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SUPREME COURT
OF THE STATE OF WASHINGTON

CORBIS CORPORATION, a Nevada corporation,

Petitioner/Cross-Respondent,

v.

STEVE A. STONE, d/b/a "InfoFlows" and "Stone Consulting," an individual; and INFOFLOWS CORPORATION, a Washington corporation,

Respondents/Cross-Petitioners.

SUPPLEMENTAL BRIEF OF CROSS-RESPONDENT CORBIS CORPORATION

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ORIGINAL

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I. INTRODUCTION

InfoFlows did not object to the instruction that told the jury that the tort of conversion is an unjustified interference with personal property that deprives the plaintiff of its right to possess that property. InfoFlows did not suffer any deprivation of its property. InfoFlows proved no compensable damages from any unauthorized use of its software code or any other property. InfoFlows' claim for "unauthorized copying of software," by definition, is a copyright violation that is preempted by federal law. This Court should affirm dismissal of InfoFlows' conversion claim on any, or all, of these grounds.

II. SUPPLEMENTAL STATEMENT OF ISSUES

1. Is the unauthorized interference with the right to possess, use or control of personal property an essential element of the tort of conversion?

2. Does a conversion claim fail as a matter of law in the absence of any evidence of the value of the property allegedly converted?

3. Does the Federal Copyright Act, 17 U.S.C. § 301(a), preempt InfoFlows' claim that Corbis converted InfoFlows'

intellectual property by retaining or making copies of its "software code and supporting materials"?

III. SUPPLEMENTAL STATEMENT OF THE CASE

A. Corbis Terminated Its Contract For The Development Of A Digital License Management System Without Taking, Copying Or Using InfoFlows' Software Code.

Corbis contracted with Steve Stone's company InfoFlows to develop a digital license management system for its proprietary collection of over 100 million digital images. (Ex. 43) Corbis hoped to implement the system to police piracy, to allow Corbis customers to determine their license rights in Corbis images and, if necessary, to bring their licenses current. (Ex. 43)

Corbis had originally contracted with Stone in 2004 as an independent contractor to explore embedding digital "handles," or a type of numeric tag, into Corbis' digital files. (Exs. 2, 10) In June 2006, Corbis and InfoFlows executed a Development Agreement, whose purpose was to authorize InfoFlows to build a "completely operational" version of a license management system called "Boulder Ridge." (Ex. 43 at 1)

The Development Agreement and the prior independent contractor agreements with Stone gave Corbis the exclusive ownership rights of all "work product" produced by InfoFlows for

Corbis. (Exs. 2, 10, 43 § 6) InfoFlows retained ownership in technology that Stone had developed to insert and search for handles on digital image files, known as the "Jazz Service." (Ex. 43 § 9; CP 109 (order on summary judgment re: definition of "Jazz Service")).

The Development Agreement called for payments to InfoFlows totaling $3.95 million upon its successful completion of sequential milestones and Corbis' acceptance of InfoFlows deliverables. (Ex. 43 § 7) The Development Agreement provided that if InfoFlows delivered a fully operational digital license management system, Corbis could at its sole discretion enter into a licensing agreement with InfoFlows for the "Jazz Service" to supply the handle services for use on the completed Boulder Ridge system. (Ex. 43 § 9; CP 102-05) If the parties had entered into a Jazz Service licensing agreement, InfoFlows could have received up to a maximum of $7 million in combined milestone payments under the Development Agreement and license fees. (Ex. 43 § 9)

Corbis paid InfoFlows the initial payment of $250,000 and a fully-refundable $500,000 advance for licensing the Jazz Service upon signing the Development Agreement on June 2, 2006. (RP 1017) The Development Agreement called for Corbis to pay

InfoFlows an additional $1 million in combined milestone payments after Corbis accepted InfoFlows' delivery of a working "alpha" demonstration of Boulder Ridge. (Ex. 43 § 7)

InfoFlows "delivered" the alpha milestone by posting software code to a "SharePoint" site to which it gave Corbis access on September 11, 2006. (Ex. 332) "As a courtesy," InfoFlows also told Corbis that it had posted on the SharePoint site source code for that portion of its Jazz Service that was intended to "crawl" the web to look for and identify digital handles embedded in Corbis digital images. (Ex. 329) It is undisputed that InfoFlows' alpha delivery contained no demonstration of the license management system or any portion of it. (RP 1194)[1]

