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Court of Appeals Cause No. 63648-1

IN THE SUPREME COURT OF THE STATE OF WASHINGTON

FILED

SEP 20 2011

CLERK OF THE SUPREME COURT
STATE OF WASHINGTON

TOUCH NET WORKS, INC.,

Respondent,

vs.

GOGI DESIGN, LLC and HYUNSOOK CHUNG,

Appellants.

PETITION FOR REVIEW

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A. IDENTIFY OF PETITIONER

This Petition for Review is brought by Touch Networks, Inc. ("TNI"), Plaintiff in the trial court and Respondent in the Court of Appeals.

B. CITATION TO COURT OF APPEALS DECISION

TNI seeks review of the decision filed on August 22, 2011 in the matter of Touch Networks, Inc, Respondent, v. Gogi Design, et ano., Appellants in Case Number 63648-1-I. A copy of the decision of the Court of Appeals is attached as Appendix A.

C. ISSUES PRESENTED FOR REVIEW

The principal issue presented in this case is whether a party who receives intellectual property pursuant to the terms of a contract reserving all ownership rights to the intellectual property and all works derived therefrom, may establish ownership of works under the Copyright Act derived directly from the intellectual property received pursuant to the contract.

D. STATEMENT OF THE CASE

TNI is a Redmond, Washington corporation that develops and sells products relating to the medical field and, through its division known as TN Games, products used by the players of video games worldwide including the product at issue in this case,

the 3rd Space video gaming vest—an interactive vest worn by players of a first-person shooter video game that simulates live action for the player of certain video games. In March, 2005, the defendant, HyunSook Chung, and her then sole proprietorship company, Gogi Design (“Gogi”), agreed to provide graphic design services to TNI related to the company and its products.

The president of TNI, Mark Ombrellaro, M.D., met with Ms. Chung for the first time on March 15, 2005. Dr. Ombrellaro required Ms. Chung and Gogi to enter into an written agreement entitled Nondisclosure Agreement or NDA and Ms. Chung signed the agreement in her personal capacity and on behalf of Gogi at the outset of the business relationship between the parties and before she or Gogi performed any services whatsoever for TNI. *RP (4/29/09) 17-20, Ex. 1.* The NDA is the only written agreement signed by defendants at issue in this case. *RP (4/29/09) 20:7-21:4, Ex. 1.* The NDA was admitted at trial as Exhibit 1 without objection. *RP 4-28-09 7:1-7.*

Dr. Ombrellaro insisted on the execution of the NDA by Ms. Chung as a condition to the performance of services for TNI in exchange for payment. *RP (4/29/09) 16:24-20:25.* After Ms. Chung signed the NDA on March 15, 2005, TNI provided Gogi with the

existing intellectual property related to the gaming vest (including the character "Bruce") as well as other proprietary information. *RP (4/28/09) 91:22 to 94:19*. Using this information Gogi proceeded to perform various design services for TNI including refinement of the Bruce character and the incorporation of the character in various formats and packaging. *RP (4/29/09) 20:4-6 25:3-12, Ex. 1*.

TNI paid Gogi \$140,045.20 for its services during their business relationship. *RP 5/4/09 123:19-124:4*. On September 6, 2007, Ms. Chung personally and on behalf of Gogi declined to perform any further services for TNI. *RP 4-29-09 112:25-113:17*. TNI had paid all invoices that it had received for services from Gogi at the time that Ms. Chung terminated the relationship. *RP 4-29-09 116:7-12*. Thereafter a dispute arose over the ownership of the work product developed by Gogi from the intellectual property originally provided to Gogi by TNI.

Unable to resolve the dispute, TNI filed a lawsuit against Gogi and Ms. Chung in which it sought a restraining order to require delivery of the data files and to enforce the NDA. *RP 4-29-09 129:23-130:19*. Ms. Chung removed the case to the U.S. District Court for the Western District of Washington and asserted counterclaims alleging copyright infringement by TNI, but the

District Court remanded the case to the King County Superior Court on December 20, 2007. A true and correct copy of the remand order is attached to this Petition as Appendix B. The District Court remanded on the grounds that the causes of action at issue in the case are governed by state law and not preempted by the U.S. Copyright Act.¹ *Id.* In the Order Granting Motion to Remand Judge Marsha Peckman observed:

The parties entered into a contract governing ownership of TNI's proprietary information. TNI alleges that the contract also governs ownership rights of any work derived from the proprietary information. TNI's allegation that Defendants have breached that contract is a state law claim and is not preempted by the Copyright Act.

Judge Peckman noted further:

Defendants have failed to persuade the Court that TNI's allegations extend beyond a claim for breach of contract to allege a right protected by the Copyright Act.

and concluded

Whether or not TNI's ownership rights to the requested materials are protected by the NDA is a matter of contract law, not federal copyright law.

Following a trial to the bench, the Superior Court entered judgment in favor of TNI on both its contract and trade secrets

¹ 17 U.S.C § 101, et seq.

claims. A copy of the court's Findings of Fact and Conclusions of law and the Judgment are attached as Appendices C and D.

The Court of Appeals reversed the trial court concluding that ownership of the disputed works was governed by the Copyright Act:

An exception to the general rule that a copyright automatically vests in the author applies if the work is a "work made for hire." A "work made for hire" is "(1) a work prepared by an employee with the scope of his or her employment; or (2) a work specially ordered or commissioned for use ... if the parties expressly agree in a written instrument signed by them that the work shall be considered a work made for hire."

Therefore, under the Copyright Act, Gogi, as author, owned everything it created unless an express written agreement transferred ownership to TNI.

E. ARGUMENT WHY REVIEW SHOULD BE ACCEPTED

This court should grant the Petition because it presents an issue of substantial public interest. In this case Gogi entered into a contract promising not to disclose proprietary information provided to it by TNI, together with "any information derived therefrom." In the contract Gog also confirmed that ownership of all "copyrights, trademarks and other proprietary rights related to Proprietary Information" remained with TNI.

Gogi breached the contract by disclosing proprietary information to a competitor of TNI, as well as when it submitted works derived from the information protected by the contract for copyright registration. RP (4-29-09) 131:3-13. Gogi also breached the contract by refusing to provide the works TNI had paid Gogi to develop from the proprietary information originally provided to Gogi by TNI pursuant to the Non-disclosure Agreement. The Court of Appeals' reliance on the Copyright Act to conclude that there was no breach of the contract was erroneous. See Topolos v. Caldewey, 698 F.2d 991, 993 (9th Cir. 1983).

The decision by the Court of Appeals creates an issue of substantial public interest because it establishes that a party may lose ownership of its own copyright or other proprietary rights in intellectual property by allowing another party to refine or otherwise enhance such property. Here, the dispute focused on who owned "Bruce", a brand image enhanced by Gogi and applied to other mediums after initially being developed by TNI and provided to Gogi only pursuant to the NDA. The decision by the Court of Appeals that Gogi owns the enhanced "Bruce", notwithstanding the NDA and TNI's underlying rights to the original Bruce, is in error and presents this court with the opportunity to clarify the

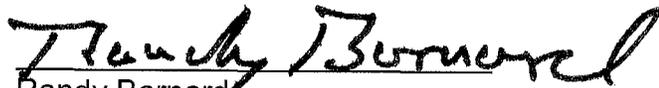
intersection of common law contract claims with copyright law, as well as how ownership of intellectual property is affected when original intellectual property is modified or enhanced by another party.

F. CONCLUSION

The relief TNI is seeking is reversal of the decision of the court of Appeals and affirmation of the Judgment entered by the Superior Court.

DATED this 21st day of September, 2011.

Respectfully submitted,



Randy Barnard
WSBA No. 8382
Attorneys for Respondent

APPENDIX

- A. Decision of Court of Appeals
- B. Order Granting Motion to Remand
- C. Findings of Fact and Conclusions of Law
- D. Judgment for Plaintiff

APPENDIX A

10293

RICHARD D. JOHNSON,
Court Administrator/Clerk

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State of Washington
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August 22, 2011

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CASE #: 63648-1-1
Touch Networks, Inc., Respondent v. Gogi Design, LLC, et ano., Appellants

King County, Cause No. 07-2-33454-8.SEA

Counsel:

Enclosed is a copy of the opinion filed in the above-referenced appeal which states in part:

"We reverse the judgment in favor of TNI and remand for further proceedings consistent with this opinion."

Counsel may file a motion for reconsideration within 20 days of filing this opinion pursuant to RAP 12.4(b). If counsel does not wish to file a motion for reconsideration but does wish to seek review by the Supreme Court, RAP 13.4(a) provides that if no motion for reconsideration is made, a petition for review must be filed in this court within 30 days. The Supreme Court has determined that a filing fee of \$200 is required.

In accordance with RAP 14.4(a), a claim for costs by the prevailing party must be supported by a cost bill filed and served within ten days after the filing of this opinion, or claim for costs will be deemed waived.

Should counsel desire the opinion to be published by the Reporter of Decisions, a motion to publish should be served and filed within 20 days of the date of filing the opinion, as provided by RAP 12.3 (e).

