the District Court ... never assessed what proportion of the elements were protectable in isolation.” OB 53.

Mattel offers no response. Nor does Mattel propose any alternative as to how a court *is* supposed to make that determination, if not by the method prescribed in *Apple* and the other cases. The District Court appears to have done it by concluding that “[t]he drawings at issue here ... are not like Satava’s jellyfish sculptures.” 5ER 1041. That is not the right approach, and Mattel does not so much as suggest that it is.

Nor did the District Court cure the error by listing the key elements en masse and slapping the phrase “particularized expression” in front of the entire litany of a dozen elements. 5ER 1024. To tell the jury to compare the “particularized expression” of a litany of details for “substantial similarity” is very different from telling the jury that it should decide whether the compilation is “virtually identical.” Moreover, there is no reason to believe the average juror would have any idea what that term means as a matter of copyright law, or how to apply it. This Court’s condemnation of similar instructions in a similar context applies with full force here: “Though the instructions cautioned that the jury limit its review to protectable material, this caution was of little value because these instructions did not adequately explain to the jury which material was, in fact, protectable.”

Harper House, Inc. v. Thomas Nelson, Inc., 889 F.2d 197, 207 (9th Cir. 1989).

* * *

Mattel’s argument on process boils down to an assertion that the District Court must have conducted the correct dissection and filtration analysis because the District Court *said* that it reviewed “everything that [was] before [it]”; and *said* that it had applied the ““appropriate dissection and filtration”” analysis. Resp. 51 (citations omitted). By Mattel’s own standard, “[t]hat is not argument; it is *ipse dixit*.” Resp. 60. Before depriving MGA of a wildly successful product line in which the company invested hundreds of millions of dollars and eight years of

sweat equity, the District Court was obliged to show at least some of its work so the parties and the reviewing court could satisfy themselves that the court did, indeed, apply the “appropriate” analysis, 5ER 1023, especially when all indications are that it did not. *See FTC v. Enforma Natural Prods., Inc.*, 362 F.3d 1204, 1215-18 (9th Cir. 2004).

B. The Correct Filtering Analysis Would Require Application of the “Virtually Identical” Standard.

1. To say that the “idea” for a particular feature is unprotected does not mean that the feature is completely devoid of protection in all its details.

MGA’s opening brief explains how the Court *should* have performed the filtering analysis. OB 55-58. Mattel’s entire rebuttal to this point—and to MGA’s overarching point on filtering—is based on a mischaracterization of MGA’s argument. Taking the doll eyes by way of example, MGA’s point, in keeping with the precedents, is that the *idea* for a large almond-shaped eye is not protectable, just as the *idea* for “tendrill-like tentacles” is not protected. *Satava v. Lowry*, 323 F.3d 805, 811 (9th Cir. 2003). So, it is impermissible to consider the fact that the eyes are large and almond shaped. That is not the same as the proposition Mattel attributes to MGA, “that the element of an eye should have been *completely* filtered out.” Resp. 54 (emphasis in original). As MGA acknowledged, there *is* some variability within the universe of large almond-shaped eyes; it is just that “the expression of the almond-shaped eye is severely constrained.” OB 57. So,

yes, just as jellyfish “tendrils” are protected in “the[ir] distinctive curls” or the “arrangement of certain hues,” *Satava*, 323 F.3d at 812, there *is* protection in such “details” as “a particular angling ...; a particular placement of the pupils; a particular placement of the eyebrows...; a particular number of eyelashes”; and so forth. Resp. 56. The point of thin protection is that these “particular” “details” *are* protected from copying—but only from a copyist who plagiarizes them exactly, *i.e.*, makes an eye that is *virtually identical* in that those details are in all material respects highly similar.

Mattel’s attack on MGA’s analysis is based largely on this misapprehension. For example, Mattel invokes this Court’s decision in *Aliotti v. R. Dakin & Co.*, 831 F.2d 898 (9th Cir. 1987), for the proposition that “this Court has specifically held that the expression of a particular type of eye on a doll *is* protectable.” Resp. 54 (emphasis in original). As explained in our opening brief, this Court in *Aliotti* filtered out numerous features that merged into the idea of a gentle, cuddly toy dinosaur, including the physiognomy of dinosaurs and the open mouth of a T. Rex. OB 56-57. This Court found, in that particular case, that one particular feature—the “sleepy” “eye style” of the plaintiffs’ dinosaurs—qualified for protection. 831 F.2d at 900-01. Drooping eyelids on a dinosaur is a detail that, so far as we know, did not occur in nature. So, yes, if a competitor tried to steal that exact expression (which the competitor in that case did not) it could be found to infringe. One

cannot extrapolate from *Aliotti* the general lesson that all eyes in all dolls of all sorts are entitled to the fullest copyright protection—or specifically here, that any attribute of eyes “*not* dictated by the idea of a female adolescent doll” is entitled to full protection. Resp. 54 (emphasis in original).