Corbis rejected this milestone delivery (*See* RP 1500-02, 1586 ("It wasn't an application that you could actually install and use")) and on October 12, 2006, notified InfoFlows that it was terminating the Development Agreement. (Exs. 84, 122; RP 853-57, 862-65) It is undisputed that Corbis did not download any of the code that InfoFlows posted to the SharePoint website. (RP

[1] Stone told Corbis that "Boulder Ridge Alpha is running in the data center," but acknowledged that "without the [user interface], there is not much to see other than blinking lights." (Ex. 329) Stone promised to begin building the requisite user interface the next week. (Ex. 329)

1194-95, 1508, 1589-92) Corbis did not use any of the software code that it accessed from the SharePoint site. (RP 1767) Corbis did not provide any of the software code to any third parties. (RP 2227) Corbis never deprived InfoFlows of control over its proprietary code.

Corbis never implemented the digital license management system contemplated by the Development Agreement and InfoFlows continued with its development of the "Jazz Service." (RP 2383, 2653-54) In January 2007, InfoFlows announced the release of "Fedmark," a tool for monitoring and tracking the use of digital images. (RP 2395-97, 2803)[2]

B. The Lower Courts Held That InfoFlows' Conversion Claim Failed Because Corbis Did Not Deprive InfoFlows Of Its Property Interest In Its Software Code.

InfoFlows claimed that Corbis used its commercial relationship with Stone and InfoFlows to misappropriate Stone's idea for a license management system. (CP 36-62; RP 3003) At trial, InfoFlows abandoned its claim for damages for misappropriation of trade secrets. (CP 55-56, 528) In a special

[2] Prior to execution of the Development Agreement, Corbis filed a patent application for a digital license management system. (Ex. 222) InfoFlows filed its own patent application for Fedmark in Jan 2007. (Ex. Ex. 100) By the time of trial, neither patent had been approved. (RP 2804, 2914)

verdict form the jury was asked to award damages on InfoFlows' claims for breach of contract, fraud and conversion. (CP 525-29)

The Court of Appeals affirmed a $3.25 million judgment for InfoFlows on its claim that Corbis wrongfully terminated the Development Agreement and a $9.28 million judgment on its claim that Corbis fraudulently misrepresented to InfoFlows that it would coordinate with InfoFlows on patent applications. (Op. 21-22, 24) The Court of Appeals reversed a $7 million judgment for InfoFlows on its claim that Corbis fraudulently induced InfoFlows to enter into the Development Agreement. (Op. 18-20) The Court of Appeals held both that the fraudulent inducement theory was inconsistent with InfoFlows' breach of contract theory, and that no evidence supported the damages awarded for fraudulent inducement because InfoFlows had no other business opportunities to lose. (Op. 22-24) These decisions are not before this Court.

InfoFlows also claimed that Corbis converted its software code and related documentation. (CP 56-57) The trial court instructed the jury, as proposed by InfoFlows and without exception, that "[c]onversion is the unjustified, willful interference with a chattel which deprives a person entitled to the property of possession." (CP 164, 562) It told the jury that InfoFlows had the

burden of proving that Corbis "unjustifiably interfered with InfoFlows' property interest in Jazz Service software code and supporting materials and/or Boulder Ridge software code and supporting materials." (CP 562)

The trial court also instructed the jury that InfoFlows' conversion claim sought "the value of Corbis' use of Jazz Service software code and supporting materials and/or Boulder Ridge software code and supporting materials allegedly converted." (CP 562) In a special verdict form, also given without exception, the trial court directed the jury to award the "value of money or goods belonging to InfoFlows that was converted by Corbis." (CP 528) The jury quantified that amount at $16.6 million. (CP 528)

The trial court granted Corbis' motion for judgment as a matter of law on the claim for conversion, holding that InfoFlows "failed to establish that it was deprived of its source code by virtue of making copies of it available to Corbis on the SharePoint site, even assuming that the copies were downloaded and retained by Corbis." (CP 1483) The Court of Appeals affirmed on the ground that Corbis did not in any way interfere with InfoFlows' property right to possess its software code. (Opinion 28-30)

IV. SUPPLEMENTAL ARGUMENT

A. Conversion Is An Unlawful Interference That Deprives The Plaintiff Of The Right To Possess Personal Property. Corbis Did Not Deprive InfoFlows Of Any Interest In Its Tangible Or Intangible Personal Property.