Sincerely,



Richard D. Johnson
Court Administrator/Clerk

jh

Enclosure

c: The Honorable Mary Yu

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IN THE COURT OF APPEALS OF THE STATE OF WASHINGTON

TOUCH NETWORKS, INC., a Washington corporation,)	NO. 63648-1-I
)	
Respondent,)	DIVISION ONE
)	
v.)	UNPUBLISHED OPINION
)	
GOGI DESIGN, LLC, a Washington limited liability company,)	
)	
Appellant,)	
)	
HYUNSOOK CHUNG,)	
)	
Defendant.)	FILED: August 22, 2011

LEACH, A.C.J. — Gogi Design LLC (Gogi) appeals a trial court determination that it breached the terms of its nondisclosure agreement with Touch Networks Inc. (TNI) and violated the Uniform Trade Secrets Act (UTSA).¹ Because Gogi did not breach the nondisclosure agreement and the trial court's findings of fact do not support its conclusion that Gogi violated the UTSA, we reverse.

FACTS

Vascular surgeon Mark Ombrellaro founded TNI and its wholly owned subsidiary TN Games to develop new medical and video game technologies. In March 2005,

¹ Ch. 19.108 RCW.

No. 63648-1-I / 2

Ombrellaro met with Hyunsook Chung to discuss hiring Gogi, Chung's design and marketing firm, to redesign TNI's "logo." Before he would discuss the logo, however, Ombrellaro required Chung to sign a nondisclosure agreement.

The nondisclosure agreement protects TNI's proprietary information when TNI shares that information with others in the contemplation of a working relationship. The preamble states, "Solely for the purpose of evaluating whether Obligated Person desires to _____, Obligated Person [Gogi] is interested in viewing certain of Company's [TNI's] books, records, operating methods and other information and property."²

The nondisclosure agreement broadly defines proprietary information as "[a]ny and all information furnished or made available to Obligated Person . . . by Company . . . either prior to or after the date of this Agreement."

The agreement's first paragraph requires the signing party to keep TNI's proprietary information confidential. It states, "For a period of five (5) years from the date of this Agreement, Obligated Person: will hold in strict confidence and trust and maintain as confidential all Proprietary Information and any information derived therefrom."

The agreement's second paragraph protects TNI's ownership of and intellectual property rights attached to the proprietary information. It reads, "[A]ll Proprietary Information will at all times be and remain the sole property of Company; and Company

² Gogi apparently did not fill in the blank.

is the sole owner of all copyrights, trademarks and other proprietary rights related to Proprietary Information.”

Chung signed the nondisclosure agreement, and the parties then discussed TNI's logo. After the meeting, Ombrellaro hired Chung and elected to pay Gogi's cheaper, hourly rate rather than the more expensive project rate, which would have included “full usage” rights in Gogi's work.

Between March 2005 and September 2007, Gogi completed 72 projects for TNI. The nondisclosure agreement was the only written agreement between the parties.

When the working relationship ended, Ombrellaro requested all TNI project source files in Gogi's possession. In turn, Gogi requested that TNI pay its outstanding invoices. TNI experienced difficulty in obtaining the desired material, as evidenced by several e-mails. Eventually, TNI sent Gogi a letter, asking Gogi to

confirm[] our contract for design services on a work for hire basis and that the intellectual property generated by or from the work performed for us is Touch Networks' property. Please countersign below to confirm you will return all of our property to us, including all original works in your possession. This would include both items we sent to you and items you created for us.

Gogi did not sign the letter, and TNI refused to remit payment on the outstanding invoices.

On October 1, TNI sent Gogi a final e-mail requesting “EVERYTHING Gogi has ever done for us.” Two weeks later, TNI filed a complaint naming Chung and Gogi as defendants and alleging breach of contract and UTSA claims. Specifically, TNI alleged that by retaining the requested information, Gogi both breached its nondisclosure agreement with TNI and violated the UTSA.

On October 18, Gogi removed the case to federal district court. The district court remanded after determining that Washington contract law governed and was not preempted by the Copyright Act.³

On November 2, Chung submitted seven copyright registration applications for TNI-related works. The United States Copyright Office denied three of the applications but registered the remaining four. When TNI learned about the copyright applications through discovery, it redesigned its brand at a cost of more than \$72,000.

Gogi asserted several counterclaims, including breach of contract for failing to pay the outstanding balance and copyright infringement. Gogi also requested the court to enter declaratory judgment that copyright initially vested in Gogi as the author of the disputed works.

After a bench trial, the court entered judgment for TNI on both claims, finding "[t]he works identified in the copyrights registered to Gogi and others as indicated above are materials related to the Proprietary Information of TNI." As a result, the trial court concluded that TNI was "entitled to declaratory relief that it is the owner of copyright as to all works for which defendants submitted applications and received copyright registration from the U.S. Copyright Office as more particularly identified above." The trial court dismissed the copyright infringement counterclaims but ruled that TNI owed Gogi \$7,220 for work performed.

The court ordered Chung and Gogi to pay \$72,224.00 in damages incurred from TNI's rebranding and \$99,534.75 in attorney fees and costs. Additionally, the trial court

³ 17 U.S.C. § 101, et seq.

ordered Chung and Gogi to "return to TNI all Proprietary Information and all documents or data storage media containing any Proprietary Information of TNI and any and all copies thereof."

Gogi appeals.⁴

STANDARD OF REVIEW

When a party challenges findings of fact and conclusions of law, we limit our review to determining whether substantial evidence supports the trial court's findings and whether those findings support its legal conclusions.⁵ "Substantial evidence exists if a rational, fair-minded person would be convinced by it."⁶ We review questions of law and conclusions of law, including the interpretation of contract provisions, de novo.⁷

ANALYSIS

Gogi claims the trial court erred when it entered judgment for TNI on its breach of contract claim. Because the nondisclosure agreement does not address the ownership of works created by Gogi, we agree.

Washington follows the objective manifestation theory of contract interpretation.⁸ Our primary goal in interpreting a contract is to ascertain the parties' intent from the ordinary meaning of the words in the contract.⁹ In doing so, we "focus[] on the objective

⁴ Chung withdrew her appeal due to her discharge in bankruptcy.

⁵ Panorama Vill. Homeowners Ass'n v. Golden Rule Roofing, Inc., 102 Wn. App. 422, 425, 10 P.3d 417 (2000).

⁶ In re Estate of Palmer, 145 Wn. App. 249, 265-66, 187 P.3d 758 (2008).

⁷ Sunnyside Valley Irrigation Dist. v. Dickie, 149 Wn.2d 873, 880, 73 P.3d 369 (2003); Sales Creators, Inc. v. Little Loan Shoppe, LLC, 150 Wn. App. 527, 530, 208 P.3d 1133 (2009).

⁸ Hearst Commc'ns, Inc. v. Seattle Times Co., 154 Wn.2d 493, 503, 115 P.3d 262 (2005).

⁹ Hearst, 154 Wn.2d at 503.

manifestations of the agreement, rather than on the unexpressed subjective intent of the parties."¹⁰ "Thus, when interpreting contracts, the subjective intent of the parties is generally irrelevant if the intent can be determined from the actual words used."¹¹ We do not interpret what was intended to be written but what was actually written.¹²

The context rule allows courts to consider extrinsic evidence in determining the meaning of specific words and terms used but not to show an intention independent of the instrument or to vary, contradict, or modify the written word.¹³ Extrinsic evidence includes the subject matter and objective of the contract, all of the circumstances surrounding the making of the contract, the subsequent acts and conduct of the parties, and the reasonableness of the respective interpretations urged by the parties.¹⁴

Because the information at issue here involves original works, we must also consider intellectual property concepts. Under the Copyright Act, a copyright "vests initially in the author or authors of the work."¹⁵ "A transfer of copyright ownership, other than by operation of law, is not valid unless an instrument of conveyance, or a note or memorandum of the transfer, is in writing and signed by the owner of the rights conveyed or such owner's duly authorized agent."¹⁶ "[T]he writing must ensure that the author 'will not give away his copyright inadvertently' and 'forces a party who wants to

¹⁰ Hearst, 154 Wn.2d at 503.

¹¹ Hearst, 154 Wn.2d at 503-04.

¹² Hearst, 154 Wn.2d at 504.

¹³ Hearst, 154 Wn.2d at 503 (quoting Hollis v. Garwall, Inc., 137 Wn.2d 683, 695-96, 974 P.2d 836 (1999)).

¹⁴ Hearst, 154 Wn.2d at 502.

¹⁵ 17 U.S.C. § 201(a).