2. Had the District Court properly filtered, it would have concluded that virtually none of the elements were protected.

Mattel faults MGA for singling out the Bratz eye without reciting chapter and verse as to all the other parts. Resp. 60. It did not seem necessary to belabor the point, but since Mattel asks for it, we summarize the analysis for some of the other anatomical features. The full analysis is laid out in detail in the expert reports of Peter Mennell and Glenn Vilppu. 11ER 2283-91, 29ER 6940-94.

Lips: Just as nature made girls with almond-shaped eyes, nature has also made girls with luscious, pouting lips. There is limited room for artistic variation. There have to be two lips. Lips tend to have the same basic shape and relative size. Given the constraints in trying to paint luscious lips in the small confines of a plastic fashion doll, there are likely to be even fewer possible options for expression than with the eyes. Moreover, the lips in the drawings resemble numerous other standard portrayals in popular culture, including the lips in the Paris Blues advertisement and, once again, those of Angelina Jolie. 11ER 2303. *See generally* 11ER 2305, 29ER 6967-68.

Nose: In Bryant's drawings, the nose is either nonexistent or it appears as a dot. *E.g.*, 25ER 5873, 5875, 5885. Yet, the District Court listed the nose as one of the protectable elements for the jury to consider. A review of the prior art reveals that this treatment of a nose is also a standard, *scène à faire* in depicting urban girls. 23ER 5476, 5503, 24ER 5622, 5634. Both the Steve Madden and Paris Blues advertisements use dots for noses. 24ER 5622, 5634. There is nothing protectable about this treatment and any variation in that feature is especially minimal, for there are only so many ways to draw a dot for a nose and only one way to draw a missing nose. *See generally* 29ER 6967.

Big Feet and Head: The District Court allowed the jury to consider the exaggeration of certain anatomical features relative to others. This immediately suggests the dolls' feet and heads, which are disproportionately large. Big feet and large heads are standard treatment in this genre as well. 29ER 6951, 6953. Indeed, nearly every prior art reference that MGA's experts considered contained either exaggerated feet or heads or both: the Blythe dolls, Betty Boop, the Steve Madden advertisement, the Paris Blues advertisement, and a Coca-Cola advertisement. 24ER 5622, 5634. *See generally* 11ER 2300-03, 29ER 6951-52.

Breasts: The District Court included breasts in the list of protected elements—even though no one mentioned them as protectable in any report or testimony. It is hard to understand how this element could constitute protectable

expression at all. Surely nature calls for two, and, as depicted in both the drawings and the ultimate dolls, they are two smooth and nondescript bumps. That this element made the District Court's list of protected elements confirms that the court did not apply the appropriate test to filter anything.

Clothing: Mattel defends the District Court's decision to reject the Copyright Office's ruling that Bratz doll clothes are useful items devoid of copyright protection, insisting that the Copyright Office's decision is entitled to no deference because an agency position expressed by a "registration examiner" is not a "statement of policy by the agency." Resp. 58-59 (citing *Boyd's Collection Ltd. v. Bearington Collection, Inc.*, 365 F. Supp. 2d 612, 616 (M.D. Pa. 2005)). The case Mattel cites confirms otherwise, holding that letters by copyright examiners are entitled to deference provided they are reasonable, thorough, and not plainly in conflict with governing law. *Boyd's Collection*, 365 F. Supp. at 614-15; *see also United States v. Mead Corp.*, 533 U.S. 318, 227-28 (2001) (deference may be granted when warranted due to expertise of agency and persuasiveness of position); *Norris Indus., Inc. v. Int'l Tel. & Tel. Co.*, 696 F.2d 918, 922 (11th Cir. 1983) (upholding district court's deference to Copyright Office's "considerable expertise" on the issue of useful articles).

