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No. 64505-6-I

COURT OF APPEALS, DIVISION I
OF THE STATE OF WASHINGTON

CORBIS CORPORATION, a Nevada corporation,

Appellant,

v.

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

Respondents.

APPEAL FROM THE SUPERIOR COURT
FOR KING COUNTY
THE HONORABLE SUSAN J. CRAIGHEAD

REPLY BRIEF OF APPELLANT/CROSS-RESPONDENT

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I. INTRODUCTION

InfoFlows cannot retain its windfall $19.8 million award – almost twenty times the agreed amount it could have earned for work it performed under the parties' contract – given the trial court's legal errors.

First, no authority supports, and public policy prohibits, the $9.28 million award based upon what InfoFlows characterizes as Corbis' fraudulent misrepresentation of "its promise to protect both parties' interests by coordinating on patents." (Resp. Br. 24) InfoFlows' allegation of Corbis' fraudulent intent can not establish a legal duty to enforce an oral promise, made before the parties executed their Development Agreement, that directly contradicts the parties' rights and obligations in that integrated contract. (App. Br. 35-40; Reply § II.B)

Second, the trial court erred in instructing the jury that it could find fraudulent inducement to enter into the Development Agreement based upon non-disclosure of Corbis' patent application – the basis for the jury's award of an additional $7 million in damages. There was no fiduciary or other confidential relationship between these sophisticated parties, who already had a contract that established Corbis' exclusive ownership and right to patent inventions arising out of InfoFlows' work and that authorized Corbis' patent application when it was made. (App. Br. 43-46;

Reply § II.C) The trial court's instructional error compels reversal of the judgment for fraudulent inducement.

Third, the trial court erred in instructing the jury that it could award duplicative damages under InfoFlows' claims that it was fraudulently induced to enter into a contract ($7 million), and for breach of that same contract ($3.25 million), and then in refusing to remit that duplicative award post-verdict. A party can be awarded damages flowing from breach of a contract, or it can be awarded damages because it was induced to enter a contract, but it cannot be awarded both. (App. Br. 25-30; Reply § II.D.1)

Finally, the jury's verdict, totalling $36 million, and the trial court's judgment of $19.8 million, was excessive as a matter of law. InfoFlows had no evidence that it lost any opportunities as a result of entering into the Development Agreement with Corbis, and its contention that it lost any income, earnings or profits is based on nothing but sheer speculation. InfoFlows had no reasonable contractual expectation to anything but the payments that were due for each accepted deliverable under the Development Agreement, which was terminable at Corbis' will. The trial court erred in refusing to remit the damages to the compensation to which InfoFlows would have been entitled had Corbis not terminated the Development Agreement for cause, which could not have exceeded $1 million. (App. Br. 30-34, 40-43; Reply § II.D.2)

While InfoFlows would avoid any substantive discussion of these legal errors, arguing at length that they have been waived, Corbis preserved each of these arguments below by moving to dismiss InfoFlows' claims before, during and after trial, excepting to the trial court's jury instructions, and seeking to remit the excessive verdict prior to entry of judgment. (Arg. § A) The trial court's incorrect legal rulings – including its failure to recognize that damages, whether considered lost profits, lost market value, or lost opportunities, must be established with reasonable certainty – caused the jury to award InfoFlows $36 million on a contract under which Infoflows could not have earned more than $3.75 million had InfoFlows successfully delivered all milestones. This court should reverse the judgment for fraudulent misrepresentation, and remit the jury's excessive verdict to InfoFlows' reasonable expectancy under the parties' terminable contract, or remand for a new trial.

II. REPLY ARGUMENT

A. All The Issues Raised In This Appeal Were Preserved Below.

Corbis made each of its substantive appellate arguments below. An issue is preserved for appellate review any time a party "advanced the issue below." ***Bennett v. Hardy***, 113 Wn.2d 912, 917, 784 P.2d 1258

(1990). "The purpose of RAP 2.5(a) is met where the issue is advanced and the trial court has an opportunity to consider and rule on relevant authority." ***Washburn v. Beatt Equipment Co.***, 120 Wn.2d 246, 291, 840 P.2d 860 (1992). The trial court did so here, not just in its post-trial ruling (CP 1482-85), but repeatedly during trial.

First, InfoFlows concedes that Corbis preserved its challenge to InfoFlows' claim for fraudulent misrepresentation by seeking judgment as a matter of law under CR 50 both during trial and following the jury's verdict. (Resp Br. 17) In its CR 50 motion, Corbis argued that "[p]atent filings are dealt with in the development agreement, and cooperation on patent claims is dealt with in the development agreement." (RP 2930) Corbis renewed its motion after the jury returned its verdict. (CP 689-98) Corbis had also moved for summary judgment on this ground. (CP 1946-61, 2219-24)

Second, InfoFlows also concedes that Corbis challenged the trial court's fraudulent concealment instruction. (Resp. Br. 18) Corbis argued that a duty to disclose a confidential patent application while negotiating the Development Agreement with InfoFlows was "inconsistent with the agreement and every other agreement between the parties." (8/18 RP 51; RP 2946) Corbis also excepted to the trial court's failure to give its proposed instruction telling the jury that a party's silence is not fraud in the absence of a fiduciary relationship. (CP 297; RP 2945)

Third, Corbis preserved its argument that the trial court's damages instructions provided the *potential* for a double recovery by excepting to Instruction No. 33, CP 565 (damages for fraudulent inducement). Corbis argued that it was error to "instruct the jury that the damages for fraudulent inducement are the same as those for breach of contract," (CP 372), excepted to the trial court's damages instruction for fraudulent inducement (No. 33), and proposed an alternative instruction that would have limited InfoFlows' recovery to "expenditures it made that are directly attributable to the fraud." (CP 376, 411; RP 2946-47) Corbis also made clear below that the damages instructions for fraud in the inducement and breach of contract are "mutually exclusively. It seems like what we're setting up here is potential for double recovery." (8/18 RP 56-57)

Fourth, Corbis' post-trial motion to remit the damages awarded by the jury then preserved its argument that the jury's *actual* award was excessive. *See **Torno v. Hayek***, 133 Wn. App. 244, 253, 135 P.3d 536 (2006) (party must challenge amount of damages awarded by jury by filing motion pursuant to CR 59). Corbis did not need to object to Instruction No. 38 (CP 570), in order to argue post-trial that the damages actually awarded by the jury for fraudulent misrepresentation were excessive under CR 59(a)(5), (6) and (7). Corbis' motion for remittitur or new trial under CR 59 (CP 714-25) was the proper means of preserving its challenge to the amount of damages awarded by the jury.

Corbis could not have challenged the jury's ultimate damages, whether for breach of contract, fraudulent misrepresentation or fraudulent inducement, in a CR 50 motion at the conclusion of InfoFlows' case, before the case had been submitted to the jury. CR 50(a) by its terms "provides a means of obtaining judgment as a matter of law where there is no legally sufficient evidentiary basis for a reasonable jury to find or have found for that party . . ." The jury could have returned a verdict for $1 million or less in contract damages, or limited damages for fraudulent inducement to InfoFlows' out-of-pocket expenses that InfoFlows incurred in attempting to perform under the Development Agreement. (RP 2898, 2989) "Obviously the question as to whether the verdict is excessive can only be called to the attention of the trial court by motion for new trial." ***Migge v. Northern Pac. Ry. Co.***, 75 Wash. 197, 200, 134 Pac. 815 (1913).

InfoFlows' argument that Corbis waived any objection to InfoFlows' double recovery by proposing a special verdict that allowed a separate recovery for each of its claims disregards the procedural history of this case. After Corbis told the court that its fraudulent inducement and contract damages instructions could result in a double recovery, the trial court decided (and InfoFlows concurred), that the possibility of a double recovery should be addressed post-verdict. (8/18 RP 57 ("it strikes me that the Court should address that post verdict.")) That Corbis proposed a verdict form that specifically allowed the jury to separately award damages on each of the claims that the trial court directed the jury to consider, so that the issue could be addressed "post verdict," is not a reason to refuse to consider the duplicative damages on appeal. (CP 438-42, 453-56) *See **Mutual of Enumclaw Ins. Co. v. Cox***, 110 Wn.2d 643, 651-52, 757 P.2d 499 (1988) (rejecting waiver where party proposed a verdict form that conformed to trial court's ruling).[1]

Corbis preserved its arguments that the trial court committed an error of law in allowing InfoFlows' claim of fraudulent misrepresentation and instructing on fraudulent concealment in the face of the parties'

[1] InfoFlows in particular misplaces its reliance on ***Conrad v. Alderwood Manor***, 119 Wn. App. 275, 78 P.3d 177 (2003) (Resp. Br. 20, 27). In ***Conrad***, Division Three refused to consider an argument that the verdict form improperly allowed a double recovery when defendant neither objected to the verdict form at trial nor "apprise[d] the court of any concern about the potential for a double damage award." 119 Wn. App. at 289. Here, unlike in ***Conrad***, Corbis repeatedly told the court that a duplicative award was a possibility "at a time when the trial judge [could] do something about it," 119 Wn. App. at 290, both before and after the jury returned its verdict. Further, InfoFlows, unlike the plaintiff in ***Conrad***, could not legally recover for both claimed legal injuries. 119 Wn. App. at 291 (defendant never argued that plaintiff could not legally recover for both claimed causes of injury). Finally, unlike here, the instructions and verdict form in ***Conrad*** expressly required the jury to segregate its damage awards, and not to award damages for one cause of action that were encompassed in another. 119 Wn. App. at 291.

contracts, allowing the jury to award duplicative damages for fraud and breach of contract, and refusing to remit the jury's $36 million verdict, as excessive, erroneous and unsupported by the evidence under CR 59(a)(5), (6) and (7). This court should reverse and remit the excessive award, or at a minimum remand for a new trial.

B. InfoFlows Could Not Recover In Tort For An Affirmative Misrepresentation That Contradicts The Parties' Integrated Development Agreement.

InfoFlows argues that Corbis' alleged fraudulent misrepresentation that the parties would "cooperate" on patents was actionable as a breach of a duty "independent" of the integrated Development Agreement because the parties' contract "does not address" InfoFlows' intellectual property or Corbis' agreement to protect "both parties' investments and strategic interests by coordinating on patent issues." (Resp. Br. 42) This is simply not true: the "detail" of the parties' "agreement" on patenting, which Stone anticipated in his email sent at the beginning of contract negotiations (Ex. 232), was clearly set out in the Development Agreement, which, like the Independent Contractor Agreement that was then in effect (Exs. 2, 10),[2] gave Corbis the exclusive right to apply for a patent, and prohibited InfoFlows from filing for its own patent, on the work product that Corbis

[2] By the time the parties signed the Development Agreement, Corbis had paid Stone/InfoFlows consulting fees totaling approximately $240,000 under this Independent Contractor Agreement. (Exs. 114, 115)

paid InfoFlows to create. A party can not assert a claim for fraudulent misrepresentation based on a promise to do something that is inconsistent with the promises later made in its integrated contract. This court should vacate the $9.28 million judgment for fraudulent misrepresentation.

1. InfoFlows Ignores The Terms Of The Subsequently Executed And Integrated Development Agreement.

InfoFlows' attempts to support its $9.28 million judgment for fraudulent misrepresentation based on an "agreement" to cooperate on patenting largely on its allegations of Corbis' evil motive. InfoFlows entirely ignores the terms of the Development Agreement, negotiated at arms-length between these sophisticated, ably represented parties.

Corbis agreed to pay InfoFlows up to a maximum of $3.7 million, on InfoFlows' timely and acceptable delivery of "milestones" of both phases of a Development Agreement that was terminable either for cause or at will. InfoFlows agreed that Corbis would own all intellectual property rights to the digital rights license management system, called Boulder Ridge, that InfoFlows was being paid to develop. Corbis agreed that InfoFlows would have rights in the "handle injection and resolution technology" known as the "Jazz Service."

InfoFlows' argument that "definitional ambiguity" "muddled" the parties' respective interests (Resp. Br. 13-15) ignores the trial court's unchallenged summary judgment order that the definition of Jazz Service was unambiguous as a matter of law:

> (2) The definition of "Jazz Service" is not ambiguous and can be determined by the Court from the Development Agreement between the parties; and
>
> (3) Under the Development Agreement "Jazz Service" refers to (i) those sets of technologies which enable the injection and removal of handles into Digital Objects; (ii) those necessary technologies to manage these handles to insure their persistence and quality; and (iii) the necessary technologies, which, when added to a web crawler, search for and find handleized Digital Objects.