¹⁶ 17 U.S.C. § 204(a).

use the copyrighted work to negotiate with the creator to determine precisely what rights are being transferred and at what price."¹⁷

An exception to the general rule that a copyright automatically vests in the author applies if the work is a "work made for hire." A "work made for hire" is "(1) a work prepared by an employee within the scope of his or her employment; or (2) a work specially ordered or commissioned for use . . . if the parties expressly agree in a written instrument signed by them that the work shall be considered a work made for hire."¹⁸

Therefore, under the Copyright Act, Gogi, as author, owned everything it created unless an express written agreement transferred ownership to TNI. The only written agreement between Gogi and TNI is the nondisclosure agreement. This agreement contains no language transferring ownership of work created by Gogi to TNI. It does protect certain proprietary information—"[a]ny and all information furnished or made available to [Gogi]." But this only describes information provided by TNI to Gogi and not ownership of work created by Gogi from this information. Indeed, the agreement does not reference works created by Gogi and furnished to TNI. This omission is determinative because the works at issue here were created by Gogi.

TNI asserts that the phrases "derived from" and "related to" in the agreement's first and second paragraphs could be "reasonably interpreted to mean any work generated by Gogi and Ms. Chung about TNI and its products belongs to TNI." This reading misconceives the contractual provisions' clear structure and meaning.

¹⁷ Konigsberg Int'l Inc. v. Rice, 16 F.3d 355, 356-57 (9th Cir. 1994) (quoting Effects Assocs. v. Cohen, 908 F.2d 555, 557 (9th Cir. 1990)).

¹⁸ 17 U.S.C. § 101.

The phrase "derived from" appears in the nondisclosure agreement's first paragraph. It states, "Obligated Person . . . will hold in strict confidence and trust and maintain as confidential all Proprietary Information and any information derived therefrom; and will not disclose any Proprietary Information or any information derived therefrom to any person." This paragraph concerns disclosure to a third party and does not purport to transfer any property rights between the contractual parties. It is therefore not relevant to TNI's breach of contract claim.

The subject of property rights appears in the nondisclosure agreement's second paragraph. That provision states, "[A]ll Proprietary Information will at all times be and remain the sole property of Company; and Company is the sole owner of all copyrights, trademarks and other proprietary rights related to Proprietary Information." (Emphasis added.) We read this provision to mean that TNI retained full ownership of its proprietary information (information given to Gogi by TNI). In other words, TNI's decision to share certain proprietary information with Gogi did not result in a transfer of any ownership interest to Gogi. The phrase "other proprietary rights related to Proprietary Information" is simply a catchall for any other proprietary rights that are not trademark or copyright. We decline to expand the phrase "related to" beyond its logical bounds to confer on TNI ownership of all proprietary rights arising from works authored by Gogi.

TNI's conduct demonstrates that it knew how to obtain the kind of proprietary rights it claims here. After signing the nondisclosure agreement, Gogi offered TNI two payment options: by project, which would have included a full usage buyout, and

hourly, which did not include a buyout. TNI elected to pay Gogi's hourly rate, which Gogi substantially reduced to reflect the lack of usage rights. Also, Gogi performed work for Ombrellaro's medical practice, Eastside Vascular. Eastside Vascular elected to pay the project fee. Finally, after the working relationship ended, TNI sent Gogi a proposed letter agreement, asking Gogi to agree that it performed all design services for TNI on a "work for hire basis." This letter would have been unnecessary had the nondisclosure agreement transferred Gogi's ownership rights to TNI.

TNI argues that Gogi acknowledged TNI's copyright by placing a copyright notice on the disputed materials. But TNI does not cite to the record in support of this contention. Nor did the court enter any findings in that regard. Chung, however, testified that TNI had provided the information on which the copyright notice appeared. Under the terms of the nondisclosure agreement, therefore, those notices appeared on TNI's proprietary information, which TNI indisputably owns.

The nondisclosure agreement's stated purpose is to protect information that TNI shared with Gogi during the parties' process of determining whether they wished to enter into a working relationship. If TNI intended to acquire ownership of the design work Gogi produced after the relationship formed, it failed to reduce that intention to writing and to obtain Gogi's agreement. We hold that the trial court erred by entering judgment for TNI on its breach of contract claim.

Uniform Trade Secrets Act

Next, Gogi claims that the trial court erred in entering judgment for TNI on its UTSA claim. Because the trial court's findings of fact do not support its conclusion of law, we agree.

The UTSA prohibits the misappropriation of trade secrets.¹⁹ RCW 19.108.010(4) defines "[t]rade secret" as

information, including a formula, pattern, compilation, program, device, method, technique or process that:

(a) Derives independent economic value, actual or potential, from not being generally known to, and not being readily ascertainable by proper means by, other persons who can obtain economic value from its disclosure or use; and

(b) Is the subject of efforts that are reasonable under the circumstances to maintain its secrecy.

Further, the act defines "[m]isappropriation" as the

[d]isclosure or use of a trade secret of another without express or implied consent by a person who

.....
(ii) At the time of disclosure or use, knew or had reason to know that his or her knowledge of the trade secret was . . . (B) acquired under circumstances giving rise to a duty to maintain its secrecy or limit its use.^[20]

Thus, an action for misappropriation of a trade secret requires a plaintiff to establish that (1) it possessed a legally protectable trade secret and (2) the defendant misappropriated it. The determination of whether specific information is a trade secret is a factual question.²¹

¹⁹ Ch. 19.108 RCW.

²⁰ RCW 19.108.010(2)(b).

²¹ Ed Nowogroski Ins., Inc. v. Rucker, 137 Wn.2d 427, 436, 971 P.2d 936 (1999).

Here, the apparent basis for the trial court's conclusion that Gogi violated the UTSA was its finding, "On July 26, 2007, Defendants disclosed confidential information of Plaintiff to a competitor of its TN Games division by e-mail from Defendants to Drew Staltman of a company then known as Gas Powered Games." But the trial court did not enter a specific factual finding that the information in Gogi's e-mail to Staltman met the statutory definition of "trade secret." Nor did it conclude that the trade secret had been misappropriated. Therefore, the trial court's findings of fact do not support its conclusion of law that Gogi violated the UTSA. We hold that the trial court erred by entering judgment for TNI on its UTSA claim.

Unpaid Invoices

Gogi also asks us to correct a clerical mistake in the trial court's judgment, which, it contends, does not reflect the trial court's conclusion that TNI owes Gogi an outstanding balance of \$7,220 for work performed. Gogi should have filed a postjudgment motion with the trial court under CR 60(a). Because Gogi failed to bring the matter to the attention of the trial court, we will not consider it for the first time on appeal.²²

Attorney Fees and Costs

TNI and Gogi request attorney fees. We may award attorney fees when authorized by a contract, statute, or recognized ground in equity.²³ The nondisclosure agreement provides for the award of attorney fees incurred at trial and on appeal.

²² RAP 2.5(a).

²³ Mellor v. Chamberlin, 100 Wn.2d 643, 649, 673 P.2d 610 (1983); RAP 18.1.

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Because Gogi is the prevailing party on appeal, we deny TNI's request and grant Gogi's, subject to compliance with RAP 18.1(d).

CONCLUSION

We hold that the trial court erred in concluding that Gogi breached the nondisclosure agreement and violated the UTSA. Accordingly, we need not reach Gogi's additional claims. We reverse the judgment in favor of TNI and remand for further proceedings consistent with this opinion.

Leach, a. e. j

WE CONCUR:

Spencer, J.

Jan, J.

APPENDIX B

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UNITED STATES DISTRICT COURT
WESTERN DISTRICT OF WASHINGTON
AT SEATTLE

TOUCH NETWORKS, INC. a Washington
corporation,

Plaintiff,

v.

GOGI DESIGN, LLC, a Washington
limited liability company, and HYUNSOOK
CHUNG,

Defendants.

No. C07-1686MJP

ORDER GRANTING MOTION TO
REMAND

This matter comes before the Court on Plaintiff's "Motion to Strike Notice of Removal and Remand Case to State Court." (Dkt. No. 10.) After reviewing Plaintiff's motion, Defendants' response (Dkt. No. 19), Plaintiff's Reply (Dkt. No. 23), and the balance of the record, the Court GRANTS Plaintiff's motion. This case is remanded to King County Superior Court for lack of subject matter jurisdiction and all pending motions in this case are hereby terminated.

Background

In March 2005, Touch Networks, Inc. ("TNI") entered into an agreement with Hyunsook Chung, the owner and proprietor of Gogi Design, LLC ("Gogi") for the purchase of promotional materials for products made by TN Games, a division of TNI. On March 5, 2007, TNI and Ms. Chung entered into a mutual non-disclosure agreement (NDA) which enabled Ms. Chung and Gogi to

1 use TNI's confidential and proprietary information for limited purposes. The NDA governs the
2 parties' rights and obligations concerning TNI's confidential and proprietary information and contains
3 a Washington choice of law provision.¹

4 In September 2007, Gogi informed TNI that it no longer wished to provide promotional
5 services for TNI. In response, TNI asked Gogi to return all of TNI's proprietary information and to
6 deliver all the products which Gogi had created for TNI. (Cmplt. ¶ 2.5.) When Gogi failed to deliver
7 the requested materials, TNI filed suit in King County Superior Court bringing two causes of action:
8 breach of contract and misappropriation of trade secrets.² Ms. Chung removed the action to federal
9 court and alleges that TNI's state law cause of actions are preempted by the federal Copyright Act, 17
10 U.S.C. § 301.³ TNI has filed a motion to remand on the ground that the cause of actions are governed
11
12

13
14 ¹The record suggests that Ms. Chung intended to sign the NDA on behalf of Gogi Design. The
15 first sentence of the Agreement incorporates typed text with blank spaces which were filled in to read
16 as follows: "This Nondisclosure Agreement is made as of the 5 day of March, 2005, by Hunsook
Chung, a Gogi Design ("Obligated Person"), and Touch Networks, Inc., a Washington corporation
17 ("Company").