The examiner's letter was not just reasonable, it was right—for reasons already explained. OB 58-59. Mattel does not refute any of MGA's or the

Copyright Office’s analysis, most notably the point that if clothing for humans is treated as functional (and therefore undeserving of protection), clothing for fashion dolls warrants the same treatment. After all, the whole point of clothing on fashion dolls is to give girls a chance to dress dolls in a variety of outfits that mimic human clothing and fashion trends, enabling them to pretend these representational objects are engaging in real-world activities.¹¹

Finally, Mattel has not disputed that the District Court’s ruling as to the doll clothes alone—if erroneous—suffices to reverse the entire copyright injunction. *See* OB 59. Since Mattel’s case in support of the copyright claims emphasized mainly the clothing, *see* OB 18-19, there is every reason to believe that the jury reached its copyright verdict on that basis. *See, e.g., White v. Ford Motor Co.*, 312 F.3d 998, 1016 (9th Cir. 2002).

¹¹ This purpose of *fashion* dolls distinguishes them from the dolls at issue in the district court cases Mattel cites. Teddy bear clothes or baby doll clothes are not designed to mimic fashion trends, but (as those cases held) to supply the doll with a specific and unique identity. *See Boyds Collection Ltd.*, 365 F. Supp. 2d at 615 (“doll clothing, *if employed solely for appearance differentiation*, has no ‘utilitarian function’ and falls outside of the statutory definition of a ‘useful article’” (emphasis added)); *see also Boyds Clothing, Ltd. v. Bearington Collection, Inc.*, 360 F. Supp. 2d 655, 662 (M.D. Pa. 2005) (“It cannot reasonably be argued that the clothing at issue here, designed solely for teddy bears, has any purpose other than appearance differentiation.”); *Fisher-Price Toys v. My-Toy Co.*, 385 F. Supp. 218, 220-22 (S.D.N.Y. 1974) (purpose of the clothes was to give the doll a unique outfit and overall look that gives it an identity).

3. Mattel's treatment of the precedent is flawed.

Mattel tries to engraft onto the doctrine of thin copyright protection two limitations—both of which are at odds with controlling precedent. Mattel's first argument begins with the assertion that “[c]opyright protection is ‘thin’ for works that are predominantly factual *or otherwise comprised of elements not subject to copyright.*” Resp. 61 (emphasis added). The italicized clause covers our case for reasons already explained. Nevertheless, Mattel fixates on the first clause, arguing that the Bratz dolls must have enhanced protection because they are not “predominantly factual,” *id.*, like a book consisting of historical, numerical, or other facts for which the range of organizational or creative alternatives is very limited. *See Landsberg v. Scrabble Crossword Game Players, Inc.*, 736 F.2d 485, 488 (9th Cir. 1984) (“Subsequent authors wishing to express the ideas contained in a factual work often can choose from only a narrow range of expression,” so no infringement without “verbatim reproduction ... or very close paraphrasing”).

As is evident from the various cases discussing to this point, it is simply not the law that thin protection is reserved for only literary factual works. This Court has granted only thin protection to artistic presentations of jellyfish (*Satava*), cuddly dinosaurs (*Aliotti*), icons in graphical user interfaces (*Apple*), and karate video games (*Data East*), none of which can be viewed as “factual works,” like

catalogs or instruction manuals. *See also Rachel v. Banana Republic, Inc.*, 831 F.2d 1503, 1507 (9th Cir. 1987) (thin protection for synthetic animal head).¹²

The second limitation Mattel proposes is that “drawings and sculpts” with “manifestly unrealistic, cartoonish features that are exaggerated in some aspects and de-emphasized in others” cannot be given thin protection. Resp. 62. But this Court has never drawn any such line. That much is clear from *Aliotti*.

Archaeologists have confirmed that real dinosaurs “as they exist[ed] in the natural world,” Resp. 62, were usually not gentle and were never cuddly. The stuffed dinosaurs in question thus looked a lot less like “real” dinosaurs than the Bratz drawings look like real ethnic, urban girls. Yet, this Court granted only thin copyright protection.

¹² *McCulloch v. Albert E. Price, Inc.*, 823 F.2d 316 (9th Cir. 1987), did nothing to negate this proposition. The case involved a plate “to honor somebody at dinner,” which this Court found to be artistic and capable of being expressed in many ways. *Id.* at 321. In distinguishing cases involving purely factual works, this Court observed that those cases were “inapplicable here because the instant case involves an *artistic* work, while [those cases] involved a *factual* work.” *Id.* at 321 (emphasis in original). It was in this context that this Court observed: “Works that are not factual receive much broader protection under the copyright laws because of the endless variations of expression available to the artist.” *Id.* With that one sentence, this Court obviously did not intend to override the principle that some artistic works can be granted only thin protection, as is evident from that fact that *Apple*, *Satava*, *Data East*, and *Aliotti*—all of which were decided after *McCulloch*—all granted only thin protection to artistic works.