(CP 109, 553, Opening Br. at App. F)[3] The trial court's unchallenged summary judgment establishes the law of the case and is as binding on InfoFlows as it is on Corbis. *See* ***Buell v. Aetna Cas. & Sur. Co.***, 14 Wn. App. 742, 746, 544 P.2d 759 (1976).[4]

Under the Development Agreement, Corbis alone owned the "Work Product," broadly defined as "all results and proceeds of the Services," that InfoFlows was paid to perform. (Ex. 43 at § 1) Corbis not only had the exclusive right to patent the digital rights license

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[3] As reflected in Ex. 121 at A23, InfoFlows agreed to this unambiguous definition after Corbis rejected a broader definition giving InfoFlows rights to technologies "which enable Digital Object database creation and management."

[4] InfoFlows' arguments of "definitional ambiguity" also improperly rely on statements of Stone's subjective intent. As Corbis argued in its opening brief at 46-48, the trial court erred in allowing the jury to find that InfoFlows' intellectual property rights exceeded those set forth in the Development Agreement based on Stone's testimony about his unexpressed intentions.

management system that it was paying InfoFlows to develop, but InfoFlows further agreed that it would not oppose such a patent, and would not file its own patent applications "related to the Work Product:"

- The "Work Product" produced by InfoFlows "shall be considered 'works made for hire' . . .with Corbis being the author thereof." (Ex. 43 § 6(a))

- InfoFlows "irrevocably and unconditionally assign[ed] to Corbis . . . all right, . . . title and interest in" "Work Product" under "patent, trademark, trade secret, or any other proprietary rights protection." (Ex. 43 § 6(a))

- InfoFlows "irrevocably and unconditionally waive[d]" any rights it had in the "Work Product" to the extent that those rights were not capable of assignment. (Ex. 43 § 6(a))

- InfoFlows agreed to "cooperate with Corbis in the filing and prosecution of any Intellectual Property Rights applications that Corbis may elect to file on the Work Product or inventions and designs relating to the Work Product." (Ex. 43 § 6(b))

- InfoFlows agreed that it "will not file any such [Intellectual Property Rights] applications on Infoflows' own behalf related to the Work Product." (Ex. 43 § 6(b))

- InfoFlows agreed that except for the "Jazz Service (formerly referred to [in SOW #3] in part as the 'Handle Injection and Resolution Technology'")," "Corbis owns (and InfoFlows shall not contest such ownership) all other elements, technologies, . . . of the System." (Ex. 43 § 6(a))

- InfoFlows agreed that it would not create a competing license management system for three years unless Corbis terminated the Development Agreement. (Ex. 43 § 5(h))

The parties' prior Agreement, SOW #3, referenced in § 6(a) of the Development Agreement, also consistently distinguished between the digital license management system that Corbis paid Stone (and then InfoFlows) to develop, and the component "Handle Injection and Resolution Technology" that remained InfoFlows' proprietary property:

> Corbis does not assert ownership of the Handle System or the Handle Injection and Resolution Technology or any inventions, methods or systems in the public domain.
>
> Contractor [InfoFlows/Stone] does not assert ownership over the [Corbis License Management System and Service] or any inventions or methods.

(Ex. 10 at 2)

That Independent Contractor Agreement defined the "Handle Injection and Resolution Technology" in terms similar to the unambiguous definition of "Jazz Service" in the Development Agreement:

> (a) the Handle System itself, (b) an SDK developed by Contractor that allows for the resolution of image metadata from anywhere in the internet infrastructure, (c) an SDK developed by Contractor that enables the injection of handles into images as well as the ability to read from images, and (d) a web service developed by Contractor that crawls the surface web and returns images that have been instrumented with handles.

(Ex. 10 at 2; *compare* Ex. 43 § 6(b); *see* CP 109 (unchallenged summary judgment that the definition of the "Jazz Service" was unambiguous)) Except for this "Handle Injection and Resolution Technology," Corbis owned the digital license management system technology and all intellectual property rights in the technology that the parties contemplated might be developed under *both* agreements. (Exs. 2 § G, 43 § 6)

If Corbis decided to complete and implement the contemplated Boulder Ridge system, and if Corbis chose to use InfoFlows as its handle vendor, Corbis agreed to then negotiate in good faith a licensing agreement under which InfoFlows could earn up to $7 million, which included all license fees and payments due InfoFlows under the Development Agreement. (Exs. 43 § 9; 276) But during negotiation of the Development Agreement, Corbis rejected InfoFlows' proposal that would have *obligated* Corbis to "enter into a hosting and service agreement with InfoFlows." (Ex. 121 at A-22) InfoFlows therefore agreed that Corbis could use "other services similar to . . . the Jazz Service . . . [and] market and distribute such similar products in addition to, or in lieu of, the Work Product." (Ex. 43 §14(l)) Further recognizing that Corbis would own the completed license management system, the parties agreed that InfoFlows could license the system from Corbis and offer it to other customers that were not competitors of Corbis in the digital image business (such as Getty Images), but only if InfoFlows paid Corbis a licensing fee. (Ex. 43 § 8(b) & Ex. G)

2. InfoFlows' Fraudulent Misrepresentation Claim Is Based On A Promise Of Future Performance That Contradicts The Parties' Integrated Agreement.

InfoFlows cannot support the $9.28 million judgment for fraudulent misrepresentation by citing to evidence that, if believed, establishes only that Corbis employees had previously orally promised to do something different regarding patent applications than what the parties agreed Corbis could do in the Development Agreement. Contracting parties are bound by their responsibilities and rights as defined in their written contract. "Were the rule otherwise, any breach of contract would amount to fraud." ***Nyquist v. Foster***, 44 Wn. 2d 465, 470, 268 P.2d 442 (1954) ("a representation that something will be done in the future" is not actionable as fraud). A party has no right to rely on promises of future performance that conflict with the terms of an integrated contract. *See* ***Cornerstone Equipment Leasing, Inc. v. MacLeod***, __ Wn. App. __, ¶ 1, 2011 WL 359192 (Feb. 7, 2011) (maker of promissory note has no fraud claim based on creditor's "alleged oral assurance [not to enforce promissory note] that contradicted the written obligation.").

The Development Agreement comprehensively defined the parties' respective intellectual property rights, including their rights to apply for patents. Both parties' rights are governed by that contract:

> We assume private parties can best order their own relationships by contract. The law of contracts is designed to protect contracting parties' expectation interests and to provide incentives for parties to negotiate toward the risk distribution that is desired or customary. In contrast, tort law is a superfluous and inapt tool for resolving purely commercial disputes. If aggrieved parties to a contract could bring tort claims whenever a contract dispute arose, certainty and predictability in allocating risk would decrease and impede future business activity.

Affiliated FM Ins. Co. v. LTK Consulting Services, Inc., __ Wn.2d __, 243 P.3d 521, 527, ¶ 15 (2010) (quotations and internal citation omitted).

The Washington Supreme Court recently confirmed that whether a plaintiff can establish an independent duty sufficient to allow a cause of action in tort against another party to its contract is a question of law, based, as in all tort cases, on notions of "common sense, justice, policy and precedent." ***Eastwood v. Horse Harbor Foundation, Inc.***, __ Wn.2d __, 241 P.3d 1256, 1262, 1275, ¶¶ 15, 61 (2010); ***Affiliated FM Ins***, 243 P.3d at 526, 532-33 ¶¶ 13, 39-40 (opinions of Fairhurst, J., and Chambers, J.). InfoFlows argues that Corbis is barred from arguing that public policy limits the tort duties between contracting parties because it did not cite this line of cases in its CR 50 motion. (Resp. Br. 40) But whether framed in terms of "economic loss," "independent duty," or the common law limitations on the tort liability of contracting parties, Corbis has consistently argued that a court may not impose upon a contractual party a duty in tort that is both independent of and inconsistent with the party's duties under its contract. (CP 689-98; App. Br. 36)[5]

InfoFlows argues that parties to a commercial transaction have an "independent duty" to refrain from intentional misrepresentations. (Resp. Br. 42-43, *citing* ***Eastwood***, 241 P.3d at 1261 (2010)) While that statement is correct as an abstract principle of law, a promise to do something that the parties then agree in their integrated agreement that the speaker has no obligation to do is not actionable as fraud, regardless of the speaker's intent. *See* ***Poulsbo Group, LLC v. Talon Development, LLC***, 155 Wn. App. 339, 346, ¶ 14, 229 P.3d 906 (2010) (developer's representation to purchaser prior to closing that development would not be subject to utility's "latecomer charge" not actionable as fraud). As reflected in the cases cited by InfoFlows, the only exception to this rule is where a misrepresentation runs afoul of a specific public policy such as securities or other consumer protection laws. *See* ***Helenius v. Chelius***, 131 Wn. App. 421, 120 P.3d 954 (2005), *rev. denied*, 158 Wn.2d 1026 (2007);

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[5] *See* ***Bennett v. Hardy***, 113 Wn.2d 912, 917-18, 784 P.2d 1258 (1990) (RAP 2.5(a) does not prohibit advancing new authority on appeal to support a position taken in trial court); ***Walla Walla County Fire Protection Dist. No. 5 v. Washington Auto Carriage, Inc.***, 50 Wn. App. 355, 357 n.1, 745 P.2d 1332 (1987) ("There is no rule preventing an appellate court from considering case law not presented at the trial court level."). Moreover, this court could consider whether InfoFlows' claim is one "upon which relief can be granted" even had Corbis never raised the issue below. RAP 2.5(a)(2); *see* ***Roberson v. Perez***, 156 Wn.2d 33, 40, 123 P.3d 844 (2004).

FMC Technologies, Inc. v. Edwards, 2007 WL 1725098 * 4 (W.D. Wash. 2007), *aff'd* 302 Fed.Appx. 577 (9th Cir. 2008) (Resp. Br. 41).

In ***Helenius***, for instance, this court held that a Washington State Securities Act (WSSA) claim based on an alleged misrepresentation that the corporation would "take care" of former employees' wage claims was not precluded by an integrated stock purchase agreement (SPA), affirming "the trial court's decision that the directors' deceptive misrepresentations and conduct before and after the SPA violated the WSSA." 131 Wn. App. at 453, ¶ 66. The holding in ***Helenius*** was based on the independent duty of a seller of securities under WSSA not to make misrepresentations in connection with the purchase and sale of stock, RCW 21.20.010 – not the common law of fraud asserted by InfoFlows here. As the district court held in the other case cited by InfoFlows to support its argument that the integrated Development Agreement does not bar its claim for fraudulent misrepresentation, "there are important differences between securities fraud cases and other contract disputes." ***FMC Technologies***, 2007 WL 1725098 at * 4 (distinguishing ***Helenius*** and rejecting rescission of release and settlement agreement on ground of fraudulent inducement).

There is another important distinction between InfoFlows' fraudulent misrepresentation claim and the securities fraud claim in ***Helenius***. The representation that the corporation would settle the wage claims of former employees was contained in, and therefore wholly consistent with, the stock purchase agreement itself. ***Helenius,*** 131 Wn. App. at 440-41, ¶ 40 ("the SPA . . . expressly contemplates Send.com's liability for the settlement of Chelius' and Feuer's wage claim.") Here, by contrast, InfoFlows' claims are barred because the alleged misrepresentation of what Corbis would do in the future cannot be squared with what Corbis expressly promised to do under the parties' Development Agreement.

The very subject of InfoFlows' claimed fraudulent misrepresentation claim, which InfoFlows bases squarely on the allegation that Corbis misrepresented its promise to protect both parties' interests by "coordinating on patents," is a "promise" that Stone said he would "detail" in future writings. (Resp. Br. 24; *see also* Resp. Br. 1, 11, 42, *citing* Ex. 232) However, this "promise" is *not* "detailed" in any subsequent communications between Corbis and InfoFlows and their lawyers during four months, and multiple drafts, of negotiations over a Development Agreement. (*See* Ex. 121 at A13-19) The final integrated Development Agreement, like each of the drafts approved by InfoFlows, "detailed" the parties' rights in a manner wholly inconsistent with InfoFlows' fraud claim. Any "promise" by Corbis to collaborate on patents cannot be divorced from the "detail" of the Development Agreement, and its clear allocation to Corbis of the exclusive right to apply for a patent in the digital license management system that it was paying InfoFlows to develop on its behalf. (Ex. 43 § 6(a); RP 619-20) (App. Br. 37-39)

C. The Trial Court's Fraudulent Inducement Instruction Erroneously Allowed The Jury To Find That Corbis Had A Duty To Disclose Its Patent Application, In Contravention Of The Parties' Arms-Length Agreement.

The trial court wrongly allowed the jury to disregard the parties' contractual allocation of rights by instructing the jury, over Corbis' objection (8/18 RP 51; RP 2946), that Corbis had a duty to disclose its patent application if Corbis had a reason to believe that InfoFlows would want to know about it. (CP 564) Even if sophisticated parties represented by counsel could under some circumstances have a duty of disclosure, there could be no "special relationship" giving rise to such a duty in this case, where the parties' existing contract gave Corbis the exclusive right to file a patent application.