18 ²Defendants assert that the complaint contains "(at least) three distinct claims (based on five
19 legal theories)..." (Def.'s Opp'n at 2.) Defendants characterize the claims as (1) breach of the
20 services contract with a remedy seeking delivery of the products created by Defendants for TNI; (2)
21 breach of the nondisclosure agreement with a remedy seeking the return of TNI's proprietary
22 information; and (3) a demand for injunctive relief requiring that Defendants remove Plaintiff's
23 proprietary information from their website. The Court relies on its own examination of the complaint
24 to inform its analysis. Further, Defendants are reminded that "[t]he well-pleaded complaint rule
25 makes the plaintiff the master of the claim; he or she may avoid federal jurisdiction by exclusive
reliance on state law." Ben Nat'l Bank v. Anderson, 539 U.S. 1, 12 (2003) (internal quotation marks
omitted).

³Ms. Chung filed her notice of removal pro se on October 18, 2007. (Dkt. No. 1.) Exhibit A
of the document contained a "Written Unanimous Consent of Member of Gogi Design, LLC" signed
by Ms. Chung and representing Gogi's consent to the removal. A Limited Liability Company cannot
be represented pro se in this Court. However, Defendants succeeded in curing their removal notice on
October 19, 2007 when attorney John H. Ludwick entered an appearance on behalf of Ms. Chung and
Gogi. See Prize Frize Inc. v. Matrix Inc., 167 F.3d 1261, 1266 (9th Cir. 1999).

1 by state law and are not preempted by the Copyright Act. Absent federal copyright law, this Court
2 lacks subject matter jurisdiction.

3 Discussion

4 In a case lacking diverse parties, removal is proper only if a federal question appears on the
5 face of a well-pleaded complaint. 28 U.S.C. § 1441(b); Caterpillar Inc. v. Williams, 482 U.S. 386,
6 392 (1987). The well-pleaded complaint rule recognizes that the plaintiff is the master of his or her
7 claim. “[H]e or she may avoid federal jurisdiction by exclusive reliance on state law.” Id. A court
8 cannot exercise removal jurisdiction on the ground that the complaint gives rise to a potential or
9 anticipated defense that might raise a federal question, even if the defense is the only question truly at
10 issue in the case. Franchise Tax Bd. v. Constr. Laborers Vacation Trust, 463 U.S. 1, 10-13 (1983).
11 However, removal jurisdiction may be proper when a plaintiff’s state law claims are “completely
12 preempted” by federal law. See Balcorta v. Twentieth Century-Fox Film Corp., 208 F.3d 1102, 1107
13 (9th Cir. 2000). For purposes of the well-pleaded complaint rule, a federal court will have original
14 jurisdiction over an action when the preemptive force of federal law is so extraordinary that it converts
15 the plaintiff’s ordinary state common-law complaint into one stating a federal claim. Caterpillar, 482
16 U.S. at 393. When state law claims are completely preempted by federal law, the plaintiff’s complaint
17 arises under federal law and removal is proper.

18 Application of the complete preemption doctrine is rare. The Supreme Court has
19 acknowledged only three areas of federal law to which it applies: the Labor Management Relations
20 Act, the Employee Retirement Income Security Act, and the National Bank Act. See Avco Corp. v.
21 Aero Lodge No. 735, Int’l Assoc. of Machinists, 390 U.S. 557, 560 (1968); Metropolitan Life Ins.
22 Co. v. Taylor, 481 U.S. 58, 53-67 (1987); Ben. Nat’l Bank v. Anderson, 539 U.S. 1, 11 (2003). The
23 Second, Fourth, and Sixth Circuits have concluded that federal courts also have removal jurisdiction
24 over state law claims preempted by the Copyright Act. See Briarpatch, Ltd. v. Phoenix Pictures, Inc.,
25 373 F.2d 296 (2d. Cir. 2004); Roscieszewski v. Arete Assoc., 1 F.3d 225 (4th Cir. 1993); Ritchie v.

1 Williams, 395 F.2d 283 (6th Cir. 2005). While the Ninth Circuit has not directly addressed whether
2 complete preemption applies to the Copyright Act, several district courts within the Ninth Circuit have
3 held that state law claims preempted by the Copyright Act are removable. See Mattel, Inc. v. Bryant,
4 441 F. Supp. 2d 1081 (C.D. Cal. 2005); Firoozye v. Earthlink Network, 153 F. Supp. 2d 1115 (N.D.
5 Cal. 2001).

6 In Anderson, the Supreme Court suggested that the complete preemption doctrine is applicable
7 when a federal statute creates an exclusive federal cause of action. 539 U.S. at 9. The Copyright Act
8 explicitly preempts state law and substitutes an exclusive federal remedy for “all legal or equitable
9 rights that are equivalent to any of the exclusive rights within the general scope of copyright.” 17
10 U.S.C. § 301(a); Altera Corp. v. Clear Logic, Inc., 424 F.3d 1079, 1089 (9th Cir. 2005). As such, this
11 Court concludes that removal jurisdiction is proper when state claims are preempted by the Copyright
12 Act.

13 The Ninth Circuit has adopted a two-part test to determine whether a state law claim is
14 preempted by the Copyright Act. First, the work at issue must fall within the subject matter of
15 copyright as defined in sections 102 and 103 of the Copyright Act. Second, the state law rights “must
16 be equivalent to rights within the general scope of copyright as specified by section 106 of the
17 Copyright Act.” Del Madera Properties v. Rhodes and Gardner, Inc., 820 F.2d 973, 977 (9th Cir.
18 1987); Laws v. Sony Music Entertainment, Inc., 448 F.3d 1134, 1137-38 (9th Cir. 2005).

19 The Court may only consider the factual allegations in TNI’s complaint and the information
20 included in Defendants’ notice of removal to inform its analysis. Chesler/Perlmutter Prods., Inc. v.
21 Fireworks Entertainment Inc., 177 F. Supp. 2d 1050, 1058 (C.D. Cal. 2001) (citing Schroeder v.
22 Trans World Airlines, Inc., 702 F.2d 189, 191 (9th Cir. 1983)). A notice of removal includes a “short
23 and plain statement of the grounds for removal, together with a copy of all process, pleadings, and
24 orders served upon such defendant or defendants in such action.” 28 U.S.C. § 1446(a). TNI opened
25 this action in King County Superior Court by filing a motion for temporary restraining order (“TRO”).

1 That motion and supporting documents were submitted as part of Defendants' notice of removal and
2 shall be considered in this analysis.

3 **I. Breach of Contract**

4 TNI alleges that Defendants have breached the NDA and the parties' "contract for services"
5 and seeks a remedy requiring the Defendants to return TNI's proprietary information, remove the
6 proprietary information from Defendants' websites, and to deliver the services which TNI has
7 purchased. (Cmplt. ¶¶ 2.5, 2.6, 2.7.) The record contains no evidence of a services contract and it is
8 unclear whether a written contract exists or whether the parties operated under an implied or oral
9 agreement. Regardless, the substance of TNI's complaint and motion for TRO indicate that TNI relies
10 only on the NDA for its assertion that it owns the work at issue.

11 **1. Step One: Copyright Subject Matter**

12 When determining whether a claim meets the preemption requirements, the work at issue need
13 not be protected by a copyright, it merely has to be "within the subject matter" of the Copyright Act.
14 Firoozye, 153 F. Supp. 2d at 1124. The Copyright Act provides copyright protection for "original
15 works of authorship fixed in any tangible medium of expression," including "pictorial, graphic, and
16 sculptural works" and "motion pictures and other audiovisual works," but excludes any idea or
17 concept. 17 U.S.C. § 102. The work at issue in TNI's claim for breach of contract is TNI's
18 proprietary information, defined in the complaint as "promotional character designs, artwork, ideas,
19 and related confidential information." (Cmplt ¶¶ 2.6, 3.2). The NDA defines proprietary information
20 as:

21 Any and all information furnished or made available to Obligated Person (or his/her
22 agents or employees) by Company, or its agents, either prior to or after the date of this
23 Agreement, including but not limited to books, records, contracts, financial statements
24 and information, work papers, tax returns, customer lists, supplier lists, technical data,
25 techniques, know-how, designs, inventions, plans for future development, marketing
plans, market research data, product development plans, business operations, customer
requirements and any and all other records and information, is Company's confidential,
proprietary, trade secret information and any and all such information will hereafter be
referred to as "Proprietary Information."