Finally, Mattel tries to draw support from the cases it litigated in the Second Circuit. Resp. 62-63. All Mattel succeeds in demonstrating, however, is that the Second Circuit in those cases did not apply the same three-step process this Court has prescribed. Even so, its analysis and conclusions are otherwise congruent with this Court's approach and with MGA's position.

Thus, for example, while the Second Circuit did not use the terms "thin" or "virtual identity" in *Mattel, Inc. v. Azrak-Hamway Int'l, Inc.*, 724 F.2d 357 (2d Cir. 1983), it reached the same result. First, when considering the dolls in that case, the Second Circuit emphasized that "nearly all of the similarity can be attributed to the fact that both are artist's renderings of the same unprotectable idea—a superhuman muscleman crouching in what since Neanderthal times has been a traditional fighting pose." *Id.* at 360. The court then concluded that the rendering of this idea is "not in itself protectable." *Id.* That is an application of the merger doctrine. Next, the Second Circuit held that "only the particularized expression," consisting of "the decision to accentuate certain muscle groups relative to others," was protectable. *Id.* That is consistent with this Court's filtering approach—akin to this Court's view that the *idea* for "tendrill-like tentacles" is not protected, whereas "tendrils" are protected in "the[ir] distinctive hues" or the "arrangement of certain hues." *Satava*, 323 F.3d at 812. Finally, the court concluded, as a matter of law, that there was no infringement, because there were differences in what can only be

described as trivial details—the accentuation of muscle groups in the abdomen. In practical effect, that is a ruling that the defendant’s doll did not infringe because it was not *virtually identical* to Mattel’s.

With respect to *Mattel, Inc. v. Goldberger Doll Mfg. Co.*, 365 F.3d 133 (2d Cir. 2004), it is true that Mattel technically won the appeal, but all it won was a narrow victory that is of no help in this case. The court there rejected the district court’s view that Barbie’s facial features were entitled to *no* copyright protection (a position MGA is not taking here). *Id.* at 135. In place of that view, all Mattel won was a holding that “[t]he protection that flows from [its] copyright is, of course, quite limited. The copyright does not protect ideas; it protects only the author’s particularized expression of the idea”—the *exact* portrayal of Barbie’s “upturned nose, bow lips, and wide eyes.” *Id.* at 135-36. That is the very definition of this Court’s virtual identity standard.

The bottom line is that the court in each of these cases (unlike the District Court here) carefully filtered the dolls’ elements, and granted none of them the broad copyright protection that the District Court applied here.

IV. THE CONSTRUCTIVE TRUST MUST BE VACATED, EVEN IF THE UNDERLYING STATE LAW CLAIMS ARE VALID.

Mattel acknowledges that it was improper for the District Court to impose a constructive trust unless it (1) identified a res—a piece of “property”—and (2) demonstrated that *that* “res ... was wrongfully acquired by the defendant.”

Resp. 41-42. Everyone agrees that the property that ultimately *ended up* in constructive trust were MGA's trademarks, but what was the *property that MGA wrongfully acquired*? The District Court gave one answer, and Mattel gives another.

The District Court's answer was that "the jury found that the MGA parties wrongfully acquired *the idea for the name 'Bratz,'*" whose value then increased once it became a trademark. 5ER 1012 (emphasis added). Nowhere in its three-paragraph analysis did the District Court so much as suggest that MGA wrongfully *acquired* the Bratz trademarks.

Forsaking the District Court's position, Mattel insists that the property MGA wrongfully acquired were "*the trademarks and associated registrations and applications.*" Resp. 42 (emphasis in original). But right after staking out this emphatic position, Mattel proceeds to insist, with equal fervor, that what MGA wrongfully acquired was the idea for the name. Resp. 44. The reason for the analytical whipsaw is plain: On the one hand, an idea for a name is not a res—and Mattel cannot even muster an argument that it is. On the other hand, Mattel has no argument that MGA did anything wrongful in acquiring the trademark. So Mattel bobs and weaves between the two positions, as convenient. But all the maneuvering is unavailing. The remedy was inappropriate under either theory.

A. There Can Be No Constructive Trust Under the District Court’s Theory That the Wrongfully Acquired Res Was the Idea for the Name Bratz.