InfoFlows argues that Washington law imposes a duty to disclose "outside the fiduciary context" whenever disclosure is "necessary to prevent a partial or ambiguous statement of facts from being misleading," and that the jury was entitled to find that Corbis' counsel's claimed agreement to "coordinate on patents was, at a minimum, a partial or ambiguous statement of fact that was misleading." (Resp. Br. 37 *citing* Ex. 232; and Resp. Br. 36, *quoting* ***Colonial Imports, Inc. v. Carlton***

Northwest, Inc., 121 Wn.2d 726, 853 P.2d 913 (1993)) As discussed in Corbis' opening brief at 43-46, however, the "special relationship" duty of disclosure applies where one party takes advantage of another's inferior knowledge and bargaining power. InfoFlows fails to address the policy consequences of imposing a duty of disclosure based on a standard of the "reasonable expectations" of one of the sophisticated parties negotiating a commercial transaction while represented by skilled counsel. *See* ***Cardiovascular Diagnostics, Inc. v. Boehringer Mannheim Corp.***, 985 F. Supp. 615, 620 (E.D.N.C. 1997) (no confidential relationship requiring disclosure of patent application between parties to licensing agreement, negotiating "at arms-length . . . on equal footing [and] [r]epresented by counsel."), *aff'd* 185 F.3d 882 (4th Cir. 1999).

InfoFlows' argument that a duty of disclosure may be imposed upon a party "negotiating at arm's length," (Resp. Br. 36-37, *quoting* ***Oates v. Taylor***, 31 Wn.2d 898, 904, 199 P.2d 924 (1948)), does not support the trial court's instruction here in any event. These parties already had a contract that gave Corbis the exclusive right to apply for patents, thus making any "expectation" that the parties would "coordinate" on patents unreasonable. In the Independent Contractor Agreement (SOW #3), in effect at the time Corbis filed for its patent, InfoFlows' principal Stone disclaimed any "ownership over the [Corbis License management] System or any inventions or methods" save for InfoFlows' Handle System or the Handle Injection and Resolution Technology. (Ex. 10 at 2) Under this consulting contract, Corbis owned all intellectual property created by Stone "that is within the scope of Corbis' business . . . or results from or is suggested by [Stone]. . ." (Ex. 2 §§ G.1, G.2; Ex. 10 at 1)

The trial court's instruction no. 32 (CP 564), which allowed the jury to find that Corbis nevertheless breached a duty to disclose the patent application it had the exclusive right to make, was error. If this court does not dismiss InfoFlows' fraud claims as a matter of law, it should remand for a new trial at which the jury is instructed that "parties engaged in an arm's length transaction do not have a duty to disclose" facts that the other party may consider "material." (CP 297)

D. The Trial Court's Damages Instructions Authorized An Award Of Duplicative Damages That Was Not Supported By The Law Or The Evidence.

The jury awarded InfoFlows over $36 million in damages on multiple, duplicative theories. (CP 526-28) The trial court entered judgment on that verdict for $19.8 million. (CP 1811) InfoFlows' judgment included $3.25 million in contract damages for payments Corbis would have made had it never terminated the Development Agreement, with or without cause, $9.28 million for Corbis' fraudulent "agreement" that it would "coordinate" on patenting, and $7 million because Corbis "fraudulently induced" InfoFlows to enter into the Development Agreement. The damages awarded under these three separate theories gave InfoFlows a duplicative windfall for the same legal injury. Moreover, even if the instructions properly authorized damages under these separate theories, the trial court erred in refusing to remit this windfall award that lacks any support in the evidence.

1. The Trial Court's Instructions Authorized A Duplicative Recovery Of Damages.

While InfoFlows contends that separate awards for fraud and breach of contract may remedy separate legal injuries, that is not what the trial court's instructions authorized here. The trial court instructed the jury to award as damages for breach of contract what Infoflows would have earned had the Development Agreement been fully performed. (CP 554) In instructing on fraudulent inducement damages, the trial court again told the jury, over Corbis' objection, to award InfoFlows damages considering "the value the parties placed on the Development Agreement," the value of "possible licensing" agreements with Corbis, as well as InfoFlows' lost "business opportunities." (CP 565; *see* CP 372; RP 2946-47) As Corbis warned (8/18 RP 56-57), these instructions resulted in a double recovery.

As Corbis argued below, a fraudulent inducement damages instruction "is not the place for InfoFlows to seek the full value of the contract – the breach of contract jury instruction is." (CP 375) InfoFlows contends that the awards for breach of contract and fraud "arose at different times from different obligations and facts," citing to cases that approve of "separate damages on identical evidence of wrongful conduct." ***Schnabel v. Lui***, 302 F.3d 1023 (9th Cir. 2002) (Resp. Br. 26-27). While the cases cited by InfoFlows may authorize separate causes of action, they do not modify the rule that a plaintiff is entitled to only one recovery for a single legal injury, regardless of the facts relied upon to bring separate causes of action.[6]

[6] This principle, applied by this court in ***Kammerer v. Western Gear Corp.***, 27 Wn. App. 512, 618 P.2d 1330, *aff'd*, 96 Wn.2d 416, 635 P.2d 708 (1981), is uniformly followed. *See* ***Combs v. Shelter Mutual Ins. Co.***, 551 F.3d 991, 1000 (10th Cir. 2008) ("plaintiff already received damages for Defendant's breach of contract and is not entitled to double recovery under a fraud theory."); ***Ghodrati v. Miami Paneling Corp.***, 770 So.2d 181, 183 (Fla. App. 2000) ("A plaintiff may not recover damages for fraud that duplicate damages awarded for breach of contract."); ***Swink v. Alesi***, 999 S.W.2d 107, 111 (Tex. App. 1999) (award of damages for breach of contract and being fraudulently induced to enter into contract "is a prohibited double recovery for the same injury."); ***McCune v. Xerox Corp.***, 55 F.Supp.2d 510, 516 (N.D.W. Va. 1999) (claim that defendant "fraudulently induced [plaintiff] to enter into the agreement and denied being bound by it after he started performance" entitled plaintiff to only "a single form of damages."), *aff'd in part, vacated in part*, 225 F.3d 654 (4th Cir. 2000); ***Conway v. Icahn & Co., Inc.***, 16 F.3d 504, 511 (2nd Cir. 1994) ("Where a plaintiff seeks recovery for the same damages under different legal theories, only a single recovery is allowed."); ***McCrea & Co. Auctioneers, Inc v. Dwyer Auto Body***, 799 P.2d 394, 399 (Colo. App. 1989); ***Ostano Commerzanstalt v. Telewide Systems, Inc.***, 880 F.2d 642, 648-49 (2nd Cir. 1989)); ***Mercer v. Dave Berryman Int'l, Inc.***, 834 F.2d 922, 928-29 (11th Cir. 1987) (Alabama law); ***Specialized Tours, Inc. v. Hagen***, 392 N.W.2d 520, 533 (Minn. 1986).

In ***Schnable***, for example, the plaintiffs agreed to create a ride to be featured in the defendant's amusement parks in China in exchange for royalties. The parties' agreement gave plaintiffs the right to "resell the ride concepts to other amusement parks." 302 F.3d at 1026. The defendant not only failed to pay plaintiffs their royalties, but also "engaged in conduct which was harmful to [their] business reputations," including "cost-cutting and elimination of various aspects of the attractions as designed, sacrificing quality." As a result, "[t]he rides were completed, but [plaintiffs] found it impossible to resell the ride concepts due to the inferiority of the rides produced" at defendant's parks. 302 F.3d at 1026.

The ***Schnable*** court affirmed separate awards for breach of contract and fraud under California law, giving plaintiffs damages both for the failure to account for the "unaccounted profits obtained by Defendants" and for "the lost opportunity to resell the rides to other vendors." 302 F.3d at 1038-39. The court thus did not endorse a duplicative recovery for the same legal injury, but affirmed the district court's findings that separated the elements of the plaintiff's expectation interest under separate causes of action, holding that the awards for breach of contract and fraud were separate awards for separate legal injuries.[7]

Here, by contrast, the trial court's instruction expressly allowed the jury to award the *same,* not *separate,* damages for both breach of contract and being fraudulently induced to enter into the contract. It directed the jury to award InfoFlows its expectation interest had the Development Agreement been fully performed, as breach of contract damages (CP 554), and then authorized the jury to consider "the value the parties placed on the Development Agreement," and the value of "possible licensing" agreements with Corbis as InfoFlows' damages for fraudulent inducement. (CP 565) In addition to expectation damages, the trial court's fraudulent inducement instruction also allowed InfoFlows to recover the value of "other business opportunities." (CP 565) Thus, the trial court's instruction not only allowed InfoFlows to recover "the value" of the Development Agreement twice, it then allowed the jury to award

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[7] The other cases cited by InfoFlows (Resp. Br. 27 n.18) employ similar reasoning. *See* ***Theme Promotions, Inc. v. News America Marketing FSI***, 546 F.3d 991, 1005-06 (9th Cir. 2008) (statutory "antitrust damages and tort damages were not duplicative ."); ***Conrad v. Alderwood Manor***, 119 Wn. App at 291 (no double recovery on damages for elder abuse and negligence where instructions required segregation of damages award and "instructed the jury not to award damages for neglect if it found the damages were the same as those for negligence."); ***Wilson v. Key Tronic Corp.***, 40 Wn. App. 802, 811-12, 701 P.2d 518 (1985) (nuisance damages for "annoyance and inconvenience" of hauling clean water do not duplicate damages for mental anguish "caused by the threat and actual ingestion of contaminated water").

InfoFlows what it would have earned had it not entered the Development Agreement with Corbis. (CP 565)

In attempting to justify this duplicative recovery, InfoFlows argues that it did not "repudiate" the Development Agreement; it simply lost "other business opportunities." (Resp. Br. 31-32) While InfoFlows' failure to prove as a matter of fact the existence of "other business opportunities" is addressed in the next section, as a matter of law a party may not simultaneously recover lost earnings because a contract was not fully performed and earnings lost had that contract never existed. A party may not affirm a contract by seeking the "benefit of the bargain" and simultaneously obtain a remedy that restores the plaintiff to where it would be had it never entered into the contract. 2 Dobbs, *The Law of Remedies* § 9.4 at 607 (2003) ("He cannot have his cake and eat it too.") (quotation omitted). *See* App. Br. 28-30.[8]

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[8] *See* ***In re Sallee***, 286 F.3d 878, 900-02 (6th Cir. 2002) (party claiming fraud under Kentucky law must either affirm or rescind the contract, but cannot do both), *cert. denied*, 537 U.S. 949 (2002); ***Colorado Interstate Gas Co., Inc. v. Chemco, Inc.***, 833 P.2d 786, 793 (Colo. App. 1991) (plaintiff suing for fraudulent inducement must elect either to rescind to "restore the conditions existing before the agreement was made or to affirm the entire contract and recover the difference between the actual value of the benefits received and the value of those benefits if they had been as represented"), *aff'd*, 854 P.2d 1232 (1993); ***Hines v. Good Housekeeping Shop***, 161 Ga. App. 318, 291 S.E.2d 238, 242 (1982) (party may not both "affirm the contract and seek damages thereunder" and recover damages for fraudulent inducement).

InfoFlows also argues that the trial court's challenged damages instruction for fraudulent inducement adopted a "flexible approach" that was "necessary to insure that a plaintiff is fully compensated for the fraud." (Resp. Br. 34) However, there were no damages awarded for breach of contract in any of the cases cited by InfoFlows as endorsing this "flexible approach" to fraudulent inducement damages. In ***Chapman v. Marketing Unlimited, Inc.***, 14 Wn. App. 34, 539 P.2d 107 (1975) (Resp. Br. 34), for instance, the plaintiff prevailed on a claim that the defendant fraudulently enticed him to leave his former employment with a promise of an equity interest in the defendant's firm. The plaintiff's breach of employment contract claim was dismissed, and the Court of Appeals *remitted* the fraudulent inducement damages to what the plaintiff would have earned at his former job for 19 months, less the salary paid by defendant, and less other earnings following his discharge. 14 Wn. App. at 40-42.[9] A "flexible approach" to fraudulent inducement damages may be appropriate if a party is not also awarded "benefit of the bargain"

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[9] The other cases cited by InfoFlows (Resp. Br. 34-35) all similarly discuss the measure of damages given to an employee who has been fraudulently induced to enter into an at-will employment relationship and then terminated. *See* ***Espaillat v. Berlitz Schools of Languages of America, Inc.***, 383 F.2d 220 (D.C. Cir. 1967); ***Berger v. Security Pacific Information Systems, Inc.***, 795 P.2d 1380 (Colo. App. 1990); ***Walsh v. Ingersoll-Rand Co.***, 656 F.2d 367 (8^{th} Cir. 1981). In none of these cases was the plaintiff also awarded contractual damages.

contractual damages, but it does not change the rule that damages are recoverable only once. The trial court erred in instructing the jury in a manner that allowed InfoFlows' a double recovery.