1 Further, TNI asserts that any work derived from the confidential information which TNI provided to
2 Defendants must also be delivered to TNI under the terms of the NDA. These works include:

- 3 • promotional services including review and presentation of promotional materials (Cmplt
4 ¶ 2.2),
- 5 • the products Chung and Gogi created for Plaintiff (Cmplt ¶ 2.5),
- 6 • all electronically stored data and related information in the appropriate source software
7 format for all elements of TN Games' box, product manual, and website design (all
8 fonts and custom built letters, backgrounds, photos both raw images as well as the
retouched images, etc., including the source animation/art/video for TN Games'
promotional character known as "Bruce" in video format (or whatever master file of
the video that Defendants have) (Cmplt ¶ 2.5).

9 While the work at issue encompasses ideas or concepts not protected by the Copyright Act, it also
10 includes "artwork," "books," "designs," and "audiovisual works" which are protected subject matter.

11 **2. Step Two: Equivalent State Rights**

12 The Copyright Act creates exclusive rights to protect a copyright holder against infringement.
13 17 U.S.C. § 106. These rights include: (1) the right to reproduce the copyrighted work; (2) the right
14 to prepare derivative works based on the copyrighted work; (3) the right to distribute copies of the
15 copyrighted work; and, with respect to certain artistic works, (4) the right to perform the work
16 publicly; and (5) the right to display the copyrighted work publicly. Id. The statute specifically states
17 that the Copyright Act does not preempt state or common law rights which "are not equivalent to any
18 of the exclusive rights... specified by section 106." 17 U.S.C. § 301(b)(3).

19 A state law action is not preempted by the Copyright Act if it requires an "extra element"
20 instead of or in addition to the acts of reproduction, performance, distribution or display, and that
21 "extra element" changes the nature of the action such that it is qualitatively different from a copyright
22 infringement claim. Rosciszewski, 1 F.3d at 229-230; Altera Corp., 424 F.3d 1079. Courts have
23 consistently found that the rights asserted in breach of contract claims are not equivalent to rights
24 which could be asserted in copyright and are therefore not preempted by the Copyright Act. Altera
25 Corp., 424 F.3d at 1089 (citing ProCD, Inc. v. Zeidenberg, 86 F.3d 1447 (7th Cir. 1996)). A claim

1 for breach of contract requires an element not found in infringement claims: the promise exchanged by
2 the parties to abide by the terms of a contract.

3 The parties' NDA contains specific terms enforcing rights of ownership, stating that "all
4 Proprietary Information will at all times be and remain the sole property of [TNI]; and [TNI] is the
5 sole owner of all copyrights, trademarks and other proprietary rights related to Proprietary
6 Information." (Dkt. No. 3 at 6.) Further, TNI asserts that the NDA governs ownership rights over
7 any work derived from proprietary information because it contains a clause stating that the Obligated
8 Person will hold in confidence "all Proprietary Information and any information derived therefrom."
9 Id. The Court does not comment on the merits of these claims, but simply identifies them as claims for
10 breach of contract. On the face of its complaint, TNI does not attempt to exercise any of the rights
11 protected by the Copyright Act but seeks to enforce the terms of the NDA which govern ownership of
12 the work at issue.

13 When a claim "is essentially for some common law or state-created right, most generally for a
14 naked declaration of ownership or contractual rights, [federal] jurisdiction has been declined, even
15 though the claim might incidentally involve a copyright or the Copyright Act." Topolos v. Caldewey,
16 698 F.2d 991, 993 (9th Cir. 1983) (internal citation omitted). The parties entered into a contract
17 governing ownership of TNI's proprietary information. TNI alleges that the contract also governs
18 ownership rights of any work derived from the proprietary information. TNI's allegation that
19 Defendants have breached that contract is a state law claim and is not preempted by the Copyright
20 Act.

21 Defendants argue that the products and services requested by TNI are not proprietary
22 information governed by the NDA. Instead, Defendants assert that TNI is demanding delivery of
23 intellectual property created by Ms. Chung and Gogi and rightfully owned by them under federal
24 copyright laws. According to Defendants,

25 [t]he central issue presented by the TRO is who is the owner of the requested
intellectual property, a question governed exclusively by federal copyright law....

1 Gogi will contend that all, or substantially all, of the property that is subject [sic]
2 of the TRO Motion is original art created by Gogi. Pursuant to Section 201 (a) of
3 the Copyright Act, that original art is the intellectual property of Gogi, not plaintiff.
The plaintiff has absolutely no legal or equitable right to the possession of property
that it does not own.

4 (Notice of Removal at 2.) In assessing the merit of Defendants' argument, the Court looks to the
5 Plaintiff's descriptions of the requested materials in its pleadings. These descriptions include:

- 6 • "public relations and promotional services" (Ombrello Decl. at ¶ 2),
- 7 • "proprietary and confidential commercial information" (Ombrello Decl. at ¶ 3),
- 8 • "information derived from the Proprietary Information" (Ombrello Decl. at ¶ 5),
- 9 • "TNI/TN Games' original design, artwork, and animation of a character known as "Bruce"
10 (Ombrello Decl. at ¶ 6),
- 11 • "confidential proprietary information, including copies of all the core elements of our box,
12 product manual, and website design (all fonts and custom built letters, backgrounds, photos
13 (both raw images as well as the retouched images, etc) ... in its appropriate source format so
14 that it can be used/edited/changed/ and not just PDF pages which can only be viewed and not
15 edited" (Ombrello Decl. at ¶ 8; Ex. 4, Ombrellaro email),
- 16 • "the source animation/art/video for our Bruce video (or whatever master file of the video that
17 [Defendants] have)" (Ombrello Decl. at ¶ 11),
- 18 • "TNI/TN Games' 'Bruce' character and video and the original source files for the Bruce
19 video" (Ombrellaro email, 9/7/07),
- 20 • "a copy of the entire master list/contact info for our media/press contacts that we have
21 developed before and after the GDC up until the present, as well as any and all related work
22 product regarding our PR efforts (old and new)" (Ex. 4, Ombrellaro email),
- 23 • "the source images for the all [sic] of the GDC related projects: kiosk graphics, booth
24 graphics, the buttons, and the T-shirts as well" (Ex. 6, Ombrellaro email).

20 These descriptions do not contradict TNI's allegations that it is requesting proprietary information and
21 work derived therefrom. Instead, TNI clearly states in its motion for TRO the essence of its claim:

22 Chung and a series of her employees who worked on the original art and design
23 provided by Plaintiff, TN Games, signed the nondisclosure agreement that plainly states
24 that all information, including know-how, designs, inventions, or plans, furnished or
25 made available to Gogi and/or its agents, are TNI's "confidential, proprietary, trade
secret information", including any information derived from the Proprietary
Information. In other words, if Gogi edited the Bruce promotional character video, that
remains the Proprietary Information of TNI as the edited video is derived from the

1 Bruce character proved by TN Games to Gogi and the editing work has been paid for
2 by TN Games.

3 (Motion for TRO at 8.) Stated simply, TNI alleges that it “developed the artwork and designs that it
4 provided to Gogi” and simply paid Gogi “to modify or manipulate” those materials. Id.

5 Defendants have failed to persuade the Court that TNI’s allegations extend beyond a claim for
6 breach of contract to allege a right protected by the Copyright Act. Because the federal courts are
7 courts of limited jurisdiction, the removal statute is strictly construed and the burden of persuasion is
8 placed upon the party seeking removal. Gaus v. Miles, Inc., 980 F.2d 564, 566 (9th Cir. 1992).

9 Defendants have not met this burden because they have failed to convince the Court that TNI’s claims
10 allege something more than ownership rights under the NDA. The Court finds no basis for
11 Defendants’ conclusion that TNI’s claim of ownership stems from a “work for hire” provision or a
12 theory of contribution.⁴ The complaint and Motion for TRO clearly indicate that TNI’s assertion of
13 ownership is based on the terms of the NDA. Whether or not TNI’s ownership rights to the requested
14 materials are protected by the NDA is a matter of contract law, not federal copyright law.

15 Finally, Gogi argues that TNI’s breach of contract claim is qualitatively a claim of infringement
16 because TNI requests that Gogi “remove Plaintiff’s Proprietary Information from Defendants’
17 website(s).” While this request appears to implicate a right protected by copyright law, it does not
18 constitute a cause of action but is instead a remedy sought in conjunction with the breach of contract
19 claim. The NDA states that, at TNI’s request, Defendants “will delete all proprietary information from
20 his/her documents or data storage media.” Again, enforcement of the terms of the NDA is a matter of
21 state contract law and is not preempted by the Copyright Act.

22
23 ⁴Defendants argue that the claim is governed by the Copyright Act because “the determination
24 of ownership depends on construction of the Copyright Act,” and cite to Gaiman v. McFarlane, 360
25 F.3d 644, 652-53 (7th Cir. 2004) and Cambridge Literary Props., Ltd. v. Goebel Porzellanfabrik
G.m.b.H. & Co. Kig., 448 F. Supp. 2d 244, 255 (D. Mass. 2006). This authority is not controlling
and is distinguishable. In both cases, the plaintiffs claimed to have a copyright interest in the work at
issue and sought profits resulting from the use of that work. TNI does not seek a declaration that it is
a co-owner of the work at issue but instead claims ownership under the NDA.