If, as the District Court held, the res—the property wrongfully acquired—was the idea for the name Bratz, then this position fails for the three reasons explained in MGA’s opening brief: (1) an idea is not a res, OB 66-67; (2) MGA did not wrongfully acquire the idea for the name Bratz, OB 68-69; and (3) even if it did, Mattel would not be entitled to the worldwide trademarks, OB 69-72. We reply to Mattel’s position on each point, in turn.

1. An idea for a name is not a res.

In a lone footnote, Mattel asserts that the idea for the name could qualify as a res under California law. Resp. 42-43 n.13. But elsewhere Mattel makes concessions that prove otherwise. Mattel first concedes that “a res” must be “an identifiable kind of property.” Resp. 42 (citations and internal quotation marks omitted). Then, Mattel concedes that an idea is *not property* under California law, Resp. 42 n.13—a proposition that, as is demonstrated above, is clear under California law, *see supra* at 8-10.

The footnote does not retract these concessions. Instead, all it does is to assert that it is possible for Mattel to “have a *legally protectable interest*” (short of a property right) “in the ‘Bratz’ name at the time of MGA’s initial wrongful conduct ... by virtue of its contract with Bryant.” Resp. 42 n.13 (emphasis added).

As we have already demonstrated a “protectible interest” is not property, and Mattel is wrong even about the protectable interest. *See supra* at 8-10.¹³

2. MGA did not wrongfully acquire the idea for the name Bratz, because Mattel has not proven that Bryant had an obligation to keep the idea secret.

Mattel asserts that MGA wrongfully acquired the idea for the name Bratz. The sole basis for Mattel’s position is that the Inventions Agreement required Bryant to keep the idea secret—thereby making it wrongful for Bryant to share it and, apparently, wrongful for MGA simply to hear it. *But see* Cal. Civ. Code §3426.1. In its opening brief, MGA explains that the Inventions Agreement did no so such thing. OB 68-69. There is nothing “audacious” (Resp. 46) about limiting Mattel to the terms of the form it drafted and mass-produced.

¹³ Mattel cites one case for the proposition that it is possible to impose “constructive trusts over the fruits of stolen business opportunities that, at the time of the theft, had yet to be exploited,” Resp. 42 n.13 (citing *MacIsaac v. Pozzo*, 81 Cal. App. 2d 278, 284-85 (1947)), and similar cases imposing constructive trusts over patents and the fruits of exploited confidential and trade secrets information, Resp. 45-46 (citing *De Long v. Lucas*, 176 F. Supp. 104 (S.D.N.Y. 1959) (confidential information); *By-Buk Co. v. Printed Cellophane Tape Co.*, 163 Cal. App. 2d 157 (1958) (confidential and trade secret information); *Air Purification, Inc. v. Carle*, 99 Cal. App. 2d 258 (1950) (corporate opportunity)). These cases do not hold that it is possible to impose a constructive trust when the item wrongfully acquired was not property. Each involved the wrongful acquisition of a legally recognized form of *property*. *See, e.g., DVD Copy Control Ass’n, Inc. v. Bunner*, 75 P.3d 1, 13 (Cal. 2003) (trade secrets are protected property interests); *Today Homes, Inc. v. Williams*, 634 S.E.2d 737, 742-43 (Va. 2006) (noting that a corporate business opportunity “is considered the property of the corporation”); *By-Buk*, 163 Cal. App. 2d at 164 (“[Confidential] information is the property of the employer”).

While vaguely asserting that MGA’s position is “contrary to ... the terms of Bryant’s Agreement with Mattel,” *id.*, Mattel does not point to contract language to back up that assertion. There is none. Mattel does not dispute that the only provision in the Inventions Agreement that addresses confidentiality is the Trade Secrets Provision that prohibits Bryant from “disclos[ing] ... any Proprietary Information,” 23ER 5415 ¶ 1(c), or that “Proprietary Information” is defined to be synonymous with trade secrets, *id.* ¶ 1(b). *See* Resp. 47-48 n.17 (conceding that ¶ 1(a) “borrows from the definition of a trade secret”). Nor does Mattel dispute that it *expressly disclaimed* any intention of arguing “that the name BRATZ is, quote, proprietary, end quote.” 15ER 3117; *see* OB 68-69. The only conclusion to be drawn from the fact that Bryant’s own idea for the name Bratz is not “Proprietary” to Mattel is that Bryant was not required to keep his idea to himself, and it wasn’t wrongful to share it.

