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ORIGINAL

No. 63648-1

IN THE COURT OF APPEALS OF WASHINGTON,
DIVISION ONE

TOUCH NETWORKS, INC.

Plaintiff-Appellee,

v.

GOGI DESIGN, LLC and HYUNSOOK CHUNG

Defendants-Appellants.

On appeal from King County Superior Court, No. 07-2-33454-8 SEA
The Honorable Mary I. Yu, Superior Court Judge

**OPENING BRIEF OF DEFENDANT-APPELLEE
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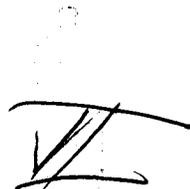


TABLE OF CONTENTS

TABLE OF AUTHORITIES	iii
I. INTRODUCTION	1
II. ASSIGNMENTS OF ERROR	2
III. STATEMENT OF THE CASE	4
A. The Parties	4
B. The Nondisclosure Agreement	5
C. Defendants' Billing Arrangements	6
D. Defendants Provided Extensive Graphic Design Services to TNI and Defendants Presented Extensive Evidence of their Authorship (or Co-Authorship) of the Works at Issue	7
E. The Termination of the TNI/Gogi Relationship	10
F. The Commencement of the Litigation	14
1. The Complaint, TRO Motion, and Removal to Federal Court	14
2. Gogi's Copyright Applications	15
3. Gogi's Counterclaims	16
4. Remand to State Court	16
G. Pertinent Procedural History Following Remand	17
1. TNI's Motion for Summary Judgment	16
2. Discovery Disputes	17
a. Document Discovery	17

b. Deposition Scheduling	18
3. Trial and Judgment	19
4. Pertinent Postjudgment Proceedings	20
IV. ARGUMENT	21
A. Standard of Review	22
B. The Superior Court Erred in Entering Judgment for TNI on its Contract Claim	21
1. Assignment of Error No. 1: The Superior Court Erred in Holding That The Nondisclosure Agreement Somehow Effectuated a Conveyance of Intellectual Property Rights in Any Future Works that Might Be Created by Defendants that Pertain to TNI	22
a. Copyright Initially Vested in Gogi, as Author of the Works	22
b. The Nondisclosure Agreement Did Not Effect a Conveyance of Intellectual Property Rights in Whatever Work Product Ms. Chung Might Later Create	25
i The Nondisclosure Agreement is a Form Contract of a Confidentiality Agreement Executed by the Parties for Purposes of Exploring a Possible Business Relationship	28
ii. the Nondisclosure Agreement, on its own terms, defines "Proprietary Information" as consisting <i>only</i> to property conveyed <i>by</i> TNI <i>to</i> the Obligated	30

Person, and Makes No Reference to any Work Product That Had Been Created, or Might Be Created, by the Obligated Person	
iii. Nobody “Transferred” Anything in the Nondisclosure Agreement	34
iv. The Nondisclosure Agreement Does Not Describe Any Consideration to Be Paid for the Alleged Conveyance of Intellectual Property Rights	35
v. The Nondisclosure Agreement Does Not Recite the Words "Work for Hire"	36
c. The Subsequent Correspondence and Actions of the Parties Demonstrate that TNI declined to Purchase, and the Parties Contractually Agreed that Ms. Chung Would Retain, the Intellectual Property Rights in Her Work Product	36
2. Assignment of Error No. 2: The Court Erred in Awarding Injunctive Relief to TNI for the Further Reason that Gogi Had a Possessory Lien on the Files	37
3. Assignment of Error No. 3: The Superior Court Could Not Plausibly Find that Gogi's Filing of Copyright Applications Constituted a Violation of the Nondisclosure Agreement, Nor That TNI Was Entitled to Recover Redesign Costs	38
4. Assignment of Error No. 4: the Superior Court Erred in Holding that the Defendants Were Jointly Liable for Breach of Contract	43

C. Assignment of Error No. 6: The Superior Court Erred in Entering Judgment for TNI on its UTSA Claim	44
D. Assignment of Error No. 7: The Superior Court Inexplicably Failed to Enter Judgment for Gogi on Count VIII of its Counterclaims (for Unpaid Invoices)	45
E. Assignment of Error No. 8: The Superior Court Should Be Directed to Make Findings of Fact and Conclusions of Law Necessary to Resolve Counts I-VII, XV and XX of Gogi's First Amended Counterclaims	47
F. Assignment of Error No. 9: The Superior Court Abused Its Discretion in Failing to Order TNI to Produce Any Substantial Document Production	47
G. Assignment of Error No. 10: The Superior Court Abused its Discretion in Failing to Award Sanctions against TNI for Failing to Timely Notify Defense Counsel that Dr. Ombrellaro Could Not Appear for a Court-Scheduled Deposition	48
H. Assignment of Error No. 11: The Superior Court Erred in Directing Defendants to Produce Files in the Control of Former Contractors, and Later Awarding Sanctions	48
H. Assignment of Error No. 11: The Superior Court Erred in Directing Defendants to Produce Files in the Control of Former Contractors, and Later Awarding Sanctions	48
V. CONCLUSION	49

TABLE OF AUTHORITIES

Cases

<i>Ashton-Tate Corp. v. Ross</i> , 728 F. Supp. 597 (N.D. Cal. 1989)	42
<i>Cable News Network, Inc. v. Video Monitoring Services of America</i> , 940 F.2d 1471 (11 th Cir. 1991), <i>vacated on other grounds</i> , 949 F.2d 378 (11 th Cir.1991)	32-33 n.27
<i>Citoli v. City of Seattle</i> , 115 Wash. App. 459, 476, 61 P.3d 1165 (2002)	41 n.32
<i>Community for Creative Non-Violence v. Reid</i> , 490 U.S. 730 (1989)	24
<i>Conwell v. Gray Loon Outdoor Marketing Group, Inc.</i> , 2009 WL 1409477 (Ind. May 19, 2009)	26 n.23
<i>Dewey v. Tacoma School Dist. No. 10</i> , 95 Wash. App. 18, 974 P.2d 847 (1999)	41 n.31
<i>Effects Assocs., Inc. v. Cohen</i> , 908 F.2d 555 (9 th Cir. 1990)	26, 30, 35
<i>Ellison v. Scheffsky</i> , 141 Wash. 14, 250 P. 452 (1926)	39
<i>Fleming v. Miles</i> , 181 F. Supp. 2d 1143 (D. Ore. 2001)	24
<i>Foraste v. Brown Univ.</i> , 290 F. Supp.2d 234 (D.R.I. 2003)	30
<i>Gladwell Government Services, Inc. v. County of Marin</i> , 265 Fed. Appx. 624, 2008 WL 268268 (9 th Cir. Jan. 28, 2008)	27-28
<i>Green v. Hendrickson</i> , 770 N.E.2d 784 (Ind. 2002)	47 n.39
<i>Holmes Group, Inc. v. Vornado Air Circulation Sys., Inc.</i> , 535 U.S. 826 (2002)	47 n.39
<i>Home Design Services, Inc. v. Park Square Enterprises, Inc.</i> , 2005 WL 1027370 (M.D. Fla. May 2, 2005)	30
<i>In re Citric Acid Litig.</i> , 191 F.3d 1090 (9 th Cir. 1999)	48 n.40

<i>Konigsberg Intern. Inc. v. Rice</i> , 16 F.3d 355 (9th Cir.1994)	26, 30, 35
<i>Krapp v. McCarthy</i> , 121 Ohio App.3d 64, 698 N.E.2d 1049 (Ohio App. 1 Dist.,1997)	26 n.23
<i>Kwan v. Schlein</i> , 2008 WL 4755345 (S.D.N.Y. Oct. 30, 2008)	42
<i>Lewis v. Bell</i> , 45 Wash. App. 192, 724 P.2d 425 (1986)	41 n.31
<i>Liebert Corp. v. Mazur</i> , 357 Ill.App.3d 265 Ill. Dec. 28, 827 N.E.2d 909, 925 (2005)	45 n.36
<i>Litton Systems, Inc. v. Ssangyong Cement Indus. Co., Ltd.</i> , 107 F.3d 30, 1997 WL 59360 (Fed.Cir.1997)	45 n.36
<i>McDonald v. State Farm Fire & Cas. Co.</i> , 119 Wash.2d 724, 837 P.2d 1000 (1992).	26-27
<i>Mirage Editions, Inc. v. Albuquerque A.R.T. Co.</i> , 856 F.2d 1341 (9 th Cir. 1988)	23 n.18
<i>Murray v. Eisenberg</i> , 29 Wash. App. 42, 627 P.2d 146 (1981)	38
<i>NASCAR v. Scharle</i> , 356 F.Supp.2d 515 (E.D. Pa. 2005)	33
<i>News Am. Mktg. In-Store, Inc. v. Marquis</i> , 86 Conn. App. 527, 862 A.2d 837 (2004)	45 n.36
<i>Pamfiloff v. Giant Records, Inc.</i> , 794 F. Supp. 933 (N.D. Cal. 1992)	30
<i>Paul Morelli Design, Inc. v. Tiffany And Co.</i> , 200 F.Supp.2d 482 (E.D. Pa. 2002)	9 n.7
<i>PMC, Inc. v. Saban Entertainment, Inc.</i> , 45 Cal.App.4th 579, 52 Cal.Rptr.2d 877 (Cal. App. 2 Dist.,1996).	26 and 26 n.23
<i>Richard J. Zitz, Inc. v. Pereira</i> , 225 F.3d 646, 2000 U.S. App. LEXIS 22418 (2d Cir. 2000)	24 n. 19
<i>Rodrigue v. Rodrigue</i> , 218 F.3d 432, 436 & n. 15 (5th Cir.2000)	33 n .27

<i>Saxon v. Blann</i> , 968 F.2d 676 (8 th Cir. 1992)	34
<i>Singleton v. Frost</i> , 108 Wash.2d 723, 742 P.2d 1224 (1987)	43
<i>Storage Technology Corp. v. Cisco Systems, Inc.</i> , 2003 U.S. Dist. LEXIS 17347, 2003 WL 22231544 (D. Minn. Sept.25, 2003), <i>aff'd</i> , 395 F.3d 921 (8th Cir.2005)	45 n.36
<i>Sunnyside Valley Irrigation Dist. v. Dickie</i> , 149 Wash.2d 873, 73 P.3d 369 (2003)	21
<i>Thomson v. Larson</i> , 147 F.3d 195 (2d Cir. 1998)	24 n .19
<i>Unilogic, Inc. v. Burroughs Corp.</i> , 10 Cal.App.4th 612, 12 Cal.Rptr.2d 741 (1992)	45 n.36
<i>Wagner v. Wagner</i> , 95 Wash.2d 94 (1980)	32 n.26
<i>Wash. State Physicians Ins. Exch. & Ass'n v. Fisons Corp.</i> , 122 Wash.2d 299, 339, 858 P.2d 1054 (1993)	21