1 **II. Misappropriation of Trade Secrets**

2 TNI's Complaint also alleges that Defendants have misappropriated TNI's trade secrets in
3 violation of the Uniform Trade Secrets Act ("UTSA"). (Cmplt. ¶¶ 3.2, 3.3.) TNI alleges that it
4 provided Defendants with proprietary information including "promotional character designs, artwork,
5 ideas and related confidential information" which constitute a "trade secret" under the Uniform Trade
6 Secrets Act. (Cmplt. ¶ 3.2; RCW 19.108.010(4).) Plaintiff seeks the return of that information
7 through injunctive relief pursuant to RCW 19.108.010.

8 **1. Step One: Copyright Subject Matter**

9 Again, the Copyright Act provides copyright protection for "original works of authorship fixed
10 in any tangible medium of expression," including "pictorial, graphic, and sculptural works" and
11 "motion pictures and other audiovisual works," but excluding any idea or concept. 17 U.S.C. § 102.
12 The trade secrets allegedly misappropriated by Defendants consist of TNI's proprietary information.
13 As discussed above, this material is protected by the Copyright Act.

14 **2. Step Two: Equivalent State Rights**

15 A state law action is not preempted by the Copyright Act if it requires an "extra element"
16 instead of or in addition to the acts of reproduction, performance, distribution or display, and that
17 "extra element" changes the nature of the action such that it is qualitatively different from a copyright
18 infringement claim. Rosciszewski, 1 F.3d at 229-230; Altera Corp., 424 F.3d 1079. It is well
19 established that actions alleging misappropriation of trade secrets do not meet the extra element test.
20 "Actions for disclosure and exploitation of trade secrets require a status of secrecy, not required for
21 copyright, and hence, are not pre-empted. This conclusion follows whether or not the material subject
22 to the trade secret is itself copyrightable." Firoozye, 153 F. Supp. 2d at 1130 (citing Nimmer on
23 Copyright, § 1.01[B][1][h], at 1-39 to 1-40).

24 The Washington Supreme Court has held that federal copyright law does not preempt state
25 trade secret claims. Boeing Co. v. Sierracin Corp., 108 Wn.2d 38, 49 (Wash. 1987). Under

1 Washington law, a plaintiff must establish that a legally protectable trade secret exists before prevailing
2 on a claim for misappropriation of a trade secret. RCW 19.108 et seq. TNI's misappropriation of
3 trade secrets claim is not preempted by copyright law and provides no basis for federal jurisdiction.

4 **Conclusion**

5 Because Plaintiff's well-pleaded complaint does not establish that federal copyright law creates
6 any claims asserted or that TNI's right to relief necessarily depends on resolution of a substantial
7 question of federal copyright law, the Court finds that removal under 28 U.S.C. § 1338 or 28 U.S.C. §
8 1331 is not proper. Because the Court lacks subject matter jurisdiction over this matter, the Court
9 REMANDS this case to King County Superior Court pursuant to 28 U.S.C. § 1447(c). Each side will
10 bear its own fees and costs in connection with this motion.

11 The Clerk is directed to send copies of this order to all counsel of record.

12 Dated: December 20, 2007.

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16 Marsha J. Pechman
17 U.S. District Judge
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APPENDIX C

FILED
KING COUNTY, WASHINGTON

The Honorable Mary Yu
Attorneys for Plaintiff

JUN 02 2009

FILED
KING COUNTY, WASHINGTON

JUN 02 2009

**SUPERIOR COURT CLERK
ANGIE VILLALOVOS
DEPUTY**

**DEPARTMENT OF
JUDICIAL ADMINISTRATION**

IN THE SUPERIOR COURT OF THE STATE OF WASHINGTON
IN AND FOR THE COUNTY OF KING

TOUCH NETWORKS, INC., a Washington
corporation,

NO. 07-2-33454-8 SEA

Plaintiff,

vs.

FINDINGS OF FACT AND
CONCLUSIONS OF LAW

GOGI DESIGN, LLC, a Washington limited
liability company, and HYUNSOOK
CHUNG,

Defendants.

THIS MATTER came before the undersigned judge for trial, without jury, on April 28-30 and May 4, 2009. Plaintiff, Touch Networks, Inc. was represented by David T. Hasbrook. Defendants Gogi Design, LLC and HyunSook Chung were represented by Matthew E. Miller.

Now, having considered the testimony and exhibits admitted during trial, and argument of counsel, the Court makes the following Findings of Fact and Conclusions of Law:

FINDINGS OF FACT
& CONCLUSIONS OF LAW-1

10013

ORIGINAL

O'SHEA BARNARD MARTIN
A Professional Service Corporation

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10900 NE Fourth Street
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Phone: (425) 454-4800 Fax: (425) 454-6575

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I. FINDINGS OF FACT

1.1. Plaintiff Touch Networks, Inc. is a Washington corporation doing business in King County, Washington ("TNI"). TN Games is a wholly owned subdivision of TNI that also does business in King County, Washington. TN Games engages in the electronic gaming business.

1.2. Defendant, HyunSook Chung ("Ms. Chung"), is a resident of King County, Washington.

1.3. Defendant Gogi Design, LLC, was a sole proprietorship of Ms. Chung until it formed as a Washington limited liability company doing business in King County, Washington on November 15, 2006 ("Gogi"). Gogi and Ms. Chung engage in promotional work including graphic design. + Ms Chung signed the NDA in her personal capacity + on behalf of Gogi Design

1.4. This case was set for trial in this court after the Honorable Marsha Pechman granted Plaintiff's motion to remand the case from the U.S. District Court for the Western District of Washington by order dated December 20, 2007.

1.5. On March 15, 2005, before performing any work for Plaintiff, Defendants signed a contract with Plaintiff entitled the Nondisclosure Agreement ("NDA"). Plaintiff relies on the NDA for its assertion that any work produced by Defendants for Plaintiff is owned by Plaintiff and that Defendants misappropriated trade secrets in violation of the Uniform Trade Secrets Act.

1.6. A true and correct copy of the NDA that was admitted at trial without objection as Trial Exhibit 1 is attached and incorporated by reference herein.

1 1.7. No evidence was presented that would support the court setting aside the
2 NDA.

3
4 1.8. Defendants declined to perform additional services for Plaintiff on and
5 after September 6, 2007, and the business relationship between the parties ended at
6 that time.

7 1.9. Plaintiff and Defendants orally agreed that defendants would perform
8 services for Plaintiff in exchange for Plaintiff's promise to pay \$65 an hour to
9 Defendants. Plaintiff paid all of Defendants' invoiced amounts based on the hourly rate
10 through September 6, 2007, but did not pay \$7,220 that Defendants billed to Plaintiff
11 after September 6, 2007.

12
13 1.10. Throughout 2007, Plaintiff was in the process of developing its business,
14 TN Games, in the electronic gaming industry and working to release for sale its product,
15 the 3rd Space Gaming Vest.

16 1.11. On November 2, 2007, after Plaintiff had commenced this lawsuit and
17 while the case was temporarily removed to federal court, Defendants submitted seven
18 applications to register copyrights as to various items of promotional materials
19 contained in the electronic data files at issue in this case. The U.S. Copyright office
20 declined to register copyrights for three of the applications submitted by Defendants and
21 entitled by Defendants as:
22

- 23
- TN Games Logo Collection
 - Touch Networks Logo & Logo Icon Collection
 - 3d Space Logo and Logo Icon Collection
- 24
25

FINDINGS OF FACT
& CONCLUSIONS OF LAW-3

10013

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1 The U.S. Copyright Office permitted Defendant, Gogi, to register the following items with
2 the effective date of November 2, 2007, with Gogi's titles indicated and the registration
3 number indicated:
4

- 5 a. 3d Space Vest Collection, No. VAU 959-029;
- 6 b. "The Beatdown," No. PA 1-590-169;
- 7 c. TN Games GDC Collection, No. VA 1-630-183; and
- 8 d. TN Games Website 2.0 Collection, No. VA 1-632-440.

9 Trial Exhibit 27.

10 1.12. "The Beatdown" digitally animated motion picture with sound bearing U.S.
11 Copyright Registration No. PA 1-590-169 lists copyright claimants as Rafael Calonzo,
12 Jr., David Green, and Gogi Design, LLC. Mr. Calonzo and Mr. Green were engaged by
13 Gogi to contribute elements to the motion picture.

14 1.13. The works identified in the copyrights registered to Gogi and others as
15 indicated above are materials related to the Proprietary Information of TNI.

16 1.14. TNI has incurred \$72,224.00 in out-of-pocket re-design expenses
17 associated with the materials at issue in this matter including with respect to design
18 elements contained in the materials for which Gogi claimed copyright ownership.