As if to emphasize that it has no hook in the Invention Agreement’s plain terms, Mattel asserts that the “duty created by that paragraph *logically extends* to other economically valuable confidential information.” Resp. 47-48 n.17 (emphasis added). But Mattel does not explain what principle allows it to impose obligations based on nothing but the “logical[] exten[sion]” of contract language—especially in a contract of adhesion.

Mattel also tries to find a confidentiality requirement in an entirely different provision of the contract—the assignment provision of ¶ 2. That provision says nothing about confidentiality—and Mattel does not suggest it does. Rather, Mattel’s logic is as follows: The contract grants Mattel *ownership* over Bryant’s ideas—including ideas that are not “Proprietary Information.” Ergo Bryant may never talk about those ideas to anyone or use them himself.

Under Mattel’s reading of the ownership provision, that means that Bryant was never allowed to share any idea he had with anyone outside work about dolls—or perhaps (under the broader codicil) about toys. What’s more, since Mattel claims *exclusive* rights to any such idea, even Bryant could not use his own ideas in future professional endeavors. Now *that* is audacious.

It is also wrong, under California law. If, as is discussed above, an assignment of ownership cannot be read to impose an unstated promise of exclusivity, then it certainly cannot be read to impose *both* a promise of exclusivity *and* an unstated vow of silence. *See supra* at 10-11 (discussing *Summerhays v. Scheu*, 52 P.2d 512, 576-77 (Cal. App. 1935)).¹⁴

¹⁴ Mattel invokes a case that stands for nothing but this unexceptionable proposition: *When* an employee is prohibited from “divulg[ing] the secrets of [his employer]”—in that case, trade secrets—it is also wrongful for a business “with knowledge of that trust” to “make use of [the employer’s] property.” Resp. 46 (quoting *By-Buk*, 163 Cal. App. 2d at 165). That case does not even suggest the proposition Mattel tries to prove here—that when an employer claims the right to

3. Mattel was not entitled to the windfall of the entire value of MGA's worldwide trademark rights just because it claims to own the idea for the name Bratz.

Mattel does not dispute that the current value of the entire trademark portfolio derives far less from any value in the idea for the name than from MGA's marketing genius, hard work, and the hundreds of millions of dollars of investment in making Bratz a household name. But it has no persuasive explanation for why Mattel has greater right to those trademarks than MGA.

Mattel's main point is that the District Court "acknowledged MGA's efforts ... but ultimately concluded that they were outweighed by the need to ensure that MGA did not retain the benefits of its wrongdoing." Resp. 48. In point of fact, the District Court did not conduct any weighing. It awarded the trademarks to Mattel based on nothing but the legal view that "enhancement of value is given to the beneficiary of the constructive trust." 5ER 1012; *see* OB 70-71.

In any event, that analysis is wrong, both factually and legally. Factually, Mattel does not point to a shred of evidence to suggest that the idea for the name had any more than nominal value. *See* 22ER 5136-38 (Mattel cannot ascribe any value to the name). Legally, Mattel does not so much as acknowledge that the enhancement-in-value principle is subject to the overarching limitation that a

exploit an employee's idea, the employee is also therefore barred from sharing the idea with anyone else (even if the explicit contractual confidentiality provision does not cover the idea and the new employer had no knowledge of it).

constructive trust cannot be imposed to capture “the fruits of the defendant’s own labors or legitimate efforts.” DAN B. DOBBS, DOBBS LAW OF REMEDIES § 6.6(3) (2d ed. 1993); *see* RESTATEMENT (FIRST) OF RESTITUTION §§ 206, 210; (equity does not allow a plaintiff to capture “the fruits of the defendant’s own labors or legitimate efforts”); OB 71-72 (citing cases). Courts have uniformly concluded that a constructive trust must be tailored to avoid a windfall award of the full value of the defendant’s independent investment and sweat equity in the ultimate property, and must parse the growing value of the wrongfully acquired property from the independent value of the defendant’s contribution. *See, e.g., Brodie v. Barnes*, 132 P.2d 595, 599-600 (Cal. App. 1942); *Bird v. Stein*, 258 F.2d 168, 177-78 (5th Cir. 1958).

B. There Can Be No Constructive Trust Under Mattel’s Alternative View That the Wrongfully Acquired Res Was the Trademark.

Mattel fares no better with its alternative view—which the District Court never adopted—that the wrongfully acquired res was the trademark. The only benefit to Mattel of this alternative view is that at least a trademark can be a res—a point that Mattel takes great pains to prove even though MGA never disputes it. Resp. 42-44. But, in overcoming that element, Mattel sacrifices ground on several others.