2. The Trial Court Erred In Refusing To Remit An Award Of $20 Million In Damages That Has No Basis In The Record.

Even if all of the damages instructions had correctly stated the law (and they did not), in the end the verdict was excessive as a matter of law because there was insufficient evidence to support an award of $16.28 million in fraud damages, or an award of contract damages in excess of $1 million.[10] The trial court erred in denying Corbis' motion to remit the jury's verdict on the ground of excessive damages because there is no evidence to support InfoFlows' assertions (a) that it lost the right to patent the Jazz Service, (b) that its Development Agreement with Corbis, or Corbis' patent application, cost InfoFlows other business opportunities, that InfoFlows would have earned either (c) additional licensing fees, or (d) additional milestone payments, had Corbis not terminated the Development Agreement for cause. (CP 714-26, 1484-85)

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[10] The jury awarded InfoFlows an additional $16.6 million in conversion damages. (CP 528) Corbis addresses the absence of any evidence to support this portion of the verdict in response to InfoFlows' cross-appeal, below at § III.A.3.

a. No Evidence Of "First To Patent" Damages.

In response to Corbis' argument that nothing but speculation supported InfoFlows' damages, InfoFlows argues that it was compensated not for loss of profits but loss of "patent protection." (Resp. Br. 24-26) There was no evidence that InfoFlows suffered any such loss of "patent protection," let alone $9.28 million, as a result of Corbis "misrepresent[ing] its promise to protect both parties' interests by coordinating on patents." (Resp. Br. 24) InfoFlows' attempt to justify this award "because InfoFlows' patent application would have been filed first, or at least, not compromised by Corbis' application" (Resp. Br. 24) fails as a matter of law.

Both Corbis and InfoFlows had filed patent applications by the time of trial, but there was no evidence that Infoflows' patent would not be issued, that Corbis had opposed it, or that either party's patent application interfered with the other. (Exs. 100, 222)[11] And, as Corbis argued to the trial court (8/18 RP 39-40; CP 1191), to the jury (RP 2966), and in its opening brief (App. Br. 32), the jury could only improperly speculate

[11], InfoFlows' assertion that the Corbis patent was issued while this appeal was pending (Resp. Br. 30 n.21) is barred by RAP 9.11 and cannot support the verdict. *See **Satomi Owners Ass'n v. Satomi, LLC***, 167 Wn.2d 781, 793 n.7, 225 P.3d 213 (2009). RAP 9.11 aside, however, the conjectural damage to InfoFlows allegedly caused by a Corbis patent is no less speculative than the unproven damage allegedly caused by Corbis' pending patent application. Neither can support the jury's verdict.

whether either parties' patent, if issued, would infringe the other. Only the patent office, and the federal courts, can rule on such issues of inventorship and infringement. *See* ***University of Colorado Foundation, Inc. v. American Cyanamid Co.***, 196 F.3d 1366, 1372 (Fed. Cir. 1999) (reversing judgment for fraudulent concealment of patent application as dependent on "Doctors' status as inventors;" "the field of federal patent law preempts any state law that purports to define rights based on inventorship."), *cert. denied*, 529 U.S. 1130 (2000); ***U.S. Valves, Inc. v. Dray***, 190 F.3d 811, 813-15 (7^{th} Cir. 1999) (licensee's contract action required determination whether products sold infringed licensed patents).

Federal patent law protects the first to invent, not the first to file a patent application. 35 U.S.C. §§ 101, 102. The Board of Patent Appeals and Interferences and the federal courts decide questions of "priority of inventions . . . and patentability." 35 U.S.C. § 135(a); *see* 28 U.S.C. § 1338(a); 35 U.S.C. §§ 146, 271, 291. This jury (quite properly) was never asked to determine "loss of patentability," and heard no evidence to support this theory of damages.

InfoFlows' argument that the jury's $9.28 million fraud award could be supported by evidence that' "Corbis' patent application . . . covers . . . InfoFlows' technology" (Resp Br. 10; CP 1741), fails for the additional reason that it ignores what Corbis' patent application actually says. Corbis applied for a patent on a "method and system for managing licenses to content." (Ex. 99, 222) Its patent application mirrored the description of the license management system that Corbis was paying Stone to develop for Corbis' exclusive use when the application was filed: (1) a means of notifying the owner whether a person's use of its images on the internet is licensed or unlicensed, and (2) a means of allowing customers to verify license rights and allow the customer to easily obtain licensing rights to a particular image or similar images online. (Ex. 222 at 2-3) InfoFlows' contention that Corbis sent InfoFlows' power point slides to its patent lawyer preparing its patent application (Resp. Br. 9-10), ignores the fact that Corbis' patent application specifically acknowledged potential use of a "handle system [that] can be used to locate repositories that contain objects given their unique handles." (Ex. 222 at 4) Corbis' application made no claim to the "handle injection and resolution technology," which had been expressly reserved to Stone under his consulting agreement in effect at the time, and which was then reserved to InfoFlows in the Development Agreement as the "Jazz Service." (RP 614, 750-53)

InfoFlows cites Stone's testimony that "this company had to come to a screeching halt as a result of that patent application that [Corbis] filed" to support its argument that the jury could find that InfoFlows was damaged because Corbis filed its patent application before InfoFlows.

(Resp. Br. 24 n.15; RP 2828) But as Stone confirmed, neither Corbis' patent application nor any injunction in this action or elsewhere prevented InfoFlows from releasing the Jazz Service, from doing business with other companies, or from obtaining venture financing.[12]

The trial court held that Corbis' patent application "covers what the jury determined was InfoFlows' technology" (CP 1741),[13] improperly embracing the jury's speculation on issues governed by federal patent standards of utility, novelty, and non-obviousness that control whether a patent should issue under federal law, 35 U.S.C. §§ 101-103, and issues of inventorship and infringement exclusively reserved to the federal courts, 35 U.S.C. §§ 135, 271, 291. InfoFlows' argument that the jury compensated it for "lost patentability" cannot support these excessive damages.

b. No Damages For "First To Market" Or Lost "Business Opportunities"

Speculation over the validity of the parties' competing patent applications aside, there was no evidence upon which the jury could have

[12] Stone testified as follows:

Q: "Has anybody, or any investor or potential investor said to you, quote, 'If you weren't in this situation with Corbis, we would have funded you.'"?

A: "As I said earlier, no." (RP 2830)

[13] Indeed, InfoFlows so convinced the jury that Corbis' patent application infringed InfoFlows' claimed "rights" (notwithstanding the Development Agreement), that the jury asked during deliberations, "Does the jury have any ability to request a cancellation/withdrawal of one of the patent applications?" (CP 574)

found that Corbis' misrepresentation of a "promise to protect both parties' interests by coordinating on patents" (Resp. Br. 24) caused InfoFlows $9.28 million in damages, or that Corbis' failure to disclose its own non-public patent application resulted in additional damages of $7 million. The evidence cited by InfoFlows to support its damages is entirely speculative. The trial court erred in refusing to remit the excessive damages award or to order a new trial. (CP 722-24)

In arguing that it was entitled to recover as damages the lost value of being "first to patent" Infoflows cites only to Corbis' pro-forma projections of the profitability of exclusive ownership of a completed license management system for its own digital image business. (Resp. Br. 23-24; RP 640-42, 657-59, 804-05, 982-83, 1393-96; Exs. 188, 198, 272) A defendant's own projection of its earnings from a new product is far too speculative to support a jury's award of damages for the misappropriation of intellectual property even when the plaintiff is a competitor. *See **Carbo Ceramics, Inc. v. Keefe***, 166 Fed.Appx. 714, 2006 WL 197340, *8 (5th Cir. 2006) ("the fundamental problem with [plaintiff's] theory of damages . . . is the starting point – Keefe's projected revenues."). Here, Infoflows was not even in the stock photography business. By no means could Corbis' pro-forma projections of its own profits in that industry support an award to InfoFlows, which was in a completely different business, which had no repository of digital objects to license, and which could only make money by licensing its handle insertion technology to companies that did.

Further, InfoFlows did not use Corbis' own pro-forma projections of lost profits as a "starting point" for an expert's theory of lost asset value or lost earnings (no damages expert testified), but claimed they were evidence of what InfoFlows would have earned elsewhere had Corbis disclosed its patent application or not promised to coordinate with InfoFlows in patenting. *Compare* ***Columbia Park Golf Course, Inc. v. City of Kennewick***, __ Wn. App. __, ¶ 15, 2011 WL 450704, *13 (Feb. 10, 2011) (allowing "lost asset" theory of damages where plaintiff's expert used plaintiff's own profit projections as starting point for calculating value of asset that "exists in a market, at a known time;" "by applying a discount rate to its projected profits and arriving at a price that an investor would pay."). Whether InfoFlows' damages are framed in terms of lost profits,[14] consequential damages, or a "lost asset," it can point to no evidence that it suffered those damages with reasonable certainty.

[14] InfoFlows also argues that Corbis never made a "lost profits" or "new business rule" argument in the trial court. (Resp. Br. 25 n.16) The speculative nature of InfoFlows' claimed lost opportunities to earn money in a new business where "Corbis was [its] only paying customer," was precisely the basis for Corbis' CR 50 motion below: "There was no evidence that InfoFlows could or would have signed another contract with another party that would have been profitable to InfoFlows, or deferred another opportunity to take Corbis business instead." (CP 724, *quoting* RP 2663; *see also* CP 1190-91)

InfoFlows argues that it "would not have entered into the Development Agreement if Corbis had disclosed" its patent application, (Resp. Br. at 29), but fails to identify a single potential investor, customer, venture capital opportunity, or other licensing opportunity for its Jazz Service – much less one that it lost as a result of Corbis' conduct at a time when InfoFlows was in negotiation with its only customer. (RP 2828-30; *see* RP 2660-61) InfoFlows does not to cite to any evidence to support even an inference that it lost other "business opportunities," let alone that it would have earned $7 million elsewhere had it not been "induced" to sign a Development Agreement with Corbis. Stone's "speculative and self-serving" testimony, which did not even attempt to quantify the loss of other unidentified opportunities, is insufficient to justify the jury's award. *See* ***ESCA Corp. v. KPMG Peat Marwick***, 86 Wn. App. 628, 639-41, 939 P.2d 1228 (1997), *aff'd*, 135 Wn.2d 820, 959 P.2d 651 (1998); *see also* ***Graham v. James***, 144 F.3d 229, 238 (2nd Cir. 1998) (copyright infringement award for lost opportunity "must be based on more than speculation"); ***Medical Staffing Network, Inc. v. Ridgway***, 194 N.C. App. 649, 670 S.E.2d 321 (2009) (damages for misappropriation of trade secret "requires something more than hypothetical or speculative forecasts."); ***Texas Instruments, Inc. v. Teletron Energy Management, Inc.***, 877 S.W.2d 276, 280 (Tex. 1994) (rejecting contract damages where plaintiff's expectations of future profits "were at best hopeful; in reality they were little more than wishful.")

c. Future Licensing Fees From Corbis Were Entirely Speculative.

InfoFlows argues that the jury was entitled to find fraudulent inducement damages of $7 million, characterizing the gross revenues that InfoFlows could have earned from Corbis' "possible licensing and use of the Jazz Service" following completion of the Development Agreement as the "value the parties placed on the Development Agreement." (Resp. Br. 23) However, any future licensing fees InfoFlows might earn pursuant to the Agreement were entirely speculative. (App. Br. 32) The Development Agreement allowed Corbis, in its sole discretion, to choose another vendor for "services similar to . . . the Jazz Service" in managing its digital licenses. (Ex. 43 § 14(l)) If it did so, Corbis would owe InfoFlows no licensing fees at all.

InfoFlows' ability to earn up to $7 million in combined milestone payments and licensing fees was thus contingent on its successful completion of the Development Agreement (Ex. 43 § 13), Corbis' decision to implement Boulder Ridge as its license management system (Ex. 43 § 14(l)), Corbis' decision to use the Jazz Service for digital handle functions (Ex. 43 § 14(l)), and, only then, the good faith negotiation of the terms of a licensing agreement for the Jazz Service (Ex. 43 § 9).[15] As it was undisputed that Corbis abandoned Boulder Ridge, and made no use of any of the Jazz Service in any other licensing management system, an award of damages based on future licensing fees that Corbis could have paid to InfoFlows is entirely speculative and excessive as a matter of law.

d. InfoFlows' Contract Damages Could Not Exceed $1 Million.