19 1.15. On July 26, 2007, Defendants disclosed confidential information of Plaintiff
20 to a competitor of its TN Games division by e-mail from Defendants to Drew Staltman of
21 a company then known as Gas Powered Games.

22 1.16. TNI has incurred damages due to delay in and harm to the development of
23 both its TN Games company brand and its 3rd Space Gaming Vest product brand.

24 1.17. TNI has incurred costs including attorneys' fees. *Which the Ct finds were*
reasonably related to success on the claims re: the contract + the damages
supported.

25 FINDINGS OF FACT
& CONCLUSIONS OF LAW-4

10013

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1 Based on the foregoing FINDINGS OF FACT, the Court makes the following
2 CONCLUSIONS OF LAW:

3
4 **II. CONCLUSIONS OF LAW**

5 2.1 The court rules for Plaintiff on its breach of contract claim.

6 2.2 The court rules for Plaintiff on its claim for violation of the Uniform Trade
7 Secrets Act.

8 2.3 The court dismisses Defendants' copyright counterclaims.

9 2.4 The court rules that Plaintiff owes Defendants an outstanding balance for
10 work performed in the amount of \$7220.

11 2.5 The U.S. District Court for the Western District of Washington granted
12 Plaintiff's motion to remand this case from federal court on the grounds that the causes
13 of action are governed by state law and not preempted by the U.S. Copyright Act.

14 2.6 The NDA includes a definition of "Proprietary Information" that is broad but
15 reasonable given the nature of the industry and electronic gaming business that Plaintiff
16 was undertaking.

17 2.7 The NDA also includes two other relevant provisions: Paragraph 1
18 requires that all "Proprietary Information" and any information derived therefrom shall be
19 held in strict confidence, and Paragraph 2 requires that Defendants acknowledge that
20 Plaintiff "is the sole owner of all copyrights, trademarks, and other proprietary rights
21 related to [the] Proprietary Information." (emphasis added).
22
23
24
25

1 2.8 Plaintiff is entitled to declaratory relief that it is the owner of copyright as to
2 all works for which defendants submitted applications and received copyright
3 registration from the U.S. Copyright Office as more particularly identified above.
4

5 2.9 The defendants are liable, jointly and severally, to the plaintiff for breach of
6 contract.

7 2.10 The defendants are liable, jointly and severally, to the plaintiff for
8 misappropriation of plaintiff's trade secrets in violation of the Uniform Trade Secrets Act,
9 RCW 19.108.010, *et seq.*

10 2.11 TNI has incurred general damages as a result of Defendants' breach of
11 the NDA.
12

13 2.12 Plaintiff is entitled to recover compensatory damages in the amount of
14 \$ 72,224.00.

15 2.13 Plaintiff is entitled to a permanent injunction for the return of its source
16 data from Defendants.

17 2.14 Plaintiff is entitled to an award of reasonable attorneys' fees and costs in
18 the amount of ~~\$101,239.75~~ 92,970.00 + 654.75 = 99,534.75 * The Ct. could only
19 find 329.3 hours
attributable to Hasbrook

20 2.15 Judgment shall be entered against the Defendants, Gogi Design, LLC and
21 HyunSook Chung, jointly and severally.

22 Dated: June 2, 2009.

23 the Ct denies the request
24 for oral argument
25 *JP*

Mary Yu
JUDGE MARY YU

329.3 x 275 =
90,557.50 +
Other Fees 212.50
92,970.00
JP

FINDINGS OF FACT
& CONCLUSIONS OF LAW-6

10013

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Presented by:

O'SHEA BARNARD MARTIN & OLSON, P.S.

By: 
David T. Hasbrook, WSBA No. 28140
Attorneys for Plaintiff

FINDINGS OF FACT
& CONCLUSIONS OF LAW-7

10013

O'SHEA BARNARD MARTIN
A Professional Service Corporation
1500 Skyline Tower
10900 NE Fourth Street
Bellevue, WA 98004-5844
Phone: (425) 454-4800 Fax: (425) 454-6575

NONDISCLOSURE AGREEMENT

THIS NONDISCLOSURE AGREEMENT is made as of the 17 day of March, 2005, by HuunSook Chung, a sole owner ("Obligated Person"), and Touch Networks, Inc., a Washington corporation ("Company")

RECITAL

A. [Solely for the purpose of evaluating whether Obligated Person desires to , Obligated Person is interested in reviewing certain of Company's books, records, operating methods and other information and property].

Any and all information furnished or made available to Obligated Person (or his/her agents or employees) by Company, or its agents, either prior to or after the date of this Agreement, including but not limited to books, records, contracts, financial statements and information, work papers, tax returns, customer lists, supplier lists, technical data, techniques, know-how, designs, inventions, plans for future development, marketing plans, market research data, product development plans, business operations, customer requirements and any and all other records and information, is Company's confidential, proprietary, trade secret information and any and all such information will hereafter be referred to as "Proprietary Information."

NOW, THEREFORE, for good and valuable consideration, Obligated Person hereby agrees as follows:

1. For a period of five (5) years from the date of this Agreement, Obligated Person: will hold in strict confidence and trust and maintain as confidential all Proprietary Information and any information derived therefrom; and will not disclose any Proprietary Information or any information derived therefrom to any person, except to those employees or legal counsel of Obligated Person who are required to evaluate the Proprietary Information for the purpose described in A. above and who have agreed to be bound by the provisions of this Agreement. Obligated Person will not use the Proprietary Information except to evaluate such information for the purpose described in A. above.

2. Obligated Person acknowledges that: all Proprietary Information will at all times be and remain the sole property of Company; and Company is the sole owner of all copyrights, trademarks and other proprietary rights related to Proprietary Information. Nothing in this Agreement shall be construed as granting to or permitting Obligated Person an implied license in, or right or option to use any Proprietary Information for any reason other than for the purpose described in A. above.

3. Obligated Person's obligations of confidentiality do not apply to any information: (i) which now is in the public domain through no action or inaction by Obligated Person or his/her agents or employees; (ii) which hereafter comes into the public domain through no action or inaction by Obligated Person or his/her agents or employees; or (iii) which Obligated Person can establish was known to him/her prior to receipt from Company or its employees or agents.

4. Within 30 days after receiving any information which is described in 3(i) or 3(ii) above or within 30 days after Obligated Person discovers that information which was not in the public domain when received has become information described in 3(ii) above, Obligated Person will provide Company with written notice specifically describing the information which he/she contends is described in 3(i), 3(ii), or 3(ii).

5. Immediately upon cessation of discussions between Obligated Person and Company concerning the purpose described in A above, or upon Company's request, Obligated Person will turn

over to Company all Proprietary Information and all documents or data storage media containing any such Proprietary Information, and any and all copies thereof, and Obligated Person will delete all proprietary information from his/her documents or data storage media.

6. In the event a party to this Agreement commences any action or proceeding (or an appeal of such action or proceeding) against the other or otherwise retains an attorney by reason of any breach or claimed breach of any provision of this Agreement, or to seek judicial declaration of rights hereunder or judicial or equitable relief, the prevailing party in such action or proceeding shall be entitled to recover its reasonable attorneys' fees and costs.

7. This Agreement shall be interpreted, construed and enforced in accordance with the laws of the State of Washington. Obligated Person hereby submits to jurisdiction in federal or state court in King County, Washington, and, at Company's option, venue for any equitable or legal action shall lie in King County, Washington.

8. This Agreement supersedes all prior discussions and writings and constitutes the entire agreement between the parties with respect to the subject matter hereof. No waiver or modification of this Agreement shall be binding upon the parties hereto unless made in writing.

9. The obligations of the parties hereunder shall survive the return of any Proprietary Information. The persons signing this Agreement represent or warrant they have the authority to bind the persons on whose behalf they are signing.

OBLIGATED PERSON:



ADDRESS: 800 NEWIT ST
8000 WA 98148

(206) 848-0505

APPENDIX D

The Honorable Mary Yu
Attorneys for Plaintiff

FILED
KING COUNTY, WASHINGTON

JUN 02 2008

**SUPERIOR COURT CLERK
ANGIE WILLALOVOS
DEPUTY**

IN THE SUPERIOR COURT OF THE STATE OF WASHINGTON
IN AND FOR THE COUNTY OF KING

TOUCH NETWORKS, INC., a Washington
corporation,

NO. 07-2-33454-8 SEA

Plaintiff,

JUDGMENT FOR PLAINTIFF

vs.

"Clerk's Action Required"

GOGI DESIGN, LLC, a Washington limited
liability company, and HYUNSOOK
CHUNG,

Defendants.