Statutes

17 U.S.C. § 101	24, 32, 36, 48 n.41
17 U.S.C. § 102	22-23 and 22 n.17
17 U.S.C. § 107	23
17 U.S.C. § 201(a)	24
17 U.S.C. § 204(a)	26 and 26 n.23, 34
17 U.S.C. § 411	9 n.7
17 U.S.C. § 506(e)	42 n.33

28 U.S.C. § 1338(a)	25 nn. 21- 22
28 U.S.C. § 1338(a), RCW 19.108.010 <i>et seq.</i>	46-47 n.39 3
RCW 19.108.010(4).	49 n. 37
RCW 4.84.330	43

Treatises

51 Am.Jur.2d Liens § 21 (1970)	39
53 C.J.S., Liens, §§ 2, 30 (1987)	38

I. INTRODUCTION

A graphic designer and a video game peripheral company with no prior business relationship executed a boilerplate confidentiality agreement, conspicuously titled "Nondisclosure Agreement," that was designed to protect the confidentiality of any sensitive business information that might be disclosed to the designer. The Superior Court has construed this very ordinary two-page form contract as effectuating a transfer in intellectual property rights in *any* work thereafter created by the designer, even though it contains no reference whatsoever to any work product of the designer (and no such work product even existed at the time) or the intellectual property rights thereto, contains no language evidencing a conveyance of any kind, and describes no consideration. The Court's construction of this instrument of only modest complexity is stunningly and obviously erroneous. Among many other failures described below, the Superior Court ignored the well-settled principle of contract construction, applicable in Washington as elsewhere, that if a contract is equally susceptible of two or more constructions, it should be construed against the drafter, as well as the controlling provisions in the Copyright Act that mandate certain requirements for writings alleged to constitute conveyances of copyrights.

The Superior Court also committed a litany of other remarkable errors, such as (1) becoming the first court in the history of recorded American jurisprudence to award the damages allegedly resulting from the

filing of copyright applications, holding that a party can argue that a copyright is invalid and, at the same time, recover the cost of redesigning intellectual property allegedly necessitated by a copyright that is alleged to be invalid, (2) finding a business organization *and* an equity holder jointly liable for a contractual obligation with no attempt at an explanation, (3) inexplicably failing to enter judgment for a party in whose favor it had found on a claim, (4) entering "judgment" for a party on a patently frivolous trade secret claim (that did not materialize until the eve of trial) despite finding no damages and awarding no injunctive relief, and (5) ordering a party to transfer property that was, indisputably, never in its possession, custody for control, and later sanctioning that party for allegedly failing to timely effect that transfer. Appellant cites, below, eleven (11) points of error.

II. ASSIGNMENTS OF ERROR

The Superior Court erred in:

1. holding that the March 2005 Nondisclosure Agreement effected, at the outset of the parties' business relationship, a prophylactic transfer of all intellectual property rights from Defendants to TNI in any future works that might later be created by Defendants that pertain to TNI;
2. awarding injunctive relief to TNI for the further reason that Gogi had a possessory lien on the any TNI property in its possession;
3. awarding TNI redesign costs as (the only element) of its contract damages;
4. holding the Defendants (a business entity, and a member thereof) jointly liable for a contractual obligation;
5. awarding attorney fees to TNI on Count I of its Complaint,

alleging breach of the Nondisclosure Agreement;

6. entering judgment in favor of TNI on Count II of TNI's Complaint, alleging violation of Washington's version of the Uniform Trade Secrets Act, RCW 19.108.010 *et seq.* (the "UTSA");
7. failing to enter a judgment reflecting its finding in favor of Gogi on Count VII of its First Amended Counterclaims;
8. entering judgment for TNI on Counts I-VII,¹ XVI and XX² of Gogi's First Amended Counterclaims;
9. denying, in substantial part, "Defendants' Motion to Compel Production of Documents," in which Defendants sought an order compelling the production of pertinent email correspondence and evidence pertaining to TNI's use of works authored by Defendants;
10. denying "Defendants' Motion for Discovery Sanctions," in which Defendants sought sanctions for the failure of Dr. Mark Ombrellaro to appear for a deposition as scheduled by the Court, and failure to notify Defendants' counsel (who had traveled cross country) until the day before the deposition that he would not be appearing; and
11. (apparently) finding Gogi in contempt of court, and ordering Gogi to turn over certain computer files that were, indisputably, never in its possession, custody or control, and awarding attorney fees against Gogi for allegedly not timely transferring those documents.

¹ Counts I-VII seek declarations of copyright ownership as to various works generated by Defendants.

² Gogi does not appeal the entry of judgment in favor of TNI with respect to the infringement claims presented in Counts XI, XII, XIV, XV and XIX in Gogi's first Amended Counterclaims. Although there can be little dispute that Defendants authored these items, the original copyrights vested in Defendants, and Defendants never transferred their copyrights in these items, TNI did present sufficient evidence at trial to sustain the affirmative defense of estoppel based on the fact that Gogi did not file its copyright applications as to these items until well after they were published. The infringement claims presented in Counts XVI and XX, in contrast, concern works (a) were not published until after Gogi filed its copyright applications and filed its initial counterclaims, and (b) for which Gogi was never paid in full.

III. STATEMENT OF THE CASE

A. The Parties

Defendant-Appellant HyunSook Chung³ is the sole member and manager of Gogi Design, LLC (“Gogi”), a Washington limited liability company, which is also a defendant. Chung, 4/30/2009, 96:25 to 97:21. Ms. Chung operated a graphic design business operated out of her home, initially as a sole proprietorship, and later through the Gogi entity which was formed in 2006. *Id.*

It is not disputed that Ms. Chung (as a sole proprietor) and later Gogi provided various graphic design services to plaintiff Touch Networks, Inc. (“TNI”), a Washington corporation, from approximately March 2005 to approximately September 6, 2007. It is also not disputed that Defendants’ principal contact at TNI was Dr. Mark Ombrellaro, who is the founder and sole officer or director of TNI.

TNI's principal product is an interactive gaming vest produced by TNI d/b/a “TN Games.” The vest allows video game players to feel physical impacts while playing certain video games. TNI also produced

³ This appeal is automatically stayed as to Ms. Chung, who was unable to pay the substantial judgment entered against her in this proceeding and filed for Chapter 7 bankruptcy protection on June 27, 2009. *In re Chung*, No. 09-17445 (Bankr. W.D. Wash.) The bankruptcy court recently ruled from the bench in an adversary proceeding commenced by TNI in which TNI sought to deny Ms. Chung a discharge for allegedly failing to maintain adequate financial records, holding that Ms. Chung was entitled to a discharge. *Touch Networks, Inc. v. Gogi Design, LLC [sic]*, Adv. No. 09-01474 (Bankr. W.D. Wash.). Because the bankruptcy court has not yet formally entered judgment for Ms. Chung, however, she has not yet been discharged, and her bankruptcy remains pending.

various medical information systems doing business as "Touch Networks." *See, generally*, Ombrellaro, 4/29/09, at 5:20 to 12:1.

Although TNI is a development stage company with modest revenues to date, a more accurate measure of the scope of the business would be its capitalization. Dr. Ombrellaro publicly stated in an April 2007 interview on the All Games Interactive website that he had raised \$7 million in capital. Ombrellaro, 4/30/09, at 10:25 to 11:21. In April 2008, Dr. Ombrellaro told the Puget Sound Business Journal that he had raised another \$3 million in capital. Ombrellaro, 4/29/09, at 185:15-21.

Dr. Ombrellaro is a vascular surgeon who devotes the majority of his time to his medical practice, Eastside Vascular, L.P. ("Eastside Vascular"), which he runs along with another vascular surgeon. Ombrellaro, 4/29/09, at 186:1-6. Gogi has also performed graphic design services for Eastside Vascular. Chung, 4/30/09, at 109:10 to 110:14.

B. The Nondisclosure Agreement

At the insistence of TNI, Ms. Chung executed a "Nondisclosure Agreement" (the "Nondisclosure Agreement" or "NDA") in March 2005, while the parties were considering a business relationship and before TNI had retained Gogi. Exh. 1; Chung, 4/30/09, at 102:16 to 103:24. At the time, Gogi was just beginning to discuss potential design projects with TNI, and had not yet performed any services, or even agreed to perform any services. Chung, 4/30/09, at 104:10-15

The Nondisclosure Agreement is a form contract created by TNI's

lawyers that has been used by TNI on many occasions. Ombrellaro, 4/30/09, at 78:12-13. It was not specifically drafted for purposes of the TNI/Gogi relationship, and TNI and Gogi did not negotiate any of its provisions. Ombrellaro, 4/30/09, at 78:18 to 79:5.

Defendants understood that the purpose of the Nondisclosure Agreement was to ensure that persons working on TNI projects for Gogi did not disclose information about TNI's business to third persons. Chung, 104:16 to 105:5. Counterparts of the Nondisclosure Agreement were later executed by other Gogi employees and contractors. *See, e.g.*, Exhs. 2,3, 7 and 15.

C. Defendants' Billing Arrangements

Starting with the initial project Gogi worked on for TNI, Gogi offered TNI the options of being billed on (1) a project basis, pursuant to which the client pays a single flat price, receives a specified number of design concepts, "plus full usage rights" to the works; when billing on a "project" basis, Gogi provides the client with a price sheet listing all of the services included in the flat rate, or (2) an hourly basis, pursuant to which TNI would merely pay on an hourly basis for design services provided, but would obtain no usage rights. Exh. 264. A flat "project fee" is nearly always more expensive than paying on an hourly basis, because the project fee includes usage rights. Chung, 4/30/09, at 106:6-14 to 107:17.

In an email message dated March 22, 2005, included in Exhibit 264, Ms. Chung articulated these options to Dr. Ombrellaro. Exh. 264.

She explained that the project fee is "based on the average amount of hours spent in designing the logo *and* usage rights." *Id.* She explained that it is more typical, with respect to logo and letterhead projects, for the client to pay the project rate, and obtain all usage rights. *Id.*

Dr. Ombrellaro responded, in an email dated March 23, 2005, also included in Exhibit 264, that TNI preferred to be billed on an hourly basis for the logo project. Dr. Ombrellaro subsequently indicated that he preferred to continue on an hourly basis for all projects. It is not disputed that TNI and Gogi *never*, at any time thereafter, discussed any engagement on a "project fee" basis, nor did they ever negotiate concerning the intellectual property rights of Gogi's work product.