InfoFlows could recover in contract damages only what it would have received had "both parties performed all their promises under the contract." (CP 554) InfoFlows argues that it was entitled to all future progress payments that it could have earned under the Development Agreement, with no deduction for its costs, and without providing the milestones due Corbis, because Corbis' termination for cause was not "in good faith." (Resp. Br. 21) But the duty of good faith and fair dealing could not defeat Corbis' express contractual right to terminate the Development Agreement at any time for any reason, or for no reason. *See*

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[15] ***Columbia Park Golf Course***, is inapposite because there, the City entered into an agreement with another party to complete a resort development before terminating Columbia's option to develop. Until that new "opportunity became a distraction, the path to [Columbia's] project completion appeared clear and problem free." ¶ 46, 2011 WL 450704,*11. Here, by contrast, Corbis did not give the work contemplated by Development Agreement to another vendor, or even complete development of the contemplated digital license management system in house. Because InfoFlows could not prove that negotiations over the terms of a licensing agreement would have likely begun, Corbis did not have to prove that such "negotiations would have broken down." *Id.* at ¶ 46.

Bulman v. Safeway, Inc., 144 Wn.2d 335, 351, 27 P.3d 1172 (2001); ***Cascade Auto Glass, Inc. v. Progressive Cas. Ins. Co.***, 135 Wn. App. 760, 768-69, ¶ 21, 145 P.3d 1253 (2006). Because Corbis could have terminated the Development Agreement without breaching any of its "promises under the contract," the trial court should have remitted damages to $1 million – the payment due InfoFlows for the two Phase One milestones rejected by Corbis, and any payment due for work done on the third deliverable.[16]

III. RESPONSE TO CROSS-APPEAL

A. The Trial Court Properly Granted Corbis' Motion For Judgment As A Matter Of Law On InfoFlows' Conversion Claim.

1. InfoFlows' Conversion Claim Fails As A Matter Of Law Without Evidence Of Deprivation.

The trial court correctly granted Corbis' motion for judgment as a matter of law, holding that InfoFlows' conversion claim failed for want of proof that Corbis deprived InfoFlows of possession of its property. (CP 1482-83) *See* ***Phillipos v. Mihran***, 38 Wash. 402, 405, 80 Pac. 527 (1905) ("[C]onversion is any unauthorized act which deprives a man of his property permanently"); ***Marriage of Langham and Kolde***, 153 Wn.2d

[16] It is undisputed that InfoFlows did not deliver the third Phase One deliverable or any of the Phase Two deliverables before termination. The milestone payments for these remaining deliverables under the Development Agreement totalled $2.7 million. (Ex. 43 § 7(a))

553, 564, 106 P.3d 212 (2005) ("Conversion is the unjustified, willful interference with a chattel which deprives a person entitled to the property of possession."); ***Brown ex rel. Richards v. Brown***, __ Wn. App. __, ¶ 24, 239 P.3d 602, 609 (2010) ("Conversion is the act of willfully interfering with any chattel, without lawful justification, whereby any person entitled thereto is deprived of the possession of it.") (quotations omitted). InfoFlows claims that Corbis converted its "proprietary source code," (Resp. Br. 46),[17] but its failure to offer any evidence that Corbis deprived InfoFlows of its own unfettered possession or use of that code is fatal to a claim of conversion under Washington law. (CP 1483)

InfoFlows claims that Corbis is liable for conversion without an actual loss of possession of its software code, because by "asserting ownership, Corbis created uncertainty as to title and limited InfoFlows' ability to license its product or obtain investment to further develop that product." (Resp. Br. 45) The Washington Supreme Court has rejected InfoFlows' argument that simply "asserting ownership" over property is sufficient to establish conversion. In ***Martin v. Sikes***, 38 Wn.2d 274, 287, 229 P.2d 546 (1951), the plaintiff leased a dairy farm and purchased a milking machine from the defendant. The parties disputed whether the

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[17] The source code developed by InfoFlows pursuant to the Development Agreement Corbis belonged to Corbis. (Ex. 43 § 6(a))

sale included a pipeline used with the machine. 38 Wn.2d at 274-75. After the lease ended, the defendant obtained a criminal complaint for plaintiff's arrest if he removed either the milking machine or the pipeline. 38 Wn.2d at 275. The Supreme Court reversed the trial court's judgment against defendant for conversion, because "if the wrongful act falls short of a disseisin[18] of the property, the wrongdoer is not guilty of a conversion." 38 Wn.2d at 287. Because defendant never deprived plaintiff of possession of the milking machine, "[a]n essential element of the tort of conversion was consequently absent." 38 Wn.2d at 287.

"Creating uncertainty," (Resp. Br. 45) in the absence of an actual deprivation falls far short of a conversion under Washington law. The ***Martin*** Court rejected the plaintiff's conversion claim even though plaintiff's access to his property was actually "interfered with" by judicial process. 38 Wn.2d at 287. Here, the trial court *denied* both parties' requests for orders enjoining the other's "use" or "possession" of disputed property. (CP 28-35) Nevertheless, under InfoFlows' faulty reasoning, every party to a commercial lawsuit that asserts an ownership interest in any type of property would be liable for conversion if its opponent

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[18] Disseisin is "The act of wrongfully depriving someone of the freehold possession of property; dispossession." Black's Law Dictionary (9th Ed. 2009).

claimed that the lawsuit "created uncertainty." No authority supports such an unwarranted extension of liability for the conversion of property.

InfoFlows cites as evidence of conversion emails documenting that Corbis "accessed" InfoFlows code on a shared web site when InfoFlows tendered a milestone deliverable under the Development Agreement. (Resp. Br. 46, *citing* Exs. 77, 331, 340, 349; CP 1737) This tender consisted of placing the source code on a server hosted by InfoFlows. (RP 2645-46 (SharePoint site was maintained on InfoFlows' server)) But the evidence is undisputed that Corbis never downloaded the code to its own server. (RP 1193-95, 1508, 1590-92, 1767) Even if it had, InfoFlows retained full and complete access to the code on its server at all times. InfoFlows continued to develop its Jazz Service after the termination of the Development Agreement, unhindered by Corbis. (RP 2653-54, 2383) Corbis never deprived InfoFlows of its own right of possession.

Even if Corbis "possessed" InfoFlows' property when it accessed the source code on the shared site, mere possession of a copy of computer code, without depriving the owner of its copy, is not conversion. *See* ***FMC Corp. v. Capital Cities/ABC, Inc.***, 915 F.2d 300, 303-04 (7th Cir. 1990) ("In cases where the alleged converter has only a copy of the owner's property and the owner still possesses the property itself, the owner is in no way being deprived of the use of his property.");

Calence, LLC v. Dimension Data Holdings, 2007 WL 1526349 *7 (W.D. Wash. May 23, 2007).[19] *Duplicating* information may be a copyright violation, *see* § III.A.2, *infra,* but it is not conversion because it does not deprive the owner of its property. In ***Calence***, for example, the defendant downloaded a copy of digital information to his Blackberry, but did not commit the tort of conversion because he did not deprive the plaintiff of the information. 2007 WL 1526349, at *7.

Marriage of Langham and Kolde, 153 Wn.2d 553, 106 P.3d 212 (2005), does not support InfoFlows' argument that conversion is established whenever an owner's "available choices" are limited by the defendant. (Resp. Br. 45-48) In ***Langham***, the wife was awarded a portion of the husband's employee stock options in their divorce. The husband exercised the wife's options and later sold them (at a reduced price), all without the wife's permission. 153 Wn.2d at 563. The Court held that she had a claim for conversion, but not because her available uses of property were limited, as InfoFlows argues. (Resp. Br. 45) To the

[19] *Accord,* ***Harper & Row Publishers, Inc. v. Nation Enterprises***, 723 F.2d 195, 201 (2d Cir. 1983), *rev'd on other grounds*, 471 U.S. 539 (1985); ***Pearson v. Dodd,*** 410 F.2d 701, 706-07 (D.C. Cir.), *cert. denied*, 395 U.S. 947 (1969); ***Furash & Co., Inc. v. McClave***, 130 F. Supp.2d 48, 58-59 (D.D.C. 2001); ***Internet Archive v. Shell***, 505 F.Supp.2d 755, 762-63 (D. Colo. 2007); ***Monarch Fire Protection Dist. of St. Louis County, Missouri v. Freedom Consulting & Auditing Services, Inc.***, 678 F.Supp.2d 927, 944-45 (E.D. Mo. 2009).

contrary, the issue in ***Langham*** was whether the stock options were "property" that could be converted. The ***Langham*** Court concluded that they were, but still required an actual deprivation of possession – not just "uncertainty" over ownership, but the husband's actual exercise of the options belonging to the wife. 153 Wn.2d at 564 ("Conversion is the unjustified, willful interference with a chattel which deprives a person entitled to the property of possession.").

In the other case relied upon by InfoFlows, ***Ali v. Fasteners for Retail, Inc.***, 544 F.Supp.2d 1064 (E.D. Cal. 2008) (Resp. Br. 47), the plaintiff claimed the defendants surreptitiously copied his proprietary source code by intercepting emails and copying files from his computer. The district court held that plaintiff had alleged sufficient facts for his conversion claim to survive a 12(b)(6) motion to dismiss because he had a property right in his intangible source code, without addressing whether he had actually been deprived of that right. 544 F.Supp.2d at 1072.

In contrast to ***Ali*** and ***Langham***, it was undisputed here that InfoFlows was not deprived of possession of anything. The trial court correctly held that InfoFlows' conversion claim failed as a matter of law.

2. Federal Copyright Law Preempts InfoFlows' Conversion Claim Even If Corbis Had Possessed A Copy Of InfoFlows' Code.

Copying another's software is, by definition, a copyright violation.

The trial court's grant of judgment as a matter of law was also compelled because federal copyright law preempts InfoFlows' claim of conversion.[20]

The Federal Copyright Act broadly preempts "[a]ll legal or equitable rights that are equivalent to any of the exclusive rights within the general scope of copyright . . ." 17 U.S.C. § 301(a). *See also* 28 U.S.C. § 1338(a). Computer programs and software are protected under the Act as "original works of authorship fixed in any tangible medium of expression." 17 U.S.C. § 102(a); *see* 17 U.S.C. § 101. "[M]ost courts faced with software conversion claims have found those claims preempted." ***Apparel Business Systems, LLC v. Tom James Co.***, 2008 WL 858754 *18 n.9 (E.D. Pa. 2008); *see also* ***Micro Data Base Systems, Inc. v. Nellcor Puritan-Bennett, Inc.***, 20 F.Supp.2d 1258, 1263 (N.D. Ind. 1998); ***Firoozye v. Earthlink Network***, 153 F.Supp.2d 1115, 1130 (N.D. Cal. 2001); ***Butler v. Continental Airlines, Inc.***, 31 S.W.3d 642, 651 (Tex. App. 2000).

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[20] The trial court declined to address this issue in its ruling granting judgment as a matter of law because it was not made as part of the Corbis' CR 50(a) motion at the conclusion of InfoFlows' case. (CP 1483) This was error. Preemption was thoroughly addressed in the post-trial briefing (CP 707-09; 1170-71) and goes to the InfoFlows' very ability to assert a conversion cause of action. This court may hold that InfoFlows' conversion claim is preempted as an alternate ground for affirming the trial court regardless whether the trial court ruled on this issue. *See* ***Otis Housing Ass'n Inc., v. Ha***, 165 Wn.2d 582, 587, 201 P.3d 309 (2009) ("We may affirm the trial court on any grounds established by the pleadings and supported by the record.") (quotation omitted).

Section 301 of the Copyright Act preempts a plaintiff's claim under state law if plaintiff seeks to protect rights that are the "*equivalent* to any of the exclusive rights within the general scope of copyright." ***Alcatel USA, Inc. v. DGI Technologies, Inc.***, 166 F.3d 772, 786-87 (5th Cir. 1999) (emphasis in original). Claims are "equivalent" unless "one or more qualitatively different elements are required to constitute the state-created cause of action being asserted." ***Alcatel***, 166 F.3d at 787.

Asserting that its conversion claim is not "equivalent," InfoFlows attempts to avail itself of this exception to the broad preemption of software conversion claims under the Copyright Act by arguing that its claim "includes 'extra elements' of retention and deprivation of InfoFlows' property interest that are not part of copyright or trade secret law." (Brief 45 n.29) However, in order to avoid preemption, the "extra elements" must qualitatively change the nature of the claim. ***Alcatel***, 166 F.3d at 787; *compare* ***State v. Smith***, 115 Wn.2d 434, 440, 798 P.2d 1146 (1990) (by requiring proof of defendant's intent to deprive, prosecution for theft of software punishes "the *manner in which* defendant obtained the computer materials, rather than the fact he copied them," and is not preempted) (emphasis in original).

InfoFlows' allegation that Corbis "retained" a copy of its software or "deprived" InfoFlows of claimed intellectual property rights, does not qualitatively change the nature of a copyright claim, even were these allegations supported by the record. ***Micro Data***, 20 F.Supp.2d at 1263 ("the retention of the software is simply the retention of the intellectual property");[21] *see* ***U.S. ex rel. Berge v. Board of Trustees of the University of Alabama***, 104 F.3d 1453, 1463 (4th Cir.) ("[Section] 301(a) will preempt a conversion claim where the plaintiff alleges only the unlawful retention of its intellectual property rights") (quotation omitted), *cert. denied*, 522 U.S. 916 (1997) (Resp. Br. 45-46 n.29) InfoFlows' conversion claim, which is premised on the contention that Corbis copied its software code, is preempted by the Copyright Act.