First, MGA did not wrongfully acquire the trademarks. Mattel does not dispute that it did not own the trademark and could lay no claim to it, because it

never used the name in commerce. *See Sengoku Works Ltd. v. RMC Int'l, Ltd.*, 96 F.3d 1217, 1219 (9th Cir. 1996); *Brookfield Commc'ns, Inc. v. West Coast Entm't Corp.*, 174 F.3d 1036, 1046 (9th Cir. 1999). That is why Mattel does not actually argue that MGA wrongfully acquired the *trademarks*. Instead, it asserts that it was appropriate to “treat[] the trademarks as the wrongfully acquired *fruit* of MGA’s tortious conduct,” which is to say that Mattel’s argument about acquisition of the trademark circles back to the “idea for the name Bratz.” Resp. 44 (emphasis added). It therefore imports the various defects of the District Court’s analysis—most notably, the erroneous view that it was wrongful for Bryant to reveal, or MGA to learn of, the idea for the name.

Similarly, this logic, again, ignores the point that Mattel is not entitled to claim the benefits of MGA’s own investment and labors. What Mattel has done is exactly what the First Circuit cautioned against: “If an artist acquired paints by fraud and used them in producing a valuable portrait we would not suggest that the defrauded party would be entitled to the portrait, or to the proceeds of its sale.” *Janigan v. Taylor*, 344 F.2d 781, 787 (1st Cir. 1965) (quoted at OB 72). In that scenario, one could also say that the acquisition of the paints was “the first step in creating” the ultimate portrait, and that “everything else flowed from that wrongdoing.” Nevertheless, the law intervenes to prohibit a court from awarding

the plaintiff the windfall of the full value of the ultimate property just because the plaintiff claims that it began with a tortious first step.

V. THE DISTRICT COURT’S EQUITABLE ORDERS MUST BE VACATED BECAUSE THEY ALL REST ON A JURY VERDICT TAINTED BY BLATANT ETHNIC BIAS.

A. The Inclusion of a Racist Juror in the Deliberations Demanded a Mistrial.

Mattel does not contest the fundamental premise of MGA’s appeal of the mistrial denial: that one biased juror is enough to require a mistrial. OB 74-75. Instead, Mattel defends the District Court’s verdict on several other grounds—none of which is meritorious.

First, Mattel tries to wrap this issue in the mantle of abuse of discretion by insisting that the District Court found the juror not to be actually biased. Resp. 68-69. But Mattel does not point to any specific statement where the District Court found any such thing, and does not explain why the District Court repeatedly hedged its statements about the juror by saying that she “was not biased *in the legal sense*.” *E.g.*, 5ER 1036 (emphasis added). Nor does Mattel explain how its view of what the District Court found could be reconciled with its statement that the juror was a “cancer” who is to be vilified for “harbor[ing] such a feeling.” 20ER 4396-97.

Second, the main basis for Mattel’s view that the juror was not biased was that she had said, on voir dire, that she was not biased (which was the District

Court’s main basis for concluding that the juror was not biased “in the legal sense”). But Mattel does not explain why it is appropriate to use empty voir dire assurances of impartiality to trump blatant bias actually expressed in the course of later deliberations—and does not grapple with the precedent from this Court holding that “[e]ven if the putative juror swears up and down that it will not affect his judgment, we presume conclusively that he will not leave [it] ... at the jury room door.” *Dyer v. Calderon*, 151 F.3d 970, 982 (9th Cir. 1998). If anything, the juxtaposition of the two statements confirms that the juror lied on voir dire, which is itself a basis for removing her, OB 74; *see Dyer*, 151 F.3d at 983—another point for which Mattel offers no response (indeed, as noted below, Mattel insists this point was never made).

On bias, Mattel’s main point is that “no ... *per se* rules apply.” Resp. 69. Granted. But MGA is not arguing for a *per se* rule. It is simply arguing that in the context of *this* case, the only reason for *this* juror ever to share her husband’s views of Persians with fellow jurors is if she believed those views to be accurate. Apart from invoking deference to a fact the District Court never found, Mattel does not respond to this point either, and does not even mention this Court’s view that a juror’s repetition of racist views usually means that (as the District Court put it) that juror “harbor[s] such a feeling” herself. 20 ER 4396-97; *see United States v. Henley*, 238 F.3d 1111, 1121 (9th Cir. 2001) (cited at OB 73).