As the jury was instructed, to recover for conversion, the plaintiff must establish that the defendant deprived the plaintiff of its right to personal property. The lower courts properly dismissed InfoFlows' conversion claim in the absence of any evidence that Corbis' conduct in accessing and reviewing InfoFlows' software code interfered with InfoFlows' right to possess, or for that matter even use, its property in any way.

Neither party excepted to the trial court's conversion instruction, which defined conversion as "the unjustified, willful interference with a chattel which deprives a person entitled to the property of possession." (CP 562) Instructions given without exception constitute the law of the case. ***Guijosa v. Wal-Mart Stores, Inc.***, 144 Wn.2d 907, 917, 32 P.3d 250 (2001).

The unchallenged instruction, proposed by InfoFlows (CP 164), required the jury to find "unjustified interference" in InfoFlows' property right to its code as an element of the claim:

> (2) Corbis unjustiably interfered with InfoFlows' property interest in Jazz Service software code and supporting materials and/or Boulder Ridge software code and supporting materials.

(CP 562) The trial court's instruction is consistent with the law of conversion, as enunciated by this Court, the *Restatement* and courts around the country: "Conversion is the unjustified, willful interference with a chattel which deprives a person entitled to the property of possession." ***Marriage of Langham & Kolde***, 153 Wn.2d 553, 564, 106 P.3d 212, 218 (2005); ***Meyers Way Dev. Ltd. P'ship v. Univ. Sav. Bank***, 80 Wn. App. 655, 674–75, 910 P.2d 1308 (citation omitted), *rev. denied,* 130 Wn.2d 1015, 928 P.2d 416 (1996).

The ***Langham*** Court adopted the modern view of the tort, holding that a spouse "converted" intangible personal property – stock options belonging to the other spouse – by wrongfully exercising the options without her consent, thereby depriving her of the right to the use and enjoyment of her property. The Court recognized that although one cannot take physical "possession" of intangible personal property, a defendant who deprives the plaintiff of the beneficial use and enjoyment of intangible property may be liable for conversion:

> Once the owner exercises the options, he has irrevocably exchanged one kind of property (stock options) for another kind of property (stock), and has lost the ability to enter the stock markets at the time of his choosing. His range of elective action is now limited to retaining the stock or selling it.

Langham, 153 Wn.2d at 565-66 (internal quotation omitted).

While the requisite "unjustifiable interference with a property interest," (CP 562), need not be the "disseisin" of property that the common law required,[3] the deprivation must still be substantial. *See* ***Martin v. Sikes***, 38 Wn.2d 274, 287, 229 P.2d 546 (1951) (defendant's wrongful claim of ownership of milking machine, which included obtaining judicial process to prevent plaintiff from removing property, did not constitute a conversion). The tort of conversion thus continues to protect against a *substantial interference* with the plaintiff's right to exercise dominion and control over its property:

> In each case the question to be asked is whether the actor has exercised such dominion and control over the chattel, and has so seriously interfered with the other's right to control it, that in justice he should be required to buy the chattel.

[3] Disseisin is "[t]he act of wrongfully depriving someone of the freehold possession of property; dispossession." Black's Law Dictionary (9th Ed. 2009).

Restatement (Second) of Torts, § 222A comment d (1965). *See also Restatement* § 228 comment c ("unpermitted use is not a conversion unless it amounts to such a serious violation of the other's right of control as to justify requiring the user to pay the full value of the chattel"); Raburn, *Digital Content and The Repo Man: Consumer Protection For Legally Downloaded Media*, 39 AIPLA Q.J. 35, 42 (2011) (tort of conversion requires "substantial interference with, and usually dispossession of" property); W. Keeton, *Prosser and Keeton on Torts* § 15 at 101 (5th ed. 1984) ("A casual and harmless use . . . will not be treated as a conversion").