"Usage rights" are valuable in the design business, and are not transferred from artist to client until, and if, the Client agrees to pay sufficient compensation to account for their value and the rights are transferred in writing. Chung, 4/30/09 at 106:21 to 107:17; 5/4/09 at 5:21-15. Neither Ms. Chung nor Gogi ever transferred or assigned any copyrights to TNI, nor did they ever agree that any works would be "works for hire." Chung, 5/4/09, at 6:19 to 7:3.

Dr. Ombrellaro understood the difference between billing on a "project fee" or "hourly basis." Eastside Vascular, which was also represented by Dr. Ombrellaro, did elect to proceed on a project fee basis, pursuant to which it obtained full usage rights to a letterhead system and logo created by Gogi. *See* Exh. 232; Chung, 4/30/09 at 117:5 to 120:9.

The Eastside Vascular price lists expressly provide that the client is paying for a “full usage buyout” with respect to Gogi's work product. *Id.*

D. Defendants Provided Extensive Graphic Design Services to TNI and Defendants Presented Extensive Evidence of their Authorship (or Co-Authorship) of the Works at Issue

Starting with the redesign of TNI's logo in March 2005, and concluding in September 2007, Defendants were engaged in no fewer than 71 discrete projects by TNI. The invoices for these services are contained in Exhibits 101 and 102, and time records for these services are contained in Exhibits 103 and 104. These projects included, but are hardly limited to, (1) the design of TNI's logo, (2) the design of TN' Games' logo, (3) the design of promotional buttons and t-shirts, (4) the production (along with certain subcontractors) of an animated promotional video (the "Beatdown") featuring the character "Bruce," (5) photography for TN Games' website and other promotional purposes, (6) the design of multiple versions of TNI's and TN Games' websites, and (7) the design of product packaging and promotional materials.

Ms. Chung provided hours of testimony describing her authorship of the various works of visual art she prepared.⁴ Additionally, dozens of exhibits were admitted, including numerous notes and drafts reflecting her authorship of the works in question.⁵ It is not disputed that, with the

⁴ See, generally, e.g., Chung, 4/30/09 at 122:22 to 134:20; 145:9 to 173:2; 179:12 to 187:17; Chung, 5/4/09 at 9:21 to 16:25; 21:9 to 22:17; 44:14 to 45:12; 55:18 to 61:5; 69:5 to 73:22.

⁵ See, e.g., Exhs. 106-11, 116-20, 122-24, 126-35, 143-46, 149-50, 152-53, 155-63, 165, 168-83, 185, and 210.

exception of the very last round of projects⁶ performed by Gogi, that Defendants satisfactorily performed all services for which they were retained. Ombrellaro Dep., 136:18 to 141:7. In fact, Dr. Ombrellaro, in late July 2007, tried to persuade Ms. Chung to become an employee of TNI. Chung, 5/4/09, at 65:1-8.

There were two purposes of this evidence: (1) to establish authorship of the works in question, and (2) to establish that the works were sufficiently original to qualify for copyright protection.⁷ The documentary evidence pertaining to Ms. Chung's authorship has not been designated for transmittal to this Court, and the pertinent testimony concerning authorship is not described in any detail in this Statement of the Case, because it is not pertinent to this Court's review of any of the decisions made by the Superior Court. The Superior Court did not make any findings as to authorship or originality. The Superior Court held that TNI owned the intellectual property rights to all of the works at issue by

⁶ There was a factual dispute as to the extent that Gogi adequately performed the task of redesigning TN Games' website in August-September 2007, as testified to by Dr. Ombrellaro and Mr. Morris on behalf of TNI, and Ms. Chung on behalf of Gogi, and as referenced in several exhibits. Gogi did not, however, bill TNI for this project, with the exception of a retainer paid to Gogi's website subcontractor. The Superior Court did not make any factual findings as to this dispute, which does not appear to have been pertinent to its disposition of any claims.

⁷ The Copyright Office found that certain of the works for which Gogi had filed copyright applications were not sufficiently original to qualify for copyright. Such a finding by the Copyright Office does not necessarily preclude an infringement claim. Such a determination does not preclude an infringement action. 17 U.S.C. § 411(a). *See also, e.g., Paul Morelli Design, Inc. v. Tiffany And Co.*, 200 F.Supp.2d 482 (E.D. Pa. 2002) (“The applicant may” appeal the refusal, or “ also litigate an infringement action, regardless of how a court may rule on the Copyright Office's refusal to register the copyright”).

contract (specifically, by virtue of the Nondisclosure Agreement), which rendered irrelevant any determination as to authorship or originality. If that finding is reversed, as requested by Appellant, it will be necessary for the Superior Court, on remand, to enter findings of fact and conclusions of law concerning these issues.

E. The Termination of the TNI/Gogi Relationship

By September 2007, after substantially all of the pending projects for TNI were completed, Gogi made a determination to sever the relationship with TNI. Exh. 281. Gogi concluded that it was spending far too much time working for one client at sub-market rates, and that Ms. Chung would be unable to grow the business if this relationship continued on these terms. *Id.*; Dedon, 4/29/09 at 70:18 to 71:6. The separation was, at least initially, largely amicable. Exh. 281.

At a meeting on September 6, 2007, Gogi gave TNI *all* files in Gogi's possession concerning recent or unfinished design projects on a CD. Ms. Chung has authenticated an inventory of the CD, Exh. 290; Chung, 5/4/09, at 49:19-24; Dedon, 4/29/09, at 67:11 to 68:22. Files on the CD included: (1) the cover and body of the manual, all manual images and fonts, (2) all files pertaining to the product packaging, (3) all recent promotional photographs of the vest, (4) all files of the current version of the TN Games website, (5) all public relations documents created since March 2007. *Id.*; Dedon, 4/29/09, at 69:2-12.

In email correspondence on Friday evening, September 7, 2007

and Saturday, September 8, 2007, TNI indicated that the “photos seemed OK,” but otherwise complained that it was unable to open some of the files on the CD. Exh. 279.

On Monday, September 10, 2007, the next business day, Ms. Dedon of Gogi responded, indicating that TNI would need to obtain the current version of Adobe Creative Suite to open the Illustrator and InDesign files (with file extensions .ai and .indd), and that the font files were designed for Macintosh systems and probably could not be opened on a PC. Exh. 280. Ms. Dedon also indicated that she was surprised that TNI was interested in files pertaining to the “Bruce” video, and that Gogi did not have any files of any type other than the flash files that were delivered to TNI earlier in the year. *Id.*

By September 11, however, Dr. Ombrellaro indicated that TNI had obtained the software it needed to access the files., and that he had all of the files he required except for "source" files pertaining to the Bruce video. Exh. 281.

On September 21, 2007, TNI requested “ALL” files pertaining to work performed by Gogi for TNI. Exhs. 282-83, Ms. Dedon responded that Gogi would need to complete its invoicing before it would send any additional art files to TNI. Exh. 283. On September 24, 2007, Gogi transmitted to TNI invoices for its work performed in August 2007. Exh. 284. Dr. Ombrellaro questioned the invoices and asked for more detailed time records. Exh. 285. Ms. Dedon provided the time records

immediately, in an email on September 25, 2007. Exh. 285.

Dr. Ombrellaro still refused to pay Gogi's outstanding invoices (both to TNI and Eastside Vascular), and proceeded to request additional computer files from Gogi. Exh. 286. In an email dated September 26, 2007, Laura Dedon of Gogi explained that Gogi had already made many financial accommodations to TNI, including billing at substantially discounted rates, and not billing for projects that were not fully completed. Exh. 287. She noted that Gogi provided many files to TNI earlier in the month, in the good faith expectation of being paid for its work. *Id.* Ms. Dedon offered two reasonable alternatives: (1) *TNI could pay its modest bill and get further support*—Ms. Dedon noted that Gogi would not transmit any more files to TNI without receiving payment of its very modest balance of approximately \$7500.00; or (2) *walk away*: as an alternative, Ms. Dedon also suggested that TNI could simply pay Gogi its outstanding expenses, and not its invoiced fees, but that Gogi would not provide any additional support or files. *Id.* Neither of these options was satisfactory to TNI.

On September 27, 2007, Dr. Ombrellaro requested computer files for *all* Gogi projects ever undertaken for TNI. Exh. 288. Attached to Dr. Ombrellaro's September 27, 2007 email was a proposed letter agreement that Dr. Ombrellaro asked Ms. Chung to sign, individually and on behalf of Gogi. The letter agreement (included in Exh. 288) stated that all design services performed for TNI were done "on a work for hire basis":

[TN Games Letterhead]
9/27/07

Dear Hen,

This letter confirms 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. Thanks.

Very Truly Yours

Touch Networks, Inc.

Mark Ombrellaro, President

Agreed:

Gogi Design, LLC

By _____,
Hyunsook Chung, individually and
as its Manager/Member

The letter was sent prior to the formal involvement of Gogi's counsel in the dispute, which began a few days later, although Dr. Ombrellaro had retained his lawyer to prepare the letter. Ombrellaro, 4/30/09, 83:8-14. Gogi never agreed to sign over the intellectual property rights to all of its work product as a prerequisite to having its outstanding invoices paid.

TNI has an outstanding balance due to Gogi. There are six (6) outstanding invoices from Gogi to TNI (Nos. 20071160, 20071165,

20071180, 20071185 in Exh. 103, and Nos. 20071160 and 20071165 in Exh. 101). The total amount of these invoices is \$9095.00. The remaining balance due from TNI, after deducting an \$1875.00 expense advance from TNI to Gogi, is \$7220.00. Gogi's hourly time records for these invoices were provided to TNI on or about September 24, 2007. Exh. 285. TNI has refused to pay the balance due.⁸

F. The Commencement of the Litigation

1. The Complaint, TRO Motion, and Removal to Federal Court

At approximately 4:00 p.m. Pacific Time on Wednesday, October 17, 2007, Mr. Hasbrook sent to Ms. Chung and her counsel, by electronic mail, copies of four pleadings filed in this action: a "Motion for Temporary Restraining Order and Order to Show Cause," two supporting certifications, and a proposed form of TRO. The aforementioned four pleadings were served with a cover letter instructing us that the TRO Motion *would be heard at 9:00 a.m. the following morning* at the *Ex Parte* Department at King County Superior Court. Exh. 296, CP 6.

In the Complaint (Exh. 298; CP 1) and TRO motion (Exh. 296, CP 6), TNI contended that Gogi failed to provide certain electronic files that TNI allegedly desperately needed for the (anticipated November 2007) launch of its product, and that those files were the property of TNI. The

⁸ Eastside Vascular also has an outstanding balance due to Gogi of approximately \$2110.00. Exh. 284 and Invoices attached thereto.

Complaint asserts two counts: a count of breach of contract (presumably of the Nondisclosure Agreement), and a count under the UTSA. CP 1.

Defendants filed a notice of removal in the federal district court at 9:08 a.m. on October 18, 2007. A copy was filed with the Clerk of this Court at 9:13 a.m. on that same date. CP 10.⁹

2. Gogi's Copyright Applications

On or about November 5, 2007, Gogi filed with the U.S. Copyright Office seven (7) copyright applications. Exh. 238. Between late March 2007 and late May 2007, Gogi received approved registrations from the Copyright office of four (4) of the seven (7) copyright applications: (1) the Third Space Vest Collection, (2) "the Beatdown" (animated video), (3) the TN Games GDC Collection, and (4) the TN Games Website 2.0 collection. Exh. 240. In mid-March 2008, Gogi received a letter from the Copyright Office indicating that it had rejected the application pertaining to the Touch Network logo and logo icons. The Copyright office determined that the work did not have a sufficiently original amount of pictorial, graphic or sculptural authorship. In mid-April 2008, Gogi received a similar letter with respect to the TN Games logo collection. In October 2008, Gogi received a similar letter with respect to the 3rd Space

⁹ At that point in time, this action was removed to federal court and the Superior Court was divested of jurisdiction as a matter of law. Nonetheless, Plaintiff's counsel continued to argue for a TRO in front of this Court's *commissioner Pro Tem*, and managed to convince her to sign it at approximately 9:35 a.m. The TRO never had any effect, as it was entered after the action had been removed to federal court. TNI never made a subsequent attempt to obtain a TRO or preliminary injunction.

logo collection. The three letters are contained in Exh. 239.

3. Gogi's Counterclaims

In November 2007, while the action was still pending in federal court, Gogi filed several counterclaims. These consisted of (1) a claim for the unpaid invoices, (2) claims seeking declaratory judgment that Gogi is the owner (or co-owner in the case of the "Beatdown" video) of the works that were the subject of its seven copyright applications, and (3) claims of infringement by TNI of Gogi's copyrights.¹⁰

4. Remand to State Court

TNI moved to remand this action to this Court. On or about December 20, 2007, the federal district court granted TNI's motion to remand, reasoning that TNI was not asserting ownership by authorship or a "work for hire" agreement or by authorship, and was only asserting ownership by virtue of the Nondisclosure Agreement.¹¹

G. Pertinent Procedural History Following Remand

1. TNI's Motion for Summary Judgment

In or around April 2008, TNI filed a motion for summary judgment, arguing that it was entitled to judgment by virtue of the

¹⁰ In an abundance of caution, in January 2008, Gogi later re-filed in state court (but did not amend) its counterclaims. Gogi later amended its counterclaims, in April 2009, to contain updated infringement allegations. *See* Amended Answer and Counterclaims. CP 101.

¹¹ In opposing the motion to remand, Defendants contended that TNI was alleging that it was a co-owner by authorship, and/or that the works created by Gogi were works for hire. TNI contended that its claims were contractual, and governed exclusively by state contract law.

provisions of the Nondisclosure Agreement, and seeking an order granting judgment in its favor both on its counts, and Gogi's counterclaims. In June 2008, the Superior Court (Canova, J.) denied the motion. CP 49.

2. Discovery Disputes

a. Document Discovery

The parties mutually served document requests in early 2008. Defendants literally produced thousands of files shortly thereafter, including hundreds of emails pertaining to the business relationship between Gogi and TNI.¹² TNI initially produced absolutely nothing. At the very end of 2008, and in early 2009, TNI produced a handful of emails and other documents. *Id.* TNI also refused to produce *any* documents concerning its usage of works authored by Defendants, and work by subsequent graphic artists retained by TNI, notwithstanding the facts that Gogi had asserted copyright infringement claims.¹³ Defendants moved to compel the production of these categories of documents, and also sought an order requiring TNI to certify that it had made a good faith attempt to retrieve email correspondence from its email client software. CP 75. The Court denied that motion in principal part, refusing to enter an order compelling TNI to produce the requested files, nor to certify that it had produced all responsive emails. CP 92.

¹² See "Declaration of Matthew E. Miller in Support of Defendants' Motion To Compel the Production of Documents," CP 76, at ¶¶ 4-5.

¹³ This discovery is also directly relevant to TNI's claims that it was entitled to recover, as an element of damages, its expenses on the redesign of certain artwork.

b. Deposition Scheduling

The parties were unable to agree on a schedule for the depositions of Ms. Chung and Dr. Ombrellaro,¹⁴ and the Superior Court ultimately, on Thursday, February 13, 2009, transmitted an order to the parties by e-mail scheduling the depositions for Tuesday, February 17, 2009 (Ms. Chung) and Wednesday, February 18, 2009 (Dr. Ombrellaro). CP 68. On the evening of Tuesday, February 17, 2009, at the conclusion of the Chung deposition, TNI's counsel told the undersigned, for the first time, that Dr. Ombrellaro had a schedule conflict that would preclude his appearance on February 18, 2009 as ordered by the Superior Court. CP 80, at ¶ 14. On February 18, 2009, TNI moved for reconsideration of the Superior Court's order scheduling the depositions. CP 73. Defendants cross-moved for sanctions, CP 79, seeking the costs and attorney fees associated with defendants' lead counsel making a second trip to Seattle that would not have been necessary if the depositions could have been taken on consecutive days as previously ordered by the Superior Court. The Superior Court granted TNI's motion for reconsideration, CP 90, and denied Defendants' cross-motion for sanctions. CP 91.

¹⁴ Defendants were quite flexible, insisting only that the depositions take place on (virtually any) two consecutive days to allow Defendants' lead counsel, who would be traveling from the Washington, D.C. area for the depositions, to attend them on a single trip to Seattle. *See* "Declaration of Matthew E. Miller in Opposition to Motion to Reconsider and in Support of Cross-Motion for Discovery Sanctions," CP 80, at ¶ 6.

3. Trial and Judgment

A bench trial was held on April 28-30, 2009 and May 4, 2009 before the Hon. Mary I. Yu. On May 7, 2009, the Superior Court entered a "Summary Decision," CP 102, in which the Superior Court stated that it would find for TNI on Count I (breach of contract) and Count II (UTSA), in favor of Gogi on Count VIII of its counterclaim (unpaid invoices), and in favor of TNI on Gogi's copyright counterclaims. The Superior Court further stated it did not find any basis for awarding damages to TNI on the (originally pleaded) contract claim that Gogi failed to timely provide computer files, or on the UTSA claim. *Id.* Curiously, the Superior Court did state that it would "permit the parties to file additional legal authorities on this question if Plaintiff wishes to pursue such damages." *Id.*

On June 2, 2009, the Superior Court entered "Findings of Fact and Conclusions of Law" that were prepared by TNI's counsel, and also entered a "Judgment" that was prepared by TNI's counsel. Neither document was substantially modified by the Superior Court from the forms prepared by counsel. The Judgment provided that TNI would recover compensatory damages in the amount of \$72,224.00, which consisted *solely* of the amount of its redesign costs allegedly incurred by TNI because Gogi had filed certain copyright applications. CP 117. The lion's share of the monetary judgment for TNI was attorney fees, in the amount of \$92,970.00, and expenses, in the amount of \$6564.75. *Id.*

The Judgment also (1) contained a declaration that TNI owns the

four copyrights filed by Gogi that were approved by the Copyright Office, (2) ordered Defendants to transfer to TNI all computer files pertaining to the work they performed while retained by TNI, including files "within the control of any of its subcontractors," and (3) ordered Defendants to subsequently delete from their own files any copies of the transferred files.

4. Pertinent Postjudgment Proceedings

Gogi timely complied with the provisions in the judgment requiring the transfer of certain computer files to TNI, with the exception of certain files in the possession of Mr. Rafael Calonzo.¹⁵ Mr. Calonzo is an animator, who was a subcontractor of Gogi's for the project of creating an animated promotional video for TNI. He did not perform projects regularly for Gogi, Chung, 4/30/09, at 163:11-14, 175:19-21 and 176:5-9, and there is no evidence in the record that he ever worked on any other projects for Gogi. He is a friend of Baltazar Soto, an employee of TNI. Soto, 4/28/09 at 110:6-17.

After the entry of judgment, Gogi's counsel sent letters to Mr. Calonzo, and another former subcontractor, asking them to provide copies of the files in their possession concerning the video project. The other subcontractor (Mr. David Green) complied; Mr. Calonzo did not. CP 191 at ¶3(15).¹⁶ TNI subsequently filed a motion seeking to hold

¹⁵ "Declaration of HyunSook Chung in Opposition to Motion for Contempt," CP 191, at ¶ 3.

¹⁶ Defendants' counsel later sent a second letter to Mr. Calonzo, again requesting the files, after which he voluntarily produced them. "Declaration Of Matthew E. Miller In Support of Defendants' Motion for Partial Reconsideration of Order of August 31, 2009," CP 202,

Defendants in contempt for failing to produce certain files. CP 184. The Court entered an order directing Gogi to produce all files within the scope of the Judgment, and awarding attorney fees to TNI. CP 196.

IV. ARGUMENT

A. Standard of Review

Assignments of error Nos. 1-8, and 11, concerning questions and conclusions of law, are reviewed *de novo*. *Sunnyside Valley Irrigation Dist. v. Dickie*, 149 Wash.2d 873, 880, 73 P.3d 369 (2003). Assignments of error Nos. 9 and 10, concerning pretrial discovery orders, are reviewed for manifest abuse of discretion. *Wash. State Physicians Ins. Exch. & Ass'n v. Fisons Corp.*, 122 Wash.2d 299, 339, 858 P.2d 1054 (1993).

B. The Superior Court Erred in Entering Judgment for TNI on its Contract Claim

In addressing TNI's contract claim, it is important to distinguish between (a) the claim, as actually pleaded in TNI's Complaint, and (b) TNI's case at trial, which focused on an entirely different theory.

The essence of TNI's contract claim, as pleaded in its Complaint, is that (1) TNI owned all of Gogi's work product by virtue of the Nondisclosure Agreement, (2) Gogi failed to provide TNI with certain files Gogi produced upon TNI's demand in September 2007, and (3) TNI was somehow damaged.

TNI's contract claim, as presented at trial, however, focused on

at ¶¶ 2-3.

Gogi's copyright applications. TNI claims that Gogi, by filing copyright applications concerning certain of the intellectual property it authored, had somehow breached the Nondisclosure Agreement, that Gogi's filing of copyright applications somehow encumbered the intellectual property, and that TNI (even though believed it believed the applications had no merit) was entitled to recover the costs of redesigning those works concerning which Gogi had filed copyright applications.

Both of these theories fail as a matter of law because Gogi, not TNI, was the owner of the intellectual property at issue. These claims also fail because, regardless of who owned the intellectual property, TNI failed to present proof of a breach of the Nondisclosure Agreement and legally cognizable damages, based on either contract theory. Additionally, the second contract theory also fails because it was never pleaded by TNI, which never made any attempt, even at trial, to amend its pleadings.

1. Assignment of Error No. 1: The Superior Court Erred in Holding That The Nondisclosure Agreement Somehow Effectuated a Conveyance of Intellectual Property Rights in Any Future Works that Might Be Created by Defendants that Pertain to TNI

a. Copyright Initially Vested in Gogi, as Author of the Works

The types of works subject to the protection of copyright law are listed in 17 U.S.C. § 102.¹⁷ It is not disputed that all of the works at issue

¹⁷ Section 102 defines the subject matter of copyright as “original works of authorship fixed in any tangible medium of expression, now known or later developed, from which they can be perceived, reproduced or otherwise

in this case fall well within the scope of copyright. All of them, indisputably, fall within one or more categories listed in 17 U.S.C. § 102: the “Beatdown” video is a “motion picture[or] other audiovisual work[,],” and every other item is a “pictorial” or “graphic ...work.”

The owner of a copyright is the owner of a “bundle” of rights associated with the work. These rights, listed in 17 U.S.C. § 107, include the right to reproduce works and the right to make derivative works therefrom. This bundle of rights is distinct from the right of ownership of a copy of the work – one may own a specific copy of a work without owning the copyright to it, and vice versa. By way of example, one who purchases a painting owns the painting itself, but not the right to reproduce it and sell postcards of it. Similarly, one who purchases stationery from a stationer owns the purchased stationery itself, but does not acquire the right to the computer files (or other means) used to produce the stationery.¹⁸ Of course, as discussed below, the parties may provide by contract that the party commissioning the work acquires the intellectual property rights, but there are specific requirements applicable to such contracts, discussed in more detail below.

communicated, either directly or with the aid of a machine or device. Works of authorship include the following categories: (1) literary works; (2) musical works, including any accompanying words; (3) dramatic works, including any accompanying music; (4) pantomimes and choreographic works; (5) pictorial, graphic and sculptural works; (6) motion pictures and other audiovisual works; (7) sound recordings; and (8) architectural works.”

¹⁸ Even where a purchaser owns a copy of a copyrighted work (and may freely alienate that particular copy), it does not authorize the owner of that copy to make additional reproductions or to prepare derivative works based on the work. *Mirage Editions, Inc. v. Albuquerque A.R.T. Co.*, 856 F.2d 1341, 1344 (9th Cir. 1988).

Under the Copyright Act of 1976, the copyright "vests initially in the author or authors of the work." 17 U.S.C. § 201(a). As noted by the Supreme Court, "[a]s a general rule, the author is the party who actually creates the work, that is, the person who translates an idea into a fixed, tangible expression entitled to copyright protection." *Community for Creative Non-Violence v. Reid*, 490 U.S. 730, 737 (1989). The 1976 Act "departs from earlier versions of the copyright laws by vesting the copyright, in most cases, in the person who actually creates the work instead of in the person paying to have the work created." *Fleming v. Miles*, 181 F. Supp. 2d 1143, 1155 (D. Ore. 2001). It is well-settled that preliminary sketches, or basic specifications provided by a client to a design professional do *not* make the client a joint "author."¹⁹

There is an important exception to this rule where the art is a "work for hire." The Act defines a work made for hire as: "(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." 17 U.S.C. § 101.²⁰

¹⁹ See, e.g., *Richard J. Zitz, Inc. v. Pereira*, 225 F.3d 646, 2000 U.S. App. LEXIS 22418 (2d Cir. 2000) (holding that plaintiff, who provided detailed drawings and Styrofoam models to assist in the rendering of final architectural drawings, but did not actually draw any of the blueprints, was not an "author"); *Thomson v. Larson*, 147 F.3d 195, 200 (2d Cir. 1998) ("collaboration alone is not sufficient to establish joint authorship. Rather, the contribution of each joint author must be *independently copyrightable*").

²⁰ The work for hire doctrine is inapplicable in this case, because (1) defendants were never employees of TNI, and (2) defendants never agreed that any work they prepared was a "work for hire."

TNI did not allege at trial, that it was author, or a joint author, of Gogi's work product. TNI, in fact, is judicially estopped from making such an allegation, since it (successfully) sought the remand of this action to this Court on the ground that it was not pursuing that theory.²¹ Similarly, TNI also does not appear to have alleged (at least not since its initial Complaint) that any of the work product at issue was a "work for hire." TNI, in fact, was judicially estopped from making such an allegation, since it (successfully) sought the remand of this action to this Court on the ground that it was not pursuing that theory.²²

**b. The Nondisclosure Agreement Did Not Effect
a Conveyance of Intellectual Property Rights in
Whatever Work Product Ms. Chung Might
Later Create**

TNI alleges that it is the owner of the intellectual property rights in Gogi's work product by virtue of an alleged *conveyance*. The Superior Court held that, by executing the Nondisclosure Agreement on or about March 15, 2005, Ms. Chung allegedly conveyed *all* intellectual property rights of hers (and in her not yet formed LLC) in *all* of its work product that she might thereafter create for no particular consideration. This argument is without merit.

²¹ If TNI is claiming co-authorship, its claim would sound in copyright, the Superior Court would have lacked subject matter jurisdiction, and this action should have remained in the federal court, or alternatively should have been dismissed outright by the Superior Court for lack of jurisdiction. 28 U.S.C. § 1338(a) (federal courts have exclusive jurisdiction over copyright claims).

²² If TNI is claiming that certain works were "works for hire," its claim would sound in copyright, the Superior Court would have lacked subject matter jurisdiction. 28 U.S.C. § 1338(a) (federal courts have exclusive jurisdiction over copyright claims).

In construing the Nondisclosure Agreement, there are two essential principles of law to consider.

First, under the Copyright Act, “[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 transfer is in writing and signed by the owner of the rights conveyed or such owner's duly authorized agent.” 17 U.S.C. § 204(a). This requirement is “more stringent than the common law statute of frauds.” *PMC, Inc. v. Saban Entertainment, Inc.*, 45 Cal.App.4th 579, 591-92, 52 Cal.Rptr.2d 877 (Cal. App. 2 Dist.,1996). Section 204(a) requires the “parties who want to transfer copyright ownership to determine,” *inter alia*, “precisely what rights are being transferred and at what price.” *Konigsberg Intern. Inc. v. Rice*, 16 F.3d 355, 356 (9th Cir.1994) (emphasis added); *Effects Assocs., Inc. v. Cohen*, 908 F.2d 555, 557 (9th Cir. 1990) (same). Compliance with § 204(a) is required regardless of whether the matter is adjudicated in a federal or state court.²³

Second, it is well-settled in Washington as elsewhere that “if a contract is equally susceptible of two or more constructions, it should be construed against the drafter.” *McDonald v. State Farm Fire & Cas. Co.*,

²³ State courts considering alleged transfers of copyrights *must* apply, and routinely do apply, Section 204(a) to determine whether the instrument is sufficient to effect a transfer of a copyright. *See, e.g., Conwell v. Gray Loon Outdoor Marketing Group, Inc.*, 2009 WL 1409477 (Ind. May 19, 2009) (state court finds that purported transfer of copyright did not meet requirements of Section 204); *Krapp v. McCarthy*, 121 Ohio App.3d 64, 698 N.E.2d 1049 (Ohio App. 1 Dist.,1997) (same); *PMC, Inc.*, 45 Cal.App.4th at 591-92 (same).

119 Wash.2d 724, 733, 837 P.2d 1000 (1992). In this instance, since TNI provided the form contract of the Nondisclosure Agreement to Chung and other Gogi personnel, any provisions in the Nondisclosure Agreement susceptible of two or more constructions must be construed against TNI.

This case is analogous in many respects to *Gladwell Government Services, Inc. v. County of Marin*, 265 Fed. Appx. 624, 2008 WL 268268 (9th Cir. Jan. 28, 2008), in which the Ninth Circuit recently construed an agreement containing language similar in many respects to that found in the Nondisclosure Agreement in this case.:

The agreement provides that “[a]ll reports, information, data, work product, findings, and conclusions furnished to or collected, prepared, assembled, and/or made by [Gladwell's agents] under this Agreement (“Work Product”) shall be the property of [Marin].”

2008 WL 268268 at *1. This language is actually even broader than the language in the Nondisclosure Agreement (which provides only that information "furnished by" TNI to Gogi is TNI's property) as the *Gladwell* contract further provides that information "collected, prepared, assembled, and/or made by" the design firm would be the property of the client. Even with this broader language, the court easily concluded that

This language by itself ***cannot operate to effect a copyright transfer as a matter of law***. See 17 U.S.C. § 204(a) (requiring that a transfer of copyright ownership must be made in a signed writing); *Effects Assocs., Inc. v. Cohen*, 908 F.2d 555, 557 (9th Cir.1990). Transfer of a copyright interest must be made expressly. *Id.* (“The rule is really quite simple: If the copyright holder agrees to transfer ownership to another party, that party must get the

copyright holder to sign a piece of paper saying so.”).

Id. (emphasis added). The Ninth Circuit reversed the district court's dismissal of the plaintiff's copyright claims, noting that the district court, *inter alia*, had misread the contract as concerning the plaintiff's work product when it clearly only governed information "furnished to" the plaintiff and not items furnished by the plaintiff to the defendant.

i The Nondisclosure Agreement is a Form Contract of a Confidentiality Agreement Executed by the Parties for Purposes of Exploring a Possible Business Relationship

In construing the Nondisclosure Agreement, it is critical to first understand precisely what it is, who executed it, when it was executed, and why it was executed.

First, it should be noted that the Nondisclosure Agreement is entitled “Nondisclosure Agreement,” and is just that – an agreement designed to prevent the disclosure of TNI’s business information to third parties. The very clear function of the “Nondisclosure Agreement” is to ensure “Nondisclosure” of “Proprietary Information).” It is a standard form of confidentiality agreement that parties typically execute when exploring a possible business relationship. The Nondisclosure Agreement is not titled “Conveyance of Intellectual Property Rights,” “Purchase and Sale Agreement,” nor anything else that would suggest a transfer of anything from anybody or to anybody. It is also clearly *not* a services contract, as it contains no language specifying any services that are to be

performed by either party.

Second, it should be rather obvious that the Nondisclosure Agreement is a boilerplate form contract provided by TNI, the terms of which were not “negotiated” by anybody. As noted above, the same form contract had been used by TNI on numerous other occasions.

Third, the Nondisclosure Agreement’s *sole* stated purpose is to enable the Obligated Person to review certain books and records of TNI in order to determine whether to enter into an unspecified business relationship with TNI:

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]

Fourth, the Nondisclosure Agreement was executed by Chung on or about March 15, 2005, at the *very beginning* of the business relationship between defendants and TNI, prior to the performance of any services by defendants, and prior to the creation of any work product by Gogi.

Fifth, it should be noted that the Nondisclosure Agreement was signed individually by all Gogi personnel who worked on TNI matters. If the Nondisclosure Agreement was designed to effectuate a transfer of intellectual property, there would have been no purpose to having the document executed by persons who clearly never had any authority to transfer any intellectual property.

ii. the Nondisclosure Agreement, on its own terms, defines "Proprietary

Information" as consisting *only* to property conveyed *by* TNI to the Obligated Person, and Makes No Reference to any Work Product That Had Been Created, or Might Be Created, by the Obligated Person

As discussed above, the writing requirement of Section 204(a) requires the “parties who want to transfer copyright ownership to determine *precisely what rights are being transferred*” *Konigsberg Intern.*, 16 F.3d at 356 (emphasis added); *Effects Assocs.*, 908 F.2d at 557 (same). *See also Pamfiloff v. Giant Records, Inc.*, 794 F. Supp. 933, 937 (N.D. Cal. 1992) (writing must identify “subject matter” of the transfer). *Accord Foraste v. Brown Univ.*, 290 F. Supp.2d 234, 240 (D.R.I. 2003) (same). *See also Home Design Services, Inc. v. Park Square Enterprises, Inc.*, 2005 WL 1027370 (M.D. Fla. May 2, 2005) (“the memorandum should, at a minimum, make mention of the copyright which is being transferred”).

In this case, the “Proprietary Information” that is the subject of the Nondisclosure Agreement is defined as to consist of information “furnished or made available to Obligated Person ... by” [TNI],”²⁴ and the stated purpose of the Nondisclosure Agreement was to permit the Obligated Person to review TNI’s books and records. The Nondisclosure

²⁴ "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 [a laundry list of items] 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.'"

Agreement provides that TNI owns the intellectual property rights “related to Proprietary information.”²⁵

Defendants do not dispute that TNI owns any intellectual property rights pertaining to property that it actually “furnished or made available” to defendants, which is the obvious purpose of the intellectual property clause in the Nondisclosure Agreement.

The Nondisclosure Agreement says absolutely *nothing* about intellectual property rights in works created *by the Obligated Person*. The Nondisclosure Agreement does not make any attempt to enumerate what works, if any, would be created by defendants. The Nondisclosure Agreement merely provides that TNI owns the intellectual property rights related to the information it provides to the generic “obligated person” with whom it is merely exploring a business relationship, not that it owns the intellectual property rights in whatever the “obligated Person” will generate during the course of whatever relationship might later ensue.

It should also be noted that the intellectual property clause in the Nondisclosure Agreement (¶ 2) is narrower in scope than the general confidentiality clause (¶ 1). The confidentiality obligations in Paragraph 1 applies not only to Proprietary Information, but also to all information

²⁵ “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.”

"derived therefrom." Exh. 1, ¶ 1. Under the Superior Court's interpretation of ¶2, TNI's intellectual property rights would extend not only to "Proprietary Information" but also to information "derived therefrom," but the contract says no such thing. Interpreting the scope of the intellectual property clause in ¶ 2 to be coextensive with the confidentiality clause in ¶ 1 would render entirely meaningless²⁶ the words "or derived therefrom" in ¶ 1.

As discussed above, the Nondisclosure Agreement was executed at the outset of the parties' business relationship, and well before Gogi had generated *any* work product or performed any services for TNI, and the parties did not know what the ultimate scope of those services would be. Chung Decl. (Exh. E), ¶ 13. In fact, the Nondisclosure Agreement acknowledges that there was no business relationship yet between TNI and defendants, as its stated purpose was to enable the Obligated Person to review TNI's books and records in order to consider whether to enter such a relationship.

It is hardly clear whether it is even possible to "transfer" the copyrights in works not yet in existence, and some courts have suggested that it is, indeed, not even possible.²⁷ Rather to attempt to transfer

²⁶ See *Wagner v. Wagner*, 95 Wash.2d 94, 101, 621 P.2d 1279 (1980) ("An interpretation of a writing which gives effect to all of its provisions is favored over one which renders some of the language meaningless or ineffective").

²⁷ Since a "future" work, by definition, has not yet been created, it cannot be "*fixed*," as that term is defined under 17 U.S.C. § 101. Accordingly, "[u]ntil there is a copyright, there cannot be a copyright owner." *Cable News Network, Inc. v. Video Monitoring*

intellectual property rights in works that do not, and may never, exist, the more common practice in that scenario, by far, is to agree that specific works are "works for hire," which, as discussed below, is expressly provided for in the copyright laws.

Even assuming that it *might* be possible to transfer copyrights in future works, the instrument would have to be considerably more explicit than the Nondisclosure Agreement at issue in this case. In *NASCAR v. Scharle*, 356 F.Supp.2d 515, 524 (E.D. Pa. 2005), the only decision of which the undersigned is aware in which a court found a conveyance of copyright in future works, the court found that an artist had transferred copyright interests in future works when he entered the following contract:

The Master Agreement, in a section entitled "Title to Work and to Copyright," contains the following language: "The Artist ... agrees to sell to Franklin and *Franklin agrees to purchase from the Artist, all the right, title and interest, and all worldwide copyright rights, in and to certain works of art to be executed by the Artist as an independent contractor in accordance with this Agreement ... Exclusive worldwide rights to reproduce the Works of Art in any form ... are also included in the purchase price.*"

Id. at 520 (emphasis added). If Ms. Chung and TNI intended that any and all future works created by Ms. Chung would be the intellectual property of TNI, the contract would logically have looked much more like the agreement entered in *Scharle*.

Services of America, 940 F.2d 1471 (11th Cir. 1991), *vacated on other grounds*, 949 F.2d 378 (11th Cir.1991). *Accord Rodrigue v. Rodrigue*, 218 F.3d 432, 436 & n. 15 (5th Cir.2000) (stating that copyright "arises at the moment of creation of the work").

iii. Nobody “Transferred” Anything in the Nondisclosure Agreement

To satisfy the writing requirement of § 204(a), there must be some evidence of a specific intention to “transfer” a copyright belonging to the transferor. *Saxon v. Blann*, 968 F.2d 676, 680 (8th Cir. 1992) (“To transfer ownership of a copyright, the parties must state in writing that they intend to transfer a copyright”). In this case, the Nondisclosure Agreement does not contain any language suggesting, or evidencing, a sale, transfer, assignment, or other conveyance. There simply is no language “transferring,” “assigning,” “selling” or otherwise “conveying” intellectual property rights (or anything else) from any person to any person. The Nondisclosure Agreement merely recognizes TNI’s intellectual property rights in its own books and records and related information – it contains absolutely no language suggesting that Ms. Chung intended to “transfer” any intellectual property rights that she had, or might later have. Remarkably, the Superior Court's Findings and Fact and Conclusions of Law are utterly devoid of any acknowledgement whatsoever of the requirements of § 204(a), nor do they contain attempt to describe how a "transfer" of rights was effected in the Nondisclosure Agreement.

iv. The Nondisclosure Agreement Does Not Describe Any Consideration to Be Paid for the Alleged Conveyance of Intellectual Property Rights

As discussed above, the writing requirement of Section 204(a) requires the “parties who want to transfer copyright ownership to determine” not only “precisely what rights are being transferred...,” but also “*at what price.*” *Konigsberg Intern.*, 16 F.3d at 356 (emphasis added); *Effects Assocs.*, 908 F.2d at 557 (same). This is controlling law that was simply disregarded by the Superior Court.

In this case, the Nondisclosure Agreement does not describe any consideration that would be provided to the Obligated Person in return for allegedly conveying all intellectual property rights in its future works. It would be absurd to construe a boilerplate “Nondisclosure Agreement” as effectuating a transfer from a graphic designer to a prospective client of all intellectual property rights in any works that might later be created by the designer, and *for no consideration whatsoever.*

As testified to by Ms. Chung, “usage rights” are valuable in the design business, and are typically not transferred from artist to client until, and if, the Client agrees to pay sufficient compensation to account for their value. It would hardly be rational for a designer to forfeit all intellectual property rights in its work for a prospective client before even knowing what work it would be doing nor what it would be paid for that work.

**v. The Nondisclosure Agreement Does
Not Recite the Words "Work for Hire"**

As discussed above, under the Copyright Act of 1976, it is very easy for the client, and the retained artist, to shift the presumption of copyright ownership from the artist back to the client (as it existed under the former Act) if that is truly the intent of the parties: the client and the artist need only enter into a written agreement specifying that works created by the artist will be "works for hire." 17 U.S.C. § 101. If the true intention of the parties entering the Nondisclosure Agreement was to provide that TNI would own the intellectual property rights to all works authored by Ms. Chung, this would have been the rather obvious way to accomplish that end.²⁸ Merely stating that TNI owns the intellectual property rights to information that it provides *to* the Obligated Person is *not* the same thing.

**c. The Subsequent Correspondence and Actions
of the Parties Demonstrate that TNI declined to
Purchase, and the Parties Contractually Agreed
that Ms. Chung Would Retain, the Intellectual
Property Rights in Her Work Product**

TNI's construction of the Nondisclosure Agreement is utterly incongruous with the parties' subsequent actions, which make it quite clear that Defendants retained all intellectual property rights to their work product.

²⁸ Dr. Ombrellaro and his lawyers certainly demonstrated that they knew of this doctrine, and how to prepare such a document, as they transmitted such an instrument to Ms. Chung on September 27, 2007, as discussed in Section IV(B)(1)(c), *supra*.

First, while working on her first project for TNI, just *one week* after Chung executed the Nondisclosure Agreement, Ms. Chung offered TNI the option of paying a flat rate “Project Fee” that would include “full usage rights,” or simply paying hourly for design services, with no intellectual property rights included. Exh. 264. Notably, when offered the opportunity to acquire “usage rights” Dr. Ombrellaro did not ask what the term meant, nor did he invoke the Nondisclosure Agreement the parties had executed a week later, nor did he otherwise explain that TNI, in its view, already owned the intellectual property rights to whatever works Ms. Chung might generate during the course of their relationship. Instead, he simply indicated that TNI would proceed on an hourly fee basis, *id.*, and TNI never subsequently negotiated to obtain the intellectual property rights to *any* of Ms. Chung's work product. Ms. Chung and Gogi continued to price their design services on an hourly basis for the remainder of their relationship with TNI, instead of on a flat rate “project fee” basis that included usage rights.

Second, it is notable that Eastside Vascular, another company controlled by and represented by Ombrellaro, *did* elect to proceed on a “Project Fee” basis. In a price sheet prepared for Eastside by Gogi, Gogi noted that the flat rate included a “full usage buyout” pursuant to which Eastside would own the intellectual property rights to Gogi's work product upon payment in full of Gogi's invoices. Exh. 232. It is thus clear that Dr. Ombrellaro did know how to pay for usage rights when he wanted to.

Third, it is equally notable that, on September 27, 2007, on the eve of litigation, Dr. Ombrellaro tried to convince Chung to execute a letter stating that all work performed by Gogi for TNI were “works for hire”:

This letter confirms 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. Thanks.

Exh. 288. This letter evidences that TNI *knew* that it did not own any intellectual property rights in Gogi’s work product. If it had believed otherwise, there would have been no reason for this attempt to get Gogi to execute such a letter agreement. Exhibit 288 also advances a legal theory of TNI’s ownership entirely different from the Nondisclosure Agreement/conveyance theory posited by TNI– Exhibit 288, prepared by TNI’s lawyers, suggests that the works were “works for hire.”

2. Assignment of Error No. 2: The Court Erred in Awarding Injunctive Relief to TNI for the Further Reason that Gogi Had a Possessory Lien on the Files

The Court erred in awarding injunctive relief (directing Gogi to provide the computer files consisting of the entirety of its work files) to TNI principally because TNI simply did not own the intellectual property rights to these files. Additionally, Gogi had the right to retain these files until its fees were paid. A common law possessory lien is “an encumbrance which one person has upon the property of another as

security for some debt or charge.” *Murray v. Eisenberg*, 29 Wash. App. 42, 45, 627 P.2d 146 (1981). It is the right to retain possession of certain property until the debt or claim secured thereby is satisfied. 53 C.J.S., Liens, §§ 2, 30 (1987). The right to a common law lien is “based directly on the idea of possession, and it is indispensable that the one claiming it have an independent and exclusive possession of the property.” *Murray*, 29 Wash. App. at 45 (*quoting* 51 Am.Jur.2d Liens § 21 (1970)). Such a lien arises only when possession is obtained, and exists only so long as it is retained. *Id. Accord Ellison v. Scheffsky*, 141 Wash. 14, 250 P. 452 (1926). A good example of a common law possessory lien is that held by a dry cleaner – the dry cleaner never obtains title to the customer’s garments, but has the right to retain those garments until the customer pays for the dry cleaner’s services.

The Superior Court, in fact, found that TNI was obligated to Gogi for unpaid invoices in the amount of \$7220.00 plus interest. Summary Decision, CP 102 at 3. It is black letter law that Gogi has the right to retain TNI’s property until these obligations are satisfied, or, at least, TNI deposited adequate security for those obligations in the registry of the Court. TNI did neither.

For the reasons stated above in some detail, Gogi is the owner of all of the intellectual property that it generated. Gogi possesses only a negligible amount of property that could possibly be deemed the property of TNI, all of which was transmitted electronically from TNI to Gogi and

is almost certainly already in TNI's possession.²⁹ Even with respect to any property in Gogi's possession that is TNI's, Gogi had the right to retain said property as security for TNI's obligations to Gogi.

Accordingly, even if TNI were *correct* that it owned the property in question, it had no entitlement to the return of that property until it paid the balance due.

3. Assignment of Error No. 3: The Superior Court Could Not Plausibly Find that Gogi's Filing of Copyright Applications Constituted a Violation of the Nondisclosure Agreement, Nor That TNI Was Entitled to Recover Redesign Costs

It must be emphasized that TNI, admittedly, has no damages arising from the contract claim that was actually pleaded in its Complaint (i.e., the claim seeking the transfer of certain files).³⁰ At trial, the only damages quantified by TNI, and the only damages awarded by the Superior Court were TNI's design costs and attorney fees allegedly incurred as a result of Gogi's filing of copyright applications and asserting copyright claims. In allowing TNI to pursue such an unpleaded contract theory, and in awarding this measure of damages, the Superior Court committed clear error.

²⁹ In modern commerce, very little intellectual property is physically "delivered," particularly in technology-driven fields such as graphic design and video game design.

³⁰ When questioned in his deposition concerning damages that TNI incurred as the result of the failure of Gogi to provide requested files, the only theory of damages that Dr. Ombrellaro could devise was that there was a risk of "brand confusion" if Gogi displayed works that TNI claimed were its property (Gogi had displayed some of these works on its website as exemplars of its work, but immediately ceased doing so after TNI initiated this litigation). Ombrellaro dep., 120:22 to 121:17. Of course, he drew a blank as to whether any such "brand confusion" had actually occurred. Ombrellaro dep., 129:7-20.

The first problem with this breach of contract theory is that it was never pleaded by TNI. TNI's contract claim in its Complaint alleges only that Defendants failed to deliver certain files that TNI was allegedly entitled to. It says nothing about damages arising from copyright applications, which is an entirely different claim. In fact, at the time of TNI's Complaint, the copyright applications *had not even been filed yet*. TNI never made any attempt, at any time, to amend its Complaint.³¹

The second problem is that there is simply nothing in the Nondisclosure Agreement that prohibits the filing of a copyright application, and the Superior Court made no attempt whatsoever in its Findings and Conclusions to explain how filing a copyright application could be in violation of a boilerplate confidentiality agreement such as the Nondisclosure Agreement. Even if TNI were ultimately correct that the Nondisclosure Agreement established its ownership of the intellectual property, that would not somehow render it an independently actionable breach of the instrument to interpret the contract differently and file copyright applications as to disputed works.

Third, it simply defied all possible logic for the Superior Court to hold that the redesign expenses were *reasonably* incurred as a result³² of

³¹ A pleading is insufficient when it does not give the opposing party fair notice of what the claim is and the ground upon which it rests." *Dewey v. Tacoma School Dist. No. 10*, 95 Wash. App. 18, 23, 974 P.2d 847 (1999), quoting *Lewis v. Bell*, 45 Wash. App. 192, 197, 724 P.2d 425 (1986).

³² It is well established that damages must be "proximately caused by the breach" of contract. *Citoli v. City of Seattle*, 115 Wash. App. 459, 476, 61 P.3d 1165 (2002).

Gogi's filing of copyright applications. Either Gogi's copyright claims are valid or they are not – if they are *valid*, it might be prudent for TNI to redesign its artwork in order to cease infringing the copyrights, but TNI obviously cannot recover those costs. If Gogi's copyright claims are *invalid*, there is simply no need to engage in redesigns at all, since there can be no infringement of an invalid copyright. A party aggrieved by an invalid copyright application has two options: (1) it can affirmatively seek a declaratory judgment as to ownership of the copyright, and/or (2) assert the invalidity of the copyright claims as a *defense* to any infringement claims pursued by the applicant. It simply cannot *choose* to incur damages by engaging in the redesign of its intellectual property which would be totally unnecessary if the copyright claims are invalid. While fraud on the copyright office may be asserted as an affirmative defense to an infringement claim, and may also be a criminal offense,³³ there simply is no possible basis for suing a party for "damages" incurred as a result of an invalid or fraudulent copyright application or registration. *Kwan v. Schlein*, 2008 WL 4755345 (S.D.N.Y. Oct. 30, 2008) ("there is no precedent supporting the use of a claim for fraud on the Copyright Office as an affirmative cause of action, rather than as a defense to a copyright certificate's validity"); *Ashton-Tate Corp. v. Ross*, 728 F. Supp. 597 (N.D. Cal. 1989). The undersigned are aware of no decision, in any state or federal court, in which a party has successfully sued another (whether

³³ 17 U.S.C. § 506(e).

under a contractual or tort theory) to recover damages allegedly incurred as a result of the filing of a copyright application. The Superior Court, which did not attempt to cite any precedent for such an award, has evidently become the first court to ever award such damages in the history of American jurisprudence.

4. Assignment of Error No. 4: the Superior Court Erred in Holding that the Defendants Were Jointly Liable for Breach of Contract

The Superior Court held that Gogi was liable for breach of a contract entered 19 months before it came into existence. No secondary or successor liability theories were ever advanced by TNI, none were proven by TNI, and none were ever even addressed by the Superior Court. Even if Gogi was the legal successor to the Nondisclosure Agreement, moreover, how could Ms. Chung have been held individually liable for acts (all of the acts that allegedly support her liability occurred well after the LLC was founded) committed in her capacity with Gogi? Either Gogi is the legal successor to Ms. Chung or it is not. They should not both have been sued, and judgment should not have been entered against both.

5. Assignment of Error No. 5: Since Defendants are Entitled to Judgment in their Favor as to Count I, the Superior Court Erred in Awarding Attorney Fees to TNI, and Must Instead Award Them to Defendants

Upon vacating the Superior Court's entry for judgment for TNI on Count I, and directing the entry of Judgment for Gogi on Count I, this Court must also direct the Superior Court to award attorney fees to Gogi.

Under Washington law, the enforcement contractual fee shifting provisions, such as the one contained in the Nondisclosure Agreement, is mandatory, not discretionary. *See* RCW 4.84.330; *Singleton v. Frost*, 108 Wash.2d 723, 742 P.2d 1224 (1987).

C. Assignment of Error No. 6: The Superior Court Erred in Entering Judgment for TNI on its UTSA Claim

TNI's UTSA claim is another claim that, at trial, looked nothing like the claim that TNI attempted to plead in its Complaint.³⁴ The claim, as first articulated on the eve of trial, is that Ms. Chung and/or Gogi misappropriated a trade secret when she sent an email to a friend (who is a software engineer employed by a video game developer) asking him about the technical specifications to put on the package pertaining to a video game that ran on the Sauerbraten engine, an *open source* software platform. *See* Exh. 24.

