US court case a lesson for SA business

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1 Dec 2011

Business owners should pay more attention to the identification and protection of their hidden treasures as a result of the "Bratz" decision in Carter Bryant vs Mattel in the US District Court for the Central District of California. For businesses, this may be know-how, trade secrets and other constituents of their good will.

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In the Bratz decision, Mattel was ordered to pay nearly USD310 million to MGA Entertainment in a dispute turning on the misappropriation of trade secrets relating to children's toys, including the popular Bratz line of dolls. The decision shows that the value of a business' intellectual property rights, in whatever form, may far exceed the anticipated value of its tangible assets.

The legal proceedings between Mattel and MGA kicked off with Mattel bringing a claim of breach of contract, copyright infringement, and theft of trade secrets in the Bratz line of dolls by MGA and by the designer of the dolls, Carter Bryant. Mattel was initially awarded injunctions restraining MGA from selling Bratz dolls and damages to the value of USD100 million. On appeal, the verdict in Mattel's favour was overturned and sent back for retrial, with the potential scope of Mattel's claims being limited.

Misappropriation of trade secrets

At that point things went wrong for Mattel. In April, 2011, a jury of the District Court found that Mattel did not own copyright in the artistic designs of the Bratz dolls or the ideas, designs and names of the dolls in the collection. To the contrary, Mattel was found to have misappropriated 26 of MGA's trade secrets, on which MGA had not previously relied to enforce its rights. The court awarded damages, exemplary damages and millions of dollars in attorneys' fees and costs. Mattel suddenly found itself liable for over USD300 million, not something that the average plaintiff would expect.

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Mattel then moved for a review of parts of the jury verdict and prayed for a new trial, which was denied by the US District Court on 4 August, 2011.

Elements arising from legal proceedings

Several elements arising from the legal proceedings between MGA and Mattel are of great practical value to practitioners and businessmen in South Africa. These include the identification of protectable trade secrets and know-how, understanding the difference between these elements of business good will and registrable intellectual property rights, and taking steps to avoid destroying these potentially valuable assets or to avoid exposing them to attack.

By way of example, the District Court recognised as protectable trade secrets:

- The appearance, operation, intended play pattern, television advertising plans, and Free On Board pricing for various products
- Reports on product viability
- Strategic market plans
- Forecasting and inventory management

In South Africa, trade secrets are generally protected only if they are held as confidential information. To qualify as

confidential information, the information must comply with three requirements: It must involve and be capable of application in trade or industry; it must be kept from public knowledge and; objectively determined, it must be of economic value to the person seeking to protect it.

Confidentiality depends on circumstances

Ordinarily, general information about a business will not be confidential simply because the proprietor chooses to call it confidential. Whether or not a piece of business information is confidential will depend on all the relevant circumstances. Once the information is published, or otherwise becomes public knowledge, protection for a proprietary interest in it can no longer be claimed.

In the Bratz case, Mattel argued that MGA did not take reasonable efforts to maintain the secrecy of the relevant trade secrets and that they were no longer protectable because:

- MGA occasionally allowed the press to access its toy showrooms in order to view select products, without imposing non-disclosure obligations
- Information about MGA's products was also occasionally displayed at "planogram" rooms operated by retailers in advance of the shopping season

These simple acts of disclosure put over R2 billion at risk. A business should never allow access to concepts or services that have potential market value without entering into binding non-disclosure agreements.

Confidentiality agreements

As a general rule, in the South African context, anything that is not clearly held out to be confidential may be free for all. It is, therefore, extremely important for businesses to enter into appropriate confidentiality agreements with employees, prospective business partners and any other person who will be exposed to confidential information. Agreements with employees should make provision for the protection of trade secrets of which the employees become aware during the course and scope of their employment. Businesses should also be aware of the implications of disclosing patentable matter, the patentability of which is generally destroyed as soon as it is disclosed to the public in any part of the world.

ABOUT THE AUTHOR

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