In this sense, conversion differs from trespass, which allows recovery "for interferences with the possession of chattels which are not sufficiently important to be classified as conversion, and so to compel the defendant to pay the full value of the thing with which he has interfered." Prosser, § 14 at 85-86. *See* Dewolf & Allen, 16 *Wash. Practice: Tort Law and Practice* § 13.32 (3d ed. 2012) ("trespass to chattels is something less than a conversion."). Nonetheless, even a trespasser must in some way "cause [ ] some injury to the chattel or to the plaintiff's rights in it." ***Intel Corp. v. Hamidi***, 30 Cal.4th 1342, 1350, 71 P.3d 296, 302 (2003). *See Restatement (Second) of Torts* § 218 comment e (liability only if

trespasser's "intermeddling is harmful to the possessor's materially valuable interest in the physical condition, quality, or value of the chattel, or if the possessor is deprived of the use of the chattel. . .").

Corbis did not commit the tort of conversion. The jury heard no evidence that Corbis deprived InfoFlows of "possession" of InfoFlows' code or that Corbis interfered with InfoFlows' right to use its property in any way. It is undisputed that Corbis accessed with InfoFlows' permission its source code on a SharePoint site when InfoFlows tendered its alpha delivery. But Corbis did not download the code, copy it, or provide it to anyone working on Boulder Ridge before Corbis abandoned the project entirely. (RP 1194-95, 1508, 1589-92, 1767, 2227) Corbis never deprived InfoFlows of "possession" of its intangible property under even the most modern view of the tort of conversion.

In the absence of any evidence that Corbis used its software, InfoFlows cites the trial court's post-trial injunction finding that Corbis staff "accessed and reviewed" InfoFlows' alpha delivery, including both proprietary data of InfoFlows and non-proprietary data that Corbis paid InfoFlows to produce, and that Corbis had access to diagrams and schematics of Jazz Service "architecture."

(Reply Br. 5-6; CP 1737)[4] But Corbis had permission to view this information and there is no evidence that Corbis used it "in a manner exceeding the authorization" granted to it by InfoFlows. *Restatement (Second) of Torts*, § 228.

As the trial court recognized (CP 1483), even if Corbis retained a copy of the "code and supporting documents," Corbis did not limit InfoFlows' "range of elective action" with respect to InfoFlows' personal property. ***Langham***, 153 Wn.2d at 566. Unlike the husband in ***Langham***, who wrongfully exercised community stock options and then sold the stock at a substantial loss, Corbis in no way altered or diminished InfoFlows' ability to enjoy its personal property. Because Corbis did not deprive InfoFlows of its personal property, it could not be liable for conversion.

B. InfoFlows Suffered No Compensable Loss Of Its Property Interest In Its "Software Code And Supporting Materials."

The debate over whether Corbis deprived InfoFlows of "possession" is, in any event, an academic one absent evidence

[4] In granting a post-trial injunction, the trial court found no evidence at trial that Corbis actually retained or used any of InfoFlows' software or documentation, (CP 1740), but that InfoFlows had a "well grounded fear" that Corbis might in the future misuse InfoFlows' proprietary information. (CP 1741) But a "well grounded fear" is not the type of actual deprivation that forms the basis of the tort of conversion.

that InfoFlows suffered some compensable loss to its property. According to the unchallenged instruction that InfoFlows proposed, the conversion claim protected a very specific alleged "loss" – InfoFlows' "property interest in Jazz Service software code and supporting materials." (CP 164, 562). The jury had no evidence of any pecuniary "loss" caused by Corbis' alleged unjustified interference with this personal property (CP 562), and no evidence of the "value of money or goods belonging to InfoFlows that was converted by Corbis," let alone evidence that could support a value of that specific property of $16.6 million. (CP 528)

As the jury was instructed, "the measure of damages in conversion is the value of the article converted at the time of the taking." ***Langham***, 153 Wn.2d at 567, *quoting* ***Junkin v. Anderson***, 12 Wn.2d 58, 63, 120 P.2d 548 (1941). *Accord, Restatement (Second) of Torts*, § 927 (1)(a). While there may be various methods of valuing personal property, the plaintiff must present some evidentiary basis upon which the tier of fact can assess the value of the property that has been converted. *See, e.g.*, ***Farmer v. Farmer***, 172 Wn.2d 616, 632-33, 259 P.3d 256

(2011) (plaintiff's loss of converted stock options quantified by expert testimony).[5] Here, the jury had none.