Finally, Mattel insists that the whole inquiry is out of bounds because all the evidence on which it is based is inadmissible under Federal Rule of Evidence 606(b). But Mattel's argument contains the seeds of its own destruction. Mattel acknowledges that "this Court has concluded that Rule 606(b) does not exclude juror statements that a party seeks to introduce for the purpose of showing a juror lied during voir dire." Resp. 72 n.24. Mattel tries to avoid that ruling by asserting that "MGA abandoned any claim based on alleged juror dishonesty by failing to raise that specific ground in its opening brief." *Id.* The only way to make that a true statement is to rip out page 74 of MGA's opening brief, which specifically discusses the contradiction and cites the cases (*Henley* and *McCoy*) about jurors lying on voir dire. In any event, as Mattel acknowledges, this Court has already indicated that Rule 606(b) cannot be read to exclude such evidence and survive constitutional scrutiny. *Henley*, 238 F.3d at 1120. Contrary to Mattel's suggestion (Resp. 71-72), this Court does not stand alone in this view. *See Mason v. Mitchell*, 320 F.3d 604, 636 (6th Cir. 2003); *Shillcutt v. Gagnon*, 827 F.2d 1155, 1159 (7th Cir. 1987).

B. The Verdict Rendered by the Biased Juror Is Inextricably Intertwined With the Injunctions and Jurisdiction Is Necessary for Meaningful Review.

The biased juror sat on the jury that found that Bryant "conceived of" Bratz and drew the critical drawings while employed at Mattel. 20ER 4378-82. She also

sat on the jury that issued the decision that MGA was in cahoots with Bryant to violate various of Mattel's legal rights with a view toward improperly securing Mattel's intellectual property. 20ER 4383-84. Everything flowed from that conclusion. Without it there could not have been any copyright infringement, any copyright injunction, or any constructive trust. In other words, the claim here is that all the relief in this case is built on the foundation of a verdict that is infected at the core by ethnic bias.

That makes the tainted verdict “inextricably intertwined with” the District Court's two injunctions. The Court used that verdict as the legal justification—“the legal authority”—and as the “necessary predicate” for both of its injunctions. *Paige v. California*, 102 F.3d 1035, 1040 (9th Cir. 1996) (citation omitted). If, as MGA has demonstrated, the original verdict is flawed, then so too is the injunctive relief granted, and review is therefore justified. *See id.*; *Idaho Watersheds Project v. Hahn*, 307 F.3d 815, 824 (9th Cir. 2002); *Self-Realization Fellowship Church v. Ananda Church of Self-Realization*, 59 F.3d 902, 905 (9th Cir. 1995); *see also Meredith v. Oregon*, 321 F.3d 807, 815-16 (9th Cir. 2002).

**VI. THIS COURT SHOULD REJECT MATTEL'S CROSS-APPEAL
SEEKING AN ADVISORY OPINION ON ANCILLARY
EVIDENTIARY ISSUES.**

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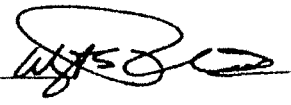
CONCLUSION

This Court should vacate the injunctive orders and other equitable relief. It should also reject Mattel's invitation to opine on evidentiary matters not properly raised on this appeal. MGA urges the Court to do so expeditiously in light of the looming January 21, 2010, deadline for a devastating and expensive recall.

Dated: September 9, 2009

Respectfully submitted,

ORRICK, HERRINGTON & SUTCLIFFE LLP

By: E. Joshua Rosenkranz 
E. Joshua Rosenkranz

CERTIFICATE OF COMPLIANCE

PURSUANT TO CIRCUIT RULE 32

Pursuant to Fed. R. App. P. 32 (a)(7)(C) and Ninth Circuit Rule 32-1, I
certify that the attached opening brief is proportionately spaced, has a typeface of
14 points or more, and contains 18,248 words.

Dated: September 9, 2009

ORRICK, HERRINGTON & SUTCLIFFE LLP

By:



Warrington S. Parker III

CERTIFICATE OF SERVICE

I hereby certify that on September 9, 2009, I electronically filed the foregoing:

REPLY AND ANSWERING BRIEF OF APPELLANTS/CROSS-APPELLEES MGA ENTERTAINMENT, INC., MGA ENTERTAINMENT HK LTD., AND ISAAC LARIAN (PUBLIC VERSION)

with the Clerk of the Court for the United States Court of Appeals by using the appellate CM/ECF system. Participants in the case who are registered CM/ECF users will be served by the appellate CM/ECF system.

Dated: September 9, 2009

By: /s/ Anne C. Devlin
Anne C. Devlin