JUDGMENT SUMMARY

- 1. Judgment Creditor: Touch Networks, Inc.
- 2. Judgment Debtors: Gogi Design, LLC and HyunSook Chung,
jointly and severally.
- 3. Principal Judgment Amount: \$ 72,224.00
- 4. Interest to Date of Judgment \$ -0-
- 5. Attorneys' Fees: \$ 92,970.00
- 6. Costs: \$ 6,564.75
- 7. Other Recovery Amounts: \$ -0-

JUDGMENT-1

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ORIGINAL

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- 1 8. Principal Judgment Amount Shall Bear Interest at 12% per annum.
2
3 9. Attorneys' Fees, Costs and Other Recovery Amounts Shall Bear Interest at 12%
4 per annum.
5 10. Attorney for Judgment Creditor: David T. Hasbrook, O'Shea Barnard Martin,
6 P.S., 10900 NE 4th Street, Suite 1500, Bellevue, WA 98004

7 **JUDGMENT**

8 This matter was tried by the court from April 28 to May 4, 2009, the Honorable
9 Mary I. Yu presiding. Plaintiff Touch Networks, Inc. appeared through its attorneys of
10 record, O'Shea Barnard Martin & Olson, P.S., David T. Hasbrook. Defendants, Gogi
11 Design, LLC, and HyunSook Chung, appeared through its attorneys of record, Cuneo
12 Gilbert & LaDuca, LLP, Matthew E. Miller.

13 The parties presented evidence, testimony, and argument to the court and on
14 May 7, 2009, the court issued its Summary Decision in favor of Plaintiff on its claims for
15 breach of contract and violation of the Uniform Trade Secrets Act and dismissed the
16 Defendants' copyright counterclaims but found that Plaintiff owes Defendants an
17 outstanding balance for work performed. A copy of the court's Summary Decision is
18 attached as Exhibit 1.

19
20 Consistent with the court's decision in this action and based upon the Court's
21 Findings of Facts and Conclusions of Law, the Court ENTERS JUDGMENT as follows:

22 Principal Judgment Amount: Plaintiff Touch Networks, Inc., is
23 awarded judgment against
24 Defendants Gogi Design, LLC and HyunSook Chung in the amount of: \$ 72,224.00

25 Costs: Plaintiff Touch Networks, Inc., is
awarded costs in the amount of: \$ 6564.75

JUDGMENT-2
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Bellevue, WA 98004-5844
Phone: (425) 454-4800 Fax: (425) 454-6575

1
2 Attorneys' Fees:

Plaintiff Touch Networks, Inc., is
awarded reasonable attorneys' fees
of:

\$ 92,970.60

3
4
5 All sums awarded to Plaintiff shall bear interest at 12% per annum from the date of entry
6 of this judgment until paid.

7 IT IS FURTHER ORDERED, ADJUDGED AND DECREED that

8 1. The copyrights with the effective U.S. Copyright Office registration date of
9 November 2, 2007, currently registered to Gogi and others and bearing the titles and
10 the registration number indicated as follows

- 11
12 a. 3d Space Vest Collection, No. VAU 959-029,
13 b. "The Beatdown," No. PA 1-590-169,
14 c. TN Games GDC Collection, No. VA 1-630-183, and
15 d. TN Games Website 2.0 Collection, No. VA 1-632-440

16 belong to Touch Networks, Inc. as sole owner of each respective copyright pursuant to
17 contract;

18 2. Defendants shall immediately and within three ¹⁵~~30~~ court days of this (M)
19 judgment return to TNI all Proprietary Information and all documents or data storage
20 media containing any Proprietary Information of TNI and any and all copies thereof,
21 including, without limitation, all electronically stored data and related information in the
22 appropriate source software format ^(including all editable computer versions) for all elements of TN Games' box, product manual, (P)
23 and website design (all fonts and custom built letters, backgrounds, photos both raw
24 images as well as the retouched images, etc., including the source animation/art/ video
25 for TN Games' promotional character known as "Bruce" in the video entitled "The

JUDGMENT-3

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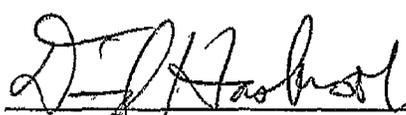
1 Beatdown" in Flash video format (and whatever other master files of the video that
2 Defendants have) and *within its control + within the control of any of its*
3 *subcontractors.*

4 3. Defendants shall immediately and within ~~three~~ *15* court days of this order
5 remove and delete all of Touch Networks, Inc.'s Proprietary Information from Gogi
6 Design's documents or data storage media including, without limitation, removal from
7 any and all websites owned, operated, directed by, or licensed to Gogi Design and/or
8 HyunSook Chung (including, without limitation, "www.gogidesign.com") of all marketing
9 and promotional materials, designs, and artwork depicting or relating to Touch
10 Networks, TN Games, TN Games logos, TN Games products, all animated and still
11 versions of the marketing character known as "Bruce," the Forcewear Vest, the 3rd
12 Space Vest, 3rd Space Incursion, or other materials derived from or related to Touch
13 Networks, Inc. or TN Games.
14

15
16 DONE IN OPEN COURT this 2 day of June, 2009.

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18 
19 _____
20 JUDGE MARY I. YU

21 Presented by:
22 O'SHEA BARNARD MARTIN & OLSON, P.S.

23 By: 
24 _____
25 David T. Hasbrook WSBA No. 28140
Attorneys for Plaintiff

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IN THE SUPERIOR COURT OF THE STATE OF WASHINGTON
IN AND FOR THE COUNTY OF KING

TOUCH NETWORKS, INC., a Washington
corporation,
Plaintiff,

v.

GOGI DESIGN, LLC, a Washington limited
liability company, and HYUNSOOK CHUNG,
Defendants.

No. 07-2-33454-8 SEA

SUMMARY DECISION

[Formal Findings of Fact and Conclusions of
Law to Follow]

THIS MATTER came before the undersigned judge for trial, without jury, on April 28, 2009. All parties were present and participated in trial through legal counsel. The court considered the testimony, exhibits admitted during trial, and argument of counsel, and finds for Plaintiff on its breach of contract claim and violation of the Uniform Trade Secrets Act. The court dismisses Defendants' copyright counterclaims, but finds that Plaintiff owes Defendants an outstanding balance for work performed.

1 The case set was set for trial in this court after the Honorable Marsha Pechman granted
2 Plaintiff's motion to remand the case from federal court on the grounds that the cause of actions
3 are governed by state law and not preempted by the Copyright Act. Plaintiff relies upon a
4 contract for its assertion that any work produced by Defendants is owned by Plaintiff and that
5 Defendants misappropriated trade secrets in violation of the Uniform Trade Secrets Act.
6

7 Although a general legal presumption exists that the author of a work is the owner of such
8 work, the court reaches the contrary result because of a specific contract entered into by the
9 parties. The contract entitled the NonDisclosure Agreement ("NDA") includes a definition of
10 "Proprietary Information." The definition is broad, but reasonable given the nature of the
11 industry and business Plaintiff was undertaking (electronic gaming). There is no dispute that
12 Defendants signed the NDA before performing work for Plaintiff.
13
14

15 The NDA also includes two other relevant provisions. One requires that all "Proprietary
16 Information" and any information derived therefrom shall be held in strict confidence (par. 1).
17 The second requires that the Defendant acknowledge that Plaintiff "is the sole owner of all
18 copyrights, trademarks and other proprietary rights *related to* [the] Proprietary Information"
19 (par.2 *emphasis added*).
20

21 The court did not hear any evidence that would support the court setting aside the NDA.
22 In addition, the course of conduct between the parties during the 30 month relationship and the
23 fact that ownership or a claim to copyright did not arise until after the litigation was commenced
24 lends credibility to Plaintiff's theory as to why the NDA should be enforced and why the work
25 produced by Defendants is owned by Plaintiff.
26
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1 In regard to Plaintiff's claim of misappropriation of a trade secret, the court finds that the
2 e-mail disclosure to Drew Staltman, a competitor, violated the NDA and the Uniform Trade
3 Secrets Act, RCW 19.108.010(2)(b)(ii)(B). However, the court does not find that the
4 misappropriation was willful or malicious and, therefore, does not find that Plaintiff suffered
5 damages as a result of such disclosure.
6

7 The NDA provides for recovery of fees and costs, which the court shall award to Plaintiff
8 and such award shall be joint and several between the Defendants. The court shall also issue an
9 order directing that all "source data" be provided to Plaintiff. The court does not find any legal
10 basis to award the requested compensatory damages or the alleged loss of value to its product
11 sales and brand development since there was no service agreement governing the delivery of
12 design or PR services. The court will permit the parties to file additional legal authorities on this
13 question if Plaintiff wishes to pursue such damages.
14
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16 In regard to Defendants' counterclaims, the court finds that Defendants are owed a
17 balance of \$7220.00 for work performed, and orders Plaintiff to pay the invoices. All other
18 counterclaims are dismissed and Defendants are not entitled to an award of fees.
19

20 In accordance with CR 52, Plaintiff shall present revised Findings of Fact and
21 Conclusions of Law consistent with this Summary Decision. Since counsel for Defendants
22 resides out of state, the court will permit counsel to appear telephonically if an in-court hearing is
23 requested. Otherwise, final presentation may be noted without oral argument.
24

25 IT IS SO ORDERED this 7th day of May, 2009

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27 
28 _____
29 Judge Mary I. Yu
KING COUNTY SUPERIOR COURT