InfoFlows has been awarded more than $3.25 million as compensation for its loss in not completing a contract with Corbis and $9.28 million for its lost expectancy in licensing fees had Corbis used InfoFlows' Jazz Service in a license management system that was never completed. (Opinion 22: jury could find "InfoFlows would have received a share of [Corbis'] revenue.") InfoFlows has cited Corbis' internal *proforma* estimate of the value of a completed license management system to Corbis – the revenues Corbis hoped to gain from more effectively licensing its digital images and minimizing piracy. (Cross-Reply Br. 17) But the conversion instruction directed the jury to measure InfoFlows' loss of its property interest in "software code and supporting materials," and

[5] Even under a theory of trespass, a plaintiff "*may recover only the actual damages suffered by reason of the impairment of the property or the loss of its use,*" ***Hamidi***, 71 P.3d at 302 (emphasis in original), and must establish that the defendant impaired the property's condition, quality or value in some measurable way. *See* ***Del Vecchio v. Amazon.com, Inc.***, 2012 WL 1997697 at *8 (W.D. Wa. 2012) (allegation that defendant's unauthorized transfer of "cookies" to plaintiff's hard drive enabled defendant to use information gathered for its own benefit not actionable as a trespass to personal property in the absence of any facts that "they sustained any plausible harm" to that property); ***Pearl Investments, LLC v. Standard I/O, Inc.***, 257 F.Supp.2d 326, 354 (D. Maine 2003) (unauthorized access to plaintiff's network not actionable where "there is no evidence that in so doing he impaired its condition, quality or value.").

not the value to Corbis of a completed licensing system, comprised only partly of InfoFlows' code. (CP 562; *see* CP 527 (delineating features belonging to Corbis and those belonging to InfoFlows) Finally, even if the Court were to ignore the specific "loss" the jury was directed to quantify, the Court of Appeals has held that InfoFlows as a matter of law had no lost business opportunity damages. (Opinion 22-24) Its decision is the law of the case.

The courts below properly held that the $16.6 million conversion verdict lacked any support in the record. This Court should affirm the trial court's grant of judgment as a matter of law.

C. Federal Copyright Law Preempts InfoFlows' Conversion Claim Alleging That Corbis Unlawfully Retained Copies Of InfoFlows' Intellectual Property.

InfoFlows' conversion claim also failed as a matter of law because federal copyright law provides the exclusive remedy for the unauthorized "retention" or use of copies of InfoFlows' software code. The Copyright Act preempts any state law that purports to govern "legal or equitable rights that are equivalent to any of the exclusive rights within the general scope of copyright . . ." 17 U.S.C. § 301(a).

The Copyright Act establishes a two-prong preemption test: "First, the rights that a plaintiff asserts under state law must be 'rights that are equivalent' to those protected by the Copyright Act. Second, the work involved must fall within the 'subject matter' of the Copyright Act as set forth in 17 U.S.C. §§ 102 and 103." ***Kodadek v. MTV Networks, Inc.***, 152 F.3d 1209, 1212 (9th Cir. 1998) (citations omitted); *see generally* Nimmer & Nimmer, 1 *Nimmer on Copyright* § 1.01[B] (Rev. ed. 2012). Computer software is protected under the Copyright Act as "original work[] of authorship fixed in any tangible medium of expression." 17 U.S.C. § 102(a); *see also* 17 U.S.C. § 101; ***Johnson Controls, Inc. v. Phoenix Control Sys., Inc.***, 886 F.2d 1173, 1175 (9th Cir. 1989) ("Computer software is subject to copyright protection."); Nimmer, § 2.04[C][3] at 2-51 ("computer programs qualify as 'work of authorship' subject to copyright protection.").

A state law claim alleging the conversion of software therefore asserts rights "equivalent" to those protected by the Copyright Act unless "the state law claim contains an element not shared by the federal law; an element which changes the nature of the action so that it is *qualitatively* different from a copyright infringement claim." ***Summit Mach. Tool Mfg. Corp. v. Victor***

CNC Sys., Inc., 7 F.3d 1434, 1439-40 (9th Cir. 1993) (emphasis in original; alterations and quotations omitted). *See* ***State v. Smith***, 115 Wn.2d 434, 440, 798 P.2d 1146 (1990) ("courts have demanded that the 'extra element' must be one which changes the nature of the action so that it is qualitatively different from a copyright infringement claim"); Nimmer, § 1.01[B][1] at 1-11 ("If a state-created right is 'within the general scope of copyright,' it is subject to pre-emption, even if the precise contours of the right differ from any of those conferred by Section 106.").