This claim fails miserably, as a matter of law. First, TNI never pleaded this claim, nor came even remotely close to putting Defendants on

³⁴ In the Complaint, TNI claimed that Defendant's alleged failure to provide computer files to which TNI was allegedly entitled somehow constituted a "misappropriation" of a "trade secret," *see* CP 1, even though there was not one shred of evidence that any of the files constituted "trade secrets" nor that they were ever "misappropriated." First, in this case of the intellectual property (such as logos, letterhead systems, and a video, all of which were routinely publicly displayed) addressed in Plaintiff's Complaint could properly be characterized as "trade secrets." The materials at issue are part of TNI's public persona, and are designed to be publicly disseminated, and have in fact been publicly displayed by TNI. Second, there can be no suggestion of a "misappropriation." TNI has not alleged that defendants acquired any information "improperly," and TNI has not alleged any "disclosure" of any supposed trade secret by defendants to another party. The only "disclosure" by defendants even mentioned in the Complaint was the display of the "Bruce" video on defendants' website. This is a particularly ridiculous allegation in light of the fact that the video has been displayed at trade shows and on TNI's own website. Not surprisingly, TNI made no serious attempt to pursue this claim at trial.

adequate notice of it.³⁵ Second, money damages or the need for injunctive relief is a necessary element of this claim – inexplicably, the Superior Court entered a pointless "judgment" for TNI on this claim even though there were no damages or injunctive relief to be had.³⁶ Third, the articulated theory for alleging that the information was "a trade secret"³⁷ was simply preposterous.³⁸ Fourth, the information could hardly be

³⁵ See authorities cited in note 31, *supra*.

³⁶ Without any damages (there was no plausible claim for damages even attempted here) or need for injunctive relief, the underlying claim is a nullity. While the undersigned are unaware of any officially reported Washington appellate decisions on point, courts in other states in which the UTSA has been enacted have held, with apparent uniformity, that a UTSA claim cannot be sustained without either a showing of damages or a need for injunctive relief to enforce provisions of the UTSA. See *Unilogic, Inc. v. Burroughs Corp.*, 10 Cal.App.4th 612, 12 Cal.Rptr.2d 741 (1992) (judgment of nonsuit affirmed where trade secret owner admitted it suffered no loss and failed to introduce competent evidence of unjust enrichment or reasonable royalty); *Litton Systems, Inc. v. Ssangyong Cement Indus. Co., Ltd.*, 107 F.3d 30, 1997 WL 59360, *8 (Fed.Cir.1997) ("Failure to produce evidence of actual loss, unjust enrichment, or a reasonable royalty results in the assessment of zero damages under California law."); *News Am. Mktg. In-Store, Inc. v. Marquis*, 86 Conn. App. 527, 862 A.2d 837, 846 (2004) (affirming trial court's determination that plaintiff did not meet its "burden of proving actual harm resulting from ... [defendant's] alleged violation of the trade secrets act."); *Liebert Corp. v. Mazur*, 357 Ill.App.3d 265, 293 Ill. Dec. 28, 827 N.E.2d 909, 925 (2005) (misappropriation of trade secret claim requires proof that "... the owner of the trade secret was damaged by the misappropriation.") (citation omitted); *Storage Technology Corp. v. Cisco Systems, Inc.*, 2003 U.S. Dist. LEXIS 17347, 2003 WL 22231544 (D. Minn. Sept.25, 2003), *aff'd*, 395 F.3d 921 (8th Cir.2005)

³⁷ The UTSA defines "trade 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." RCW 19.108.010(4).

³⁸ The theory as to why some information in the email was secret, and derived economic value from being kept secret, was that there was some text buried in the email chain suggesting that there was some possibility the developer of the game, or TNI, *might* make modifications to the Sauerbraten engine for purposes of the game being developed for TNI (a game to be packaged with the gaming vest). See *Morris*, 4/28/2009 at 214:19 to 215:6. There is not one iota of evidence in the record, however, that there is even one person on this planet who could possibly care, or even less profit from, knowing that a game developer or TNI might make modifications to the open source software engine used to generate a game that was being included, for free, with the gaming vest sold by

deemed misappropriated (or, alternatively, TNI is estopped from claiming misappropriation) since the email correspondence allegedly constituting "misappropriation" was immediately forwarded, without complaint, to TNI's CEO and other TNI personnel, and TNI did nothing to address this so-called "misappropriation" in the first 30 months of the litigation.

The Superior Court should have dismissed the revised claim for any number of the foregoing reasons. It also should have sanctioned TNI and its counsel for initially filing an utterly frivolous UTSA claim, which TNI never made any serious attempt to prosecute.

D. Assignment of Error No. 7: The Superior Court Inexplicably Failed to Enter Judgment for Gogi on Count VIII of its Counterclaims (for Unpaid Invoices)

In its "Summary Decision," CP 107, and Findings of Fact and Conclusions of Law, CP 118, the Superior Court found that Gogi was entitled to judgment on its unpaid invoices, which totaled \$7220.00. Inexplicably, this was not reflected in the judgment prepared by TNI's counsel, and entered by the Superior Court. CP 117. Judgment must be entered in favor of Gogi for \$7220.00 plus applicable prejudgment interest, on Count VIII of its First Amended Counterclaims.

TNI (and otherwise sold by TNI for a mere \$10). Additionally, the information was not secret, as the uncontradicted evidence is that TNI had previously disclosed to the recipient of the information that it was preparing a new video game using the Sauerbraten engine. Chung, 5/4/09, at 62:2-19.

E. Assignment of Error No. 8: The Superior Court Should Be Directed to Make Findings of Fact and Conclusions of Law Necessary to Resolve Counts I-VII, XV and XX of Gogi's First Amended Counterclaims

Gogi has asserted claims under the Copyright Laws,³⁹ seeking a declaratory judgment that it is the owner (or co-owner) of the works in question, and seeking damages and declaratory relief resulting from infringement by TNI of certain its copyrights. Because of the predicate finding that TNI owned all of the intellectual property rights at issue, it was not necessary for the Superior Court to make any further findings of fact or conclusions of law in order to dispose of these counterclaims. For the reasons stated above, that predicate determination was plainly erroneous as a matter of law. Upon remand, the Superior Court will need to make relevant findings of fact and conclusions of law.

F. Assignment of Error No. 9: The Superior Court Abused Its Discretion in Failing to Order TNI to Produce Any Substantial Document Production

The Superior Court committed an abuse of discretion in failing to order TNI to produce any documents pertaining to its use and redesign of Gogi's work product, and in failing to order to compel TNI to certify that it had conducted a good faith search of its email records. *See* CP 92.

³⁹ Appellant notes, in an abundance of caution, that it appears that the Superior Court had jurisdiction over its counterclaims. Although the federal courts have exclusive jurisdiction over *claims* sounding in copyright, patent and trademark under 28 U.S.C. § 1338(a), the Supreme Court's decision in *Holmes Group, Inc. v. Vornado Air Circulation Sys., Inc.*, 535 U.S. 826 (2002) appears to mandate that federal jurisdiction is not exclusive over copyright, patent and trademark *counterclaims*. *See Green v. Hendrickson*, 770 N.E.2d 784 (Ind. 2002).

G. Assignment of Error No. 10: The Superior Court Abused its Discretion in Failing to Award Sanctions against TNI for Failing to Timely Notify Defense Counsel that Dr. Ombrellaro Could Not Appear for a Court-Scheduled Deposition

The Superior Court committed a clear abuse of discretion in failing to award Defendants their attorney fees and expenses incurred as a result of TNI's failure to timely notify them that Dr. Ombrellaro could not appear on the date the Superior Court had scheduled for his deposition. CP 90, 91. TNI should have notified Defendants of the conflict *before* defense counsel had traveled to Seattle, which would have enabled the depositions of Dr. Ombrellaro and Ms. Chung to take place on consecutive days, and for defendants' counsel to only travel to Seattle once for the depositions.

H. Assignment of Error No. 11: The Superior Court Erred in Directing Defendants to Produce Files in the Control of Former Contractors, and Later Awarding Sanctions

The Superior Court never had any authority to, in the Judgment, compel Defendants to produce to TNI computer files that were, beyond any possible dispute, *never* in their possession, custody or control.⁴⁰ The Superior Court compounded the error by, apparently, finding Gogi in contempt and awarding attorney fees to TNI for filing a contempt motion. CP 196. The Superior Court evidenced its profound lack of understanding

⁴⁰ *See, e.g., In re Citric Acid Litig.*, 191 F.3d 1090 (9th Cir. 1999) (court affirmed the "legal control" test, which is the prevailing national standard, as the standard for whether a party is obligated to produce documents in the possession of a nonparty). There has been no suggestion made in this case that Defendants had any legal ability, or practical ability, to compel Mr. Calonzo to do *anything*. If Defendants could not possibly be compelled to produce materials in Mr. Calonzo's possession under the liberal rules pertaining to mere *inspection for discovery* purposes, it cannot seriously be suggested that they could be compelled to cause Mr. Calonzo to comply with the considerably more invasive request of releasing editable versions of his work product.

of copyright law,⁴¹ as well as fundamental principles of the law of agency.

V. CONCLUSION

For the foregoing reasons, Appellant Gogi Design, LLC respectfully prays that the Court (1) vacate the Superior Court's Judgment of June 2, 2009 to the extent that it grants judgment in favor of TNI on Counts I and II of its Complaint, and on Counts I-VIII, XVI and XX of Gogi's First Amended Counterclaims, (2) enter judgment in favor of Gogi on Counts I and II of TNI's Complaint, and on Count VIII of Gogi's First Amended Counterclaims, (3) vacate the Superior Court's order of March 16, 2009 to the extent that it denied certain portions of "Defendants' Motion to Compel Production of Documents" and direct the Superior Court to grant that all discovery requested in that motion, (4) vacate the Court's order of March 2, 2010 denying Defendants' Motion for Discovery Sanctions and direct the Superior Court to award sanctions to Defendants, and (5) vacate the Superior Court's order of August 29, 2009 to the extent that it (a) directed Defendants to produce to TNI files that were never in their possession, custody or control, and (b) awarded attorney fees to TNI, and (6) direct the Superior Court with to enter additional findings of fact and conclusions of law necessary to dispose of Counts I-VII, XVI and XX of Gogi's First Amended Counterclaims.

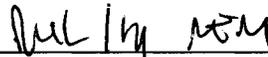
⁴¹ There was simply no evidence ever entered in the record (1) that Calonzo was an "employee" of Gogi for purposes of the work for hire doctrine, nor (2) that Calonzo and Gogi had ever agreed that Calonzo's work would be a "work for hire." See 17 U.S.C. § 101.

DATED THIS 24th day of May, 2010.

Respectfully submitted,



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