3. InfoFlows Had No Evidence Of Conversion Damages.

InfoFlows could in no event recover $16.6 million in conversion damages for the additional reason that there was no evidence to support the jury's special verdict finding that this sum, more than five times what Infoflows could have hoped to earn under the parties' contract had InfoFlows successfully delivered all Phase I and Phase II milestones, represented the "value of the money or goods belonging to InfoFlows that

[21] In ***Micro Data***, plaintiff alleged the theft of tangible media – the computer disks – as well as the software itself. The court allowed the plaintiff to recover as conversion damages only the value of the tangible materials. Plaintiff's conversion claim for the value of the software itself was preempted. 20 F.Supp.2d at 1263 ("the disks have value only as disks and not as mediums of expression for the software."). Here, InfoFlows does not claim that Corbis retained any tangible media, only its intellectual property – the code itself.

was converted by Corbis." (CP 528) Even if there was some evidence from which the jury could have found that Corbis "converted" InfoFlows' source code, there is no evidence anywhere in the record of the value of the allegedly converted material to InfoFlows, to Corbis, or to anyone else.[22] The trial court's judgment must be affirmed for this reason alone.

B. The Trial Court Properly Granted Corbis Judgment For Return Of The Jazz Service Advance.

The parties agreed in the Development Agreement that InfoFlows would fully refund the $500,000 license fee advance if the parties did not enter into a Jazz Service Agreement by August 1, 2006. (CP 104; CP 2183)[23] There was no dispute that the parties did not enter into a Jazz Service Agreement by August 1, 2006, and Judge MacInness properly

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[22] Even if the jury could use Corbis' own pro-forma speculation regarding the amount Corbis could earn from a completed and fully implemented Boulder Ridge license management system to award fraud damages (§II.D.2.b, *supra*), the value of a completed license management system to Corbis provides no evidence of the value of the source code delivered as part of the Alpha version of Phase 1, which is the only software InfoFlows alleges Corbis "possessed."

[23] This court should refuse to address InfoFlows' argument that the trial court erred in granting summary judgment ordering the return of the $500,000 advance license fee for Jazz Service because InfoFlows has not provided the record necessary to review this order. InfoFlows failed to designate all of the pleadings considered by the court in granting summary judgment, including the declaration attaching the Development Agreement and Stone's deposition testimony that was considered by the court in granting summary judgment. (CP 103). *See* RAP 9.12; ***Siegrist v. Simpson Timber Co.***, 39 Wn. App. 500, 503-04, 694 P.2d 1110 (1985).

granted Corbis summary judgment for return of the Jazz Service advance. (CP 104)

InfoFlows argues that summary judgment was improper because its obligation to return the advance was "dependent" on Corbis allowing it to continue "to develop software applications for Corbis." (Resp. Br. 49) But the Development Agreement provided that the advance "will be fully refunded *either* in the event that (a) this Development Agreement is terminated by Corbis pursuant to section 13(b); *or* (b) the Parties do not enter into a Jazz Service agreement on or before August 1, 2006." (CP 2183) (emphasis added) InfoFlows' reading of the obligation to return the advance as dependent on continuation of the Development Agreement would have the effect of reading out of the Development Agreement the second, independent condition for return of the advance – the failure to enter into a Jazz Service Agreement.

The jury's finding that Corbis breached the duty of good faith and fair dealing does not compel reversal of the trial court's summary judgment because the obligation to negotiate in good faith the terms of a Jazz Service Agreement was itself contingent on Corbis' unilateral decision to employ Boulder Ridge, or to use the Jazz Service in another Corbis license management system. The parties expressly agreed that Corbis had the right to use another vendor for "services similar to . . . the

Jazz Service." (CP 2189) Corbis' obligation to negotiate in good faith the terms of a Jazz Service Agreement cannot be divorced from the rights given to Corbis under the parties' existing substantive Development Agreement. *See* ***Keystone Land & Development Co. v. Xerox Corp.***, 152 Wn.2d 171, 177, 94 P.3d 945 (2004) ("a specific course of conduct agreed upon for future negotiations is enforceable when it is contained in an existing substantive contract."); *compare* ***Columbia Park Golf Course***, ¶ 46, 2011 WL 450704 at *11 (breach of development option agreement authorizing lessee to develop resort may be enforced through award of expectation damages where "the path to its project completion appeared clear and problem-free.") The trial court properly granted summary judgment for return of the advance and the court after trial properly set off this amount against the judgment. (CP 1816)

IV. CONCLUSION

This court should reverse the award of $9.28 million in fraudulent misrepresentation damages because InfoFlows' claim fails as a matter of law in light of parties' Development Agreement. It should reverse the verdict on fraudulent inducement because the trial court erred in allowing the jury to find that Corbis breached a duty to disclose its patent application and in allowing the jury to award damages for fraudulent inducement that duplicated those awarded for breach of contract. Finally, because the jury's award of $19.8 million in damages was based entirely on speculation, the court should hold that the verdict was excessive and lacks evidentiary support in the record. The court should remit the verdict to $1 million – representing InfoFlows' reasonable expectation damages under the parties' contract, or remand for a new trial.

Dated this 22nd day of February, 2011.

SMITH GOODFRIEND, P.S.	RIDDELL WILLIAMS, P.S.
By: ______	By: ______
Howard M. Goodfriend WSBA No. 14355 Catherine W. Smith WSBA No. 9542	Karl J. Quackenbush WSBA No. 9602

Attorneys for Appellant/Cross-Respondent

DECLARATION OF SERVICE

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

That on February 22, 2011, I arranged for service of the Reply Brief of Appellant/Cross-Respondent to the clerk to the court and to the parties to this action as follows:

Office of Clerk Court of Appeals - Division I One Union Square 600 University Street Seattle, WA 98101	___ Facsimile ___ Messenger ✓ U.S. Mail ___ Overnight Mail
Karl J. Quackenbush Riddell Williams, P.S. 1001 4th Avenue, Suite 4500 Seattle WA 98154	___ Facsimile ___ Messenger ✓ U.S. Mail ___ E-Mail
Stephen C. Willey Savitt & Bruce LLP 1425 4th Ave, Suite 800 Seattle WA 98101-2272	___ Facsimile ___ Messenger ✓ U.S. Mail ___ E-Mail

DATED at Seattle, Washington this 22nd day of February, 2011.

Amanda C. King

No. 64505-6

COURT OF APPEALS, DIVISION I,
OF THE STATE OF WASHINGTON

CORBIS CORPORATION, a Nevada corporation, Appellant, v. STEVE A. STONE, d/b/a "InfoFlows" and "Stone Consulting," an individual; and INFOFLOWS CORPORATION, a Washington corporation, Respondents.	UNPUBLISHED NON-WASHINGTON AUTHORITIES CITED IN REPLY BRIEF OF APPELLANT/CROSS-RESPONDENT (GR 14.1)

Pursuant to GR 14.1(b) appellant/cross-respondent Corbis Corporation submits the following unpublished authorities cited in the Reply Brief of Appellant/Cross-Respondent at the following corresponding pages:

Apparel Business Systems, LLC v. Tom James Co., 2008 WL 858754 (E.D. Pa. 2008) 44

Calence, LLC v. Dimension Data Holdings, 2007 WL 1526349 (W.D. Wash. May 23, 2007) 42

DATED this 23rd day of February, 2011.

SMITH GOODFRIEND, P.S.

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Stephen C. Willey Savitt & Bruce LLP 1425 4th Ave, Suite 800 Seattle WA 98101-2272	___ Facsimile √ Messenger ___ U.S. Mail ___ E-Mail

DATED at Seattle, Washington this 23rd day of February, 2011.

Carrie Steen

C
Only the Westlaw citation is currently available.

United States District Court,
E.D. Pennsylvania.
APPAREL BUSINESS SYSTEMS, LLC, Plaintiff,
v.
TOM JAMES COMPANY, et al., Defendants.

Civil Action No. 06-1092.
March 28, 2008.

Mohammad A. Ghiasuddin, Steven Kapustin, Kaplin Stewart Meloff Reiter & Stein PC, Blue Bell, PA, Anthony S. Volpe, Michael F. Snyder, Volpe & Koenig PC, Philadelphia, PA, for Plaintiff.

Adam B. Landa, Jae Jung Kim, Greenberg Traurig LLP, New York, NY, Diane E. Vuocolo, Bryan L. Norton, Greenberg Traurig, Philadelphia, PA, for Defendants.

MEMORANDUM AND ORDER
McLAUGHLIN, District Judge.

*1 The plaintiff, a software company, alleges that the defendants, two clothing manufacturers, have infringed the plaintiff's copyright and breached the software license agreements that they have with the plaintiff. The plaintiff also claims unjust enrichment, conversion, and violations of the Unfair Trade Practices Act in connection with the defendants' use of its software. The defendants have filed a motion for summary judgment, which the Court will grant. The plaintiff has filed a partial motion for summary judgment, which the Court will deny. Both parties have filed motions to strike certain declarations, which the Court will deny.

I. *Facts*

The Court views the record in the light most favorable to the non-moving party.[FN1] The following facts are undisputed.

FN1. On a motion for summary judgment, a court must view the evidence and draw reasonable inferences therefrom in the light most favorable to the party opposing summary judgment. *See, e.g., Anderson v. Liberty Lobby, Inc.,* 477 U.S. 242, 255, 106 S.Ct. 2505, 91 L.Ed.2d 202 (1986). Summary judgment is proper if the pleadings and other evidence on the record "show that there is no genuine issue as to any material fact and that the moving party is entitled to a judgment as a matter of law." Fed.R.Civ.P. 56(c).

A. *The Parties*

The plaintiff, Apparel Business Systems, LLC, ("LLC") provides software and associated services to manufacturers, distributors, and importers in the apparel, textile, and footwear industries. LLC's software packages help automate many aspects of apparel production, order processing, inventory allocation, purchasing, and accounting. Compl. ¶ 6; Defs.' Stmt. of Uncontested facts Ex. A.[FN2]

FN2. Hereafter, "Defs.' Fact Stmt."

Defendant Tom James Company ("Tom James") is a manufacturer and retailer specializing in custom clothing. Defendant Kenneth Gordon/ IAG, Inc. ("Kenneth Gordon"), a Tom James subsidiary, makes men's shirts. Tom James has a number of other subsidiaries who are not parties to the plaintiff's lawsuit. Some of the subsidiaries are named in the complaint as third-party beneficiaries of the defendants' allegedly wrongful actions. Compl. ¶ 7-8; Mem. of Law in Support of Defs.' Mot. for Summ. J. at 1; [FN3] Mem. of Law in Support of Defs.' Mot. for Sanctions Against Pl. and Its Counsel for Litigation Misconduct and Failure to Have a Reasonable Basis Upon Which To File or Maintain This Action at 2. [FN4]

FN3. Hereafter "Defs.' Summ. J. Br."

FN4. Hereafter "Defs.' Sanctions Br. I."

Before describing the interactions between the plaintiff and the defendants that led to the filing of this lawsuit, the Court will examine the facts surrounding the plaintiff's business arrangements and the copyrights at issue.

B. *The Copyrights*

The plaintiff, Apparel Business Systems, LLC, claims to be the successor in interest to Apparel Business Systems, Inc. ("INC") Apparel Business Systems began as a proprietorship owned by Marvin and Milton Pasternack, who registered the fictitious business name in June of 1981. According to the Pennsylvania Department of State, INC was incorporated on November 18, 1982. Defs.' Sanctions Br. I Ex. P; Ex. T.

The plaintiff claims that the defendants have infringed two of its copyrights: U.S. Copyright Certificate of Registration No. TX-1-129-742 (the "'742 Copyright") and U.S. Copyright Certificate of Registration No. TX-2-570-536 (the "'536 Copyright"). The plaintiff claims that the licensed software is representative of the copyrighted works. The plaintiff does not have the deposits made with the Copyright Office for either the '742 Copyright or the ' 536 Copyright, or copies of those deposits. George Graham, the plaintiff's CEO, said at his deposition that the plaintiff does not have records of what the software was at the time of the copyright applications. Compl. ¶ 13; Defs.' Fact Stmt. Ex A. at 37; Ex. E; Ex. G; Ex. H.

*2 According to Garry Reinhard, one of the plaintiff's former employees who helped develop the software at issue, IBM developed custom software for the Pasternacks' apparel business before 1980. From 1980 to 1982, Reinhard and Paul Harkins, who both worked full time at IBM, rewrote the custom software, which became known as 5796-RKK (V1M0). "V1M0" stands for "version 1, build 0." According to Reinhard's declaration, the Pasternacks knew that Reinhard and Harkins were rewriting the software, but they did not supervise or pay them, and no written agreement covered the development or ownership of the software. Defs.' Fact Stmt. ¶¶ 8-9, 11-13, 15; Ex. C.

The '742 Copyright protects the 5796-RKK (V1M0) software. According to the application, the work was first published on January 14, 1983, The author and copyright claimant are listed as Apparel Business Systems. Under the "name of author" section, the application form asks whether the work was made for hire; the box next to "Yes" is checked. The application was filed by International Business Machines Corp. ("IBM"). The application lists IBM as the work's manufacturer, and IBM paid the registration fee and listed its address as the appropriate address for correspondence. Barbara Jones signed the application, declaring herself the authorized agent of IBM, the "author, or other copyright claimant, or owner of exclusive rights." Defs.' Fact Stmt. Ex. E.

After 5796-RKK (V1M0) was completed, Reinhard and Harkins continued to work on the software, revising it and making enhancements. Harkins was working full time at IBM while he revised the software, through most of 1983. Reinhard also worked full time at IBM while he revised the software, until late 1984 or early 1985. Roth men became employees of INC after they left IBM. INC did not supervise or control Harkins or Reinhard's work on the software. Between 1982 and 1988, INC hired a number of independent contractors to work on the editorial revisions to the software, including James Lawson and Jean Kopan (both of whom are current LLC employees), B ill Hafele, Paul Nardi, and Syd Mania. None had written agreements with INC about the authorship or ownership of the software. Defs.' Fact Stmt. ¶¶ 26, 28-29, 31-37; Ex. C.

In 1989, INC filed a copyright application (the '536 Copyright) for a work called System 38, editorial revisions to the '742 Copyright. Like the '742 Copyright, the '536 Copyright registration says that the subject work was a work made for hire. Only INC is listed as an author copyright claimant; no individual authors are listed, and IBM does not appear anywhere on the application. The Copyright Office record for the '536 Copyright lists the current claimant as Apparel Business Systems, Inc. Defs.' Fact Stmt. Ex. H; Ex. M.

The plaintiff has introduced a Bill of Sale and Assignment ("Bill of Sale") that says that "as of January 1, 2003," INC transferred to LLC all assets held at the close of business on December 31, 2002, excluding only: corporate books and records; those assets set forth on Schedule A; and contracts that by their terms are unassignable without the consent of a third party. The Bill of Sale is undated and signed on behalf of both INC and LLC by George Graham. It does not mention any specific assets or intellectual property rights. The Bill of Sale claims to include "Schedule A Excluded Assets (to be completed and attached)," but no schedule of excluded assets has been produced. At oral argument, the plaintiff's counsel said that there either never was a Schedule A or that the plaintiff no longer has it. Defs.' Sanctions Br. I Ex. Q; Oral Arg. Tr. at 71, Nov. 8, 2007.

***3** The plaintiff has also introduced a Stock Purchase Agreement dated December 29, 1989. In it, Marvin and Milton Pasternack, Paul Harkins, Garry Reinhard, and Karl S. Johnsson, collectively referred to as the sellers, agree to sell all of INC's shares to ABS Acquisition Corporation for an aggregate purchase price of $1,454,500.00. George Graham signed the agreement on behalf of ABS Acquisition Corporation. Section 3.7 of the agreement covers intellectual property rights. Subsection (a) says that "[t]he Corporation owns and possesses all Intellectual Property rights necessary or required for the conduct of its business as presently conducted or as proposed to be conducted, which Intellectual Property Rights are identified in Schedule 3.7." Schedule 3.7 is not attached to the copy of the agreement produced by the plaintiffs, nor is there any more detailed description of the corporation's intellectual property assets elsewhere in the agreement. Pl.'s Mem. of Law in Opp. to Defs.' Mot. for Summ. J. and in Support of Pl.'s Cross-Mot. for Partial Summ. J. of Copyright Infringement, and in Support of Pl.'s Mot. to Strike the Decl. of Garry Reinhard or in the Alternative for Disc. Under Fed.R.Civ.P. 56(f) Ex. 6.[FN5]

FN5. Hereafter "Pl.'s Opp."

The plaintiff relies on three previously unpreduced documents in its opposition to the defendants' motion for summary judgment: a document called "Confirmation of, *Nunc Pro Tunc* and Quit Claim Assignment of Copyright Interest" ("Harkins Confirmation"); a 1996 Settlement Agreement in *Reinhard, et al. v. Graham, et al.*, a state court case involving a dispute between the Pasternack brothers and Graham ("Settlement Agreement"); and a Final Consenl Decree in a 1994 Eastern District of Pennsylvania case called *Apparel Business Systems, Inc. v. Garry Reinhard, et al.* ("Consent Decree").

The plaintiff produced the Harkins Confirmation in response to the defendants' Motion to Preclude Documents Not Produced in Accordance With the Court's October 23, 2006, Order (Docket No. 34) and their Motion To Compel Testimony (Docket No. 36), and after oral argument on January 8, 2007. Paul Harkins claims to be the author of computer software programs "developed for and on behalf of either Apparel Business Systems ... or Apparel Business Systems, Inc.... which are now the subject of U.S. Copyright Certificate of Registration No. TX-1-129-742 and U.S. Copyright Certificate of Registration No. TX-2-570-S36 (collectively the "Works")." Harkins reports that on or before December 1989 (the date of the Stock Purchase Agreement) he transferred, assigned, quit claimed, and set over to INC all rights and interests he then had or would have in the copyrights. He includes the right to sue for past, present, and future infringement. Pl.'s Opp. Ex. 5.

The plaintiff introduced the Settlement Agreement and the Consent Decree in their March 19, 2007, opposition to the defendants' motion for summary judgment. The Settlement Agreement ended a lawsuit brought by the Pasternacks against INC in 1992. The Pasternacks alleged breach of contract, fraud, and other claims related to the transfer of shares from the Pasternacks to ABS Acquisition Corporation on December 29, 1989. INC counterclaimed, also alleging fraud, breach of contract, and related claims. The Settlement Agreement was signed between February 23, 1996, and March 22, 1996, by Graham, Robert Shallow, James Lawson, and Jean Kopan (as shareholders of INC), and Frederick Santarelli, Marvin Pasternack, and Milton Pasternack. In the Settlement Agreement, Lawson and Kopan agree that ABS is the exclusive owner of the '742 Copyright and the '536 Copyright. Pl.'s Opp. Ex. 8 at 2, 19, 22.

***4** The copy of the Consent Decree that the plaintiff produced is signed and dated only by George Graham as President of INC. It is not signed or dated by either the judge (Judge Donald W. VanArtsdalen) or by the defendant (Garry Reinhard, either individually or in his capacity as President of Applications Consultants, Inc.). In the Consent Decree, INC is deemed to be the exclusive owner of the '742 and '536 Copyrights and the defendants agree not to challenge the ownership or validity of the copyrights. The defendants agree to pay a license fee in order to continue selling their software package. The Consent Decree and settlement terms were ordered kept under seal. *Id.* Ex. 7.

The plaintiff has also submitted declarations from two of its employees, Jean Kopan (LLC's president) and James Lawson. Kopan's declaration, signed on March 13, 2007, says that she is familiar with the plaintiff's software that is the subject of the '742 and the '536 Copyrights and that the software package licensed by ABS to its licensees incorporates portions of the copyrighted software protected by both the '742 and the '536 Copyrights. In an earlier deposition, Kopan testified that she did not know how much the software code changed from the time that she started working at INC until 1989, the time of the second copyright registration. She also said that she was not aware that an earlier copyright (the '742 Copyright) had been filed before she started working at INC. Pl.'s Opp. Ex. 3; Defs.' Reply Ex. HH, at 88.

Lawson signed his declaration on May 9, 2007. He says that Paul Nardi and Syd Manis may have worked on some aspects of software developed by INC, but that he has no knowledge of cither of them working on the program licensed by LLC. Like Kopan, Lawson says that the software package licensed to companies like Tom James and Kenneth Gordon incorporates portions of the software protected by both the '742 and the '536 Copyrights. In one previous deposition, Lawson testified that he had no knowledge of the work that Manis did, and only knew what Nardi did in the 1990s, not the 1980s, when the software at issue was developed. In another previous deposition, Lawson testified that there was no way to tell how close the software protected by the '536 Copyright was to the version INC licensed to Tom James or Kenneth Gordon. Pl.'s Opp. to Defs.' M. to Strike Ex. B; Defs.' M. to Strike Ex. II, at 26, 28, 29, 36, 137-39.

C. *The Tom James and Kenneth Gordon License Agreements*

Tom James entered into a software license agreement with the plaintiff's predecessor in interest, INC, on January 19, 1996. Tom James used the software for its apparel accessories operations on an IBM AS/400 Model 200 computer. At the time that it. started using the plaintiff's software, Tom James was already using another PC-based solution that ran on FoxPro for its other operations. In 1999, Tom James started using the FoxPro solution for its accessories operation and discontinued use of the INC software. The plaintiff concedes that between 1996 and 1999, Tom James never used the INC software on anything except the licensed Model 200 machine, never used multiple copies of the software, and did not disseminate the software to third parties. Defs.' Fact Stmt. ¶¶ 44, 46-48, 52; Oral Arg. Tr. at 10, Nov. 8, 2007.

***5** Kenneth Gordon entered into a software license agreement with INC on April 17, 1996. The license agreement said, in part:

> Customer agrees that the Software shall be used by Customer only for the processing of its own

accounts and data, and that Customer will not provide, disclose, use for the benefit of, or otherwise make available the software or any part thereof to any other party. Customer shall not copy (except to transfer to a hard disk or other permanent storage device within the Hardware) or permit to exist more than one copy of the software, except for one back-up copy of the Software.... The Software shall be used only on the Hardware and at the location set forth on Appendix "B". Customer shall not employ or use any additional Hardware attachment, features, or devices on or with the Hardware or make changes or alterations to the Hardware covered hereunder without prior written notice to ABS. In the event the capacity or performance of Customer's Hardware is increased, ABS shall receive from Customer an additional Software License Fee, not to exceed ABS's then current Software License Fee for similar Hardware, less the Software License Fee previously paid by Customer to ABS with respect to the Original Hardware.

Defs.' Fact Stmt. Ex. R, ¶ 1-C.

The license agreement covered a Model 300 computer, but at the time it signed the agreement, Kenneth Gordon was awaiting delivery of a new Model 500 system. INC installed the software on the Model 300 on April 17, 1996. On May 29, 1996, INC participated in the installation of the software on Kenneth Gordon's new Model 500 computer. Although the Model 500 was not covered by the license agreement, an TNC employee, Suzette James, confirmed and recorded the model and serial number of the Model 500 during the installation. Defs.' Fact Stmt. ¶¶ 53, 55-57; Ex. X.

In its opposition to the defendants' motion for summary judgment, the plaintiff says that the software was moved to the Model 500 without the plaintiffs permission or a new license agreement. The defendants do not contend that there was a new license agreement, but point to Suzette James's involvement in the move to support their contention that the plaintiff knew about and approved the move to the 500. None of the evidence in the summary judgment record suggests that the plaintiff did not know about the move at the time it happened. The plaintiff has not produced its customer file on Kenneth Gordon. According to the declaration of George Graham, LLC's CEO, the plaintiff does not have a formal document retention policy, but timely attempted t o locate and preserve all documents relevant to the case. Graham said that LLC lost the Kenneth Gordon file when it moved offices from Conshohocken, Pennsylvania, to Norristown, Pennsylvania, in late 2005. In his declaration, Graham states that there was no understanding between INC and Kenneth Gordon about the Model 500 computer. At oral argument, the plaintiff conceded that at least one ARS employee did know about the move Lo the Model 500 in 1996. Viewing the facts in the light most favorable to the plaintiff, the Court concludes that the plaintiff knew about the move to the Model 500 computer in 1996. Oral Arg. Tr. at 22, Nov. 8, 2007; Pl.'s Opp. at 34; Ex. 4 ¶¶ 10, 27, 29-32; Ex. 10.

***6** Both the Model 300 and the Model 500 machines are P-20 computers. IBM uses "P" numbers to designate the processor class for its machines. The plaintiff does not have a price list for its software, but rather a set of price guidelines that it uses to negotiate with each customer. The current price guidelines were last revised in June of 2005. The price guidelines show that the plaintiff charges the same price for all P-20 computers. Defs.' Fact Stmt. ¶¶ 58; Ex. T; Pl.'s Opp. Ex. 4; Ex. 10.

By 1997, Kenneth Gordon had become unhappy with INC's service and software. That year, the plaintiff began telling its customers about Year 2000 ("Y2K") bugs in the software and offering a software update at no additional charge to customers who were current on maintenance. In 1998, while Kenneth Gordon was current on its maintenance with INC, it received and installed the Y2K software update. Defs.' Fact Stmt. Ex. P; Pl.'s Opp. Ex. 4.

In 1999, Kenneth Gordon wrote to the plaintiff declining continued maintenance. INC's president, George Graham, then sent a letter to Kenneth Gordon raising three issues: first, the plaintiff claimed that Kenneth Gordon owed it an additional fee of $72,125.00 for moving the software from the Model 300 to the Model 500 (this was the first time since the move three years before, in which INC employee Suzette James had participated, that the plaintiff had asked for an additional fee); second, the plaintiff wanted Kenneth Gordon to execute a new software license agreement; and third, the plaintiff asked Kenneth Cordon to commit to current and future maintenance contracts. Graham's letter offered two options. The first option deferred the additional fee and offered a 25% discount on all future software installations at Tom James affiliates in exchange for Kenneth Gordon staying on ABS software maintenance for at least two years and executing a software license agreement for the new Y2K software. The second option reduced the additional fee to $36,062.50 and offered the 25% affiliate discount in exchange for Kenneth Gordon staying on ABS software maintenance for one year and executing the license agreement for the Y2K software. Defs.' Fact Stmt. Ex. P; Ex. V.

Tom James's Divisional President of Information Services, Brian Podany, wrote back to Graham on May 5, 1999, and clarified that Suzette James of INC had confirmed and recorded the AS/400 Model 500 model number and serial number during the software installation in 1996. Podany's letter did not refer to INC's two offers. Kenneth Gordon did not want to continue its relationship with INC and thought that the further license fees and obligations that INC sought were improper. INC sent Kenneth Gordon several more letters in 1999 and 2000, but Podany's May 5, 1999, letter was the last communication from Kenneth Gordon to INC. INC's last communication to Kenneth Gordon was a letter from Graham to Sergio Castelina, President of Tom James, on October 10, 2000, asking Castelina to call him in order to avoid legal action. Defs.' Fact Stmt. Ex. P; Ex. V; Ex. W; Ex. X; Ex. Y; Ex. Z; Ex. AA; Ex. BB.

*7 In April, 2001, while downsizing its apparel operation, Kenneth Gordon moved the INC software from the Model 500 computer to a less powerful Model 820 computer. The Model 820 has a P-10 processor, which is less powerful than the P-20 processors in the Model 300 and Model 500 machines. Kenneth Gordon did not notify the plaintiff of the move to the Model 820. The June 2005 price guidelines, which are the only price information in the summary judgment record, show that the plaintiff charges less for software installed on machines with P-10 processors than it does for software installed on P-20 machines. There is nothing in the summary judgment record about whether the software had to be copied to be put on the 820, or whether a single copy was moved from one machine to another. Defs.' Fact Stmt. 170; F.x. P; Ex. T; Oral. Arg. Tr. at 25-26, Nov. 8, 2007.

Kenneth Gordon continues to use the plaintiff's software under the license agreement. Other than the two moves of the plaintiff's software to different computers (from the Model 300 to the Model 500 in 1996, and from the Model 500 to the Model 820 in 2001), the plaintiff acknowledges that there is no evidence in the summary judgment record of any other unauthorized use, copying, or dissemination by Kenneth Gordon. Defs.' Fact Stmt ¶ 75; Ex. P; Oral Arg. Tr. at 35, Nov. 8, 2007.

D. *Basis for the Lawsuit*

In November of 2004, two of the plaintiff's employees (James Lawson and Damian Kodner) were at a sales meeting in Birmingham, Alabama, with a prospective customer and a man Lawson believed to be Randall Spake. The prospective customer, a man called "Buddy," represented Prowler Supply Co., which was considering acquiring ABS software. Spake, a former employee of the Hubbard Company, a wholly owned subsidiary of Tom James, was introduced as being an employee or prospective employee or consultant for Prowler. Lawson said that one of the men referred to Spake as having experience with ABS software (Lawson could not recall which man made the reference).

FN6 Lawson says that he was surprised when Spake's familiarity with ABS came up because he was not aware that Hubbard had used ABS software. Defs.' Sanctions Br. 1, Ex. K.

FN6. According to the defendants, during the time Spake worked at the Hubbard Company it ran software made by Apparel Computer Systems, Inc., commonly referred to as "ACS." Defs.' Sanctions Br. I at 16.

George Graham, the plaintiff's president, spoke with Lawson and Kodner after the sales meeting, and reported that Lawson told him that Spake said that he was "familiar with the ABS software package because it's everywhere." According to Graham's deposition testimony, Lawson understood "everywhere" to mean the sister companies of Kenneth Gordon. At Lawson's deposition, he said that he did not remember Spake or Buddy saying that ABS software was "everywhere." Defs.' Fact Stmt. Ex. D at 76-77, Ex. I at 37; Pl.'s Opp. Ex. 4 ¶ 22.

In Graham's declaration he said that he conducted his own investigation and discovered a "strong likelihood of a close connection" between Hubbard, Kenneth Gordon, and Tom James. At oral argument the plaintiff said that Lawson's encounter with Spake in November of 2004, combined with the fact that Kenneth Gordon had not responded to any of the plaintiff's letters or phone calls about the license and maintenance agreements in 1999 and 2000, prompted the plaintiff to file the lawsuit. *Id.* Ex. 4 ¶ 22; Oral Arg. Tr. at 34-35, Nov. 8, 2007.

II. *Discovery into the Defendants' Computers*

***8** In its opposition to the defendants' motion for summary judgment, the plaintiff argues that it was unable to respond fully to the defendants' claims because it was not allowed to inspect the defendants' computers and source code. The Court rejects this argument. The Court has laid out its reasoning in earlier decisions made during and after the discovery period, and has determined that the plaintiff had adequate discovery into the software on the defendants' computers. Pl.'s Opp. at 2.

The plaintiff filed the case in March of 2006, and the Court ordered discovery completed by January 15, 2007. A confidentiality order was entered on November 2, 2006. The defendants filed many motions to compel production of documents and answers to interrogatories, many of which the Court granted. The Court spent a great deal of time with the parties on discovery disputes. Order, Jul. 13, 2006 (Docket No. 8); Defs.' Mot. to Compel (Docket No. 17); Confidentiality Order, Nov. 2, 2006 (Docket No. 23); Defs.' Mot. to Compel (Docket No. 28); Defs.' Mot to Compel (Docket No. 36); Order, Jan 8, 2007 (Docket No. 40); Order, Mar. 7, 2007 (Docket No. 60).

On February 21, 2007, after the close of discovery, the plaintiff filed a motion to compel inspection of the defendants' computers and source code and to extend time for the submission of expert reports. After reviewing the papers and after two hearings, on January 8, 2007, and March 22, 2007, the Court ruled on the motion on April 10, 2007. Although the plaintiff wanted an expert to review the computer equipment and source code, it had not retained an expert or submitted a reasonable search procedure to the court. Pl.'s Mot. to Compel Inspection of Computers (Docket No. 55); Order, Apr. 10, 2007 (Docket No. 71).

The Court ruled that the source code was not. part of the suit: the plaintiff had not included source code in the complaint and had objected to the defendants' August, 2006, request that the source code be produced. The Court also rejected the plaintiff's argument that it needed access to the defendants' active computer system. The Court concluded that the search of the active computer files was unnecessary and would impede the defendants' business, and that the back-up tapes accurately reflected the state of the computers at the time the complaint was filed. The plaintiff had not proposed any reasonable, narrowly tailored procedure to perform the search. The Court observed that the plaintiff had performed very little discovery in the year since the case had been filed, relying instead on its plan to gain direct access to the defendants' computers, a plan about which the Court had repeatedly expressed serious concern. *Id.,* Pl.'s Mot. to Compel Inspection of Computers (Docket No. 55).

The defendants' technology officer, Brian Podany, had searched the defendants' computer back-up tapes and reported that tapes showed no unlicensed copies of the plaintiff's software. In its April 10, 2007, Order denying the plaintiff direct access to the computers, the Court pointed out that the plaintiff had not shown why such complete access was necessary when Podany had already searched the back-up tapes: the plaintiff had not argued that Podany's search was deficient or raised questions about the analysis of the back-up tapes. At the March 22, 2007, hearing, the plaintiff's counsel said that the plaintiff never accused Podany of doing the search in a "nefarious" way. Rather, the plaintiff objected to Podany's search because he supervised two subordinates who performed the search, rather than doing it all himself. The Court observed that if the plaintiff had taken Podany's deposition in November of 2006 (when it was first scheduled) it would have learned of the subordinates' role and could have taken their depositions then. *Id.;* Hearing Tr., Mar. 22, 2007, at 29-30.

***9** The Court ordered the parties to choose a neutral expert to determine whether Podany's search was sufficient, and if not, to provide a written protocol for an appropriate search. The Court proposed a draft engagement letter and the parties went back and forth with changes. Over the late summer and into the fall of 2007, the parties could not agree on an expert. Navigant Consulting, Inc. ("NCI") was retained as an expert in the fall of 2007. Defs.' Mot. to Complete Order Concerning Pl.'s Mot. to Compel Inspection (Docket No. 77); Order, June 15, 2007 (Docket No. 92); Order, Aug. 7, 2007 (Docket No. 104).

NCI reported that the procedures Podany used to perform the search "would have revealed the existence of the ABS software on the specified computers at the time the backups were made." The plaintiff objected to NCI's report, saying that it had been improperly restricted in its search and that information on the defendant's computers could have been manipulated. NCI Report, Oct. 9, 2007 at lPl.'s Letter to the Court, Oct. 17, 2007.

NCI reviewed the declarations and depositions of the defendant's employees, visited the Kenneth Gordon facility, and Podany led NCI through the procedures that generated the report. If NCI thought that Podany's search was inadequate or that it had been inappropriately restricted, the engagement letter instructed it to provide a protocol for an appropriate search. NCI did not provide such a protocol, and concluded that Podany's search would have revealed the existence of the plaintiff's software. Order, June 15, 2007 (Docket No. 92); Order, Oct. 3, 2007 (Docket No. 105); Oral Arg. Tr. at 111-16, Nov. 8, 2007.

The Court concluded that NCI's report adequately responded to the plaintiff's objections to Podany's search.

III. *Defendants' Motion for Summary Judgment*

The defendants have moved for summary judgment on all counts in the plaintiff's complaint: copyright infringement, breach or contract, unjust enrichment, and conversion. The Court will grant summary judgment for the defendants on all counts. The complaint also includes a claim under the Unfair Trade Practices Act, but the plaintiff has withdrawn that claim. Pl.'s Opp. at 42; Oral Arg. Tr. at 76, Nov. 8, 2007.

A. *Copyright Infringement*

1. *Tom James*

The complaint alleges that Tom James has infringed the plaintiff's copyrights by making unauthorized copies of the plaintiff's software, disseminating those copies to third parties, and using unlicensed modules of the software. Tom James used a licensed copy of the plaintiff's software from 1996 to 1999. At oral argument, the plaintiff conceded that there was nc evidence in the summary judgment record of any unauthorized copying, dissemination, or use on the part of Tom James. Compl. ¶¶ 27, 29-30; Defs.' Fact Stmt. ¶¶ 47-48, 52; Oral Arg. Tr. at 10, Nov. 8, 2007.

Although it concedes that there is no evidence of copyright infringement in the summary judgment record, the plaintiff claims that infringement has been established as a matter of law. In its opposition to the defendants' summary judgment brief (which is also its cross-motion for partial summary judgment on copyright infringement), the plaintiff claims that copyright infringement has been established as a matter of law because of a reference that the defendants' counsel made to modifying source code at the oral argument on January 8, 2007.

***10** The Court addressed this issue in its order of April 10, 2007 (Docket No. 71). The plaintiff did not mention source code in its complaint, and indeed, when the defendants asked the plaintiff for the source code in their first request for the production of documents on August 11, 2006, the plaintiff objected to the request, saying that it was irrelevant. After oral argument on January 8, 2007, the plaintiff's counsel argued that the plaintiff was entitled to the source code because of the defendants' "admission" that they had modified the ABS source code and created an infringing derivative work. During a hearing on March 22, 2007, the plaintiff's counsel conceded that the license agreement stated that the defendants would receive machine-readable object code, and, for a fee, the source code. The defendants paid the fee and received the source code, a common practice that allows customers to tailor a software program to fit their particular needs. Defense counsel's assertion that the defendants had a proprietary interest in the changes that they were entitled to make to the source code is not an admission of copyright infringement. The Court ruled in April of 2007 that it would not consider source code in the copyright infringement claim because the plaintiff did not include it in the complaint and objected to the defendant's request that it be produced. Pl's. Opp. at 4-5; Oral Arg. Tr. at 30-31, 93, Jan. 8, 2007; Hearing Tr. at. 8-9, Mar. 22, 2007; Order, Apr. 10, 2007 (Docket No. 71).

The Court will grant summary judgment to Tom James on the copyright infringement count.

2. *Kenneth Gordon*

The complaint alleges that Kenneth