InfoFlows' conversion claim, which did not allege a physical deprivation of its property, but that Corbis retained copies of its software, lacks the extra element that qualitatively distinguishes it from a copyright claim. *See, e.g.*, ***U.S. ex rel. Berge v. Bd. of Trustees of the Univ. of Alabama***, 104 F.3d 1453, 1463-64 (4th Cir.) ("[Section] 301(a) will preempt a conversion claim where the plaintiff alleges only the unlawful retention of its intellectual property rights and not the unlawful retention of the tangible object embodying its work"; "unauthorized use" of intellectual property not an extra element) (quotation omitted), *cert. denied*, 522 U.S. 916 (1997); ***Micro Data Base Sys., Inc. v. Nellcor Puritan- Bennett, Inc.***, 20 F.Supp.2d 1258, 1263 (N.D. Ind. 1998) ("the retention of

the software is simply the retention of the intellectual property"); ***Tegg Corp. v. Beckstrom Elec. Co.***, 650 F.Supp.2d 413, 434 (W.D. Pa. 2008) (dismissing as preempted conversion claim alleging that defendant gained "unauthorized access" and "used the [plaintiff's] software and databases to create and sell" its own software).[6]

Under the trial court's unchallenged instruction the jury had to find that Corbis "unjustifiably interfered" with InfoFlows' property rights by retaining and using copies of InfoFlows' "software code and supporting materials" after InfoFlows authorized Corbis to access the source code on its SharePoint site. (CP 562; *see also* CP 56 (amended complaint); Reply Brief 16 (conversion claim based on "wrongful retention")) InfoFlows could recover for the retention and use of copies of this intellectual property only by bringing a copyright claim. ***Berge***, 104 F.3d at 1463.

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[6] A conversion claim alleging the theft of tangible media may survive preemption, but that claim is limited to the value of the tangible media – not the value of the intellectual property stored on the media. *See* ***Micro Data***, 20 F.Supp.2d at 1263 ("the disks have value only as disks and not as mediums of expression for the software"); *see also* ***Tegg***, 650 F.Supp.2d at 434-35 (conversion claim seeking return of sample pages produced by software preempted). InfoFlows' conversion claim alleged that Corbis copied its source code and related documentation. (CP 56)

In ***Smith***, 115 Wn.2d at 440, this Court held that a criminal prosecution for theft against a defendant who copied software was not preempted because the State had to prove an additional element – the intent to deprive the owner of the software – thereby qualitatively changing the nature of a statutory theft charge, which punished "the *manner in which* defendant obtained the computer materials, rather than the fact he copied them." (emphasis in original) InfoFlows' conversion claim contained no such "extra element." This Court should hold that InfoFlows' conversion claim, premised on its allegation that Corbis retained and used copies of its intellectual property, is preempted by the Copyright Act.

V. CONCLUSION

The lower courts correctly held that InfoFlows' conversion claim failed as a matter of law. This Court should affirm that portion of the Court of Appeals decision.

DATED this 8th day of February, 2013.

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DECLARATION OF SERVICE

The undersigned declares under penalty of perjury, under the laws of the State of Washington, that the following is true and correct:

That on February 8, 2013, I arranged for service of the foregoing Supplemental Brief of Cross-Respondent Corbis Corporation, to the clerk to the court and to the parties to this action as follows:

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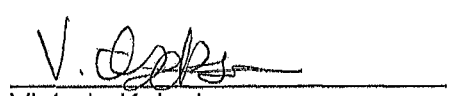

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Subject: Corbis Corp. v. InfoFlows Corp., et al., Cause No. 87555-3

Attached for filing is the Supplemental Brief of Cross-Respondent Corbis Corporation, in *Corbis Corporation v. InfoFlows Corporation, et al.*, Cause No. 87555-3. The attorney filing this document is Howard M. Goodfriend, WSBA No. 14355, e-mail address: howard@washingtonappeals.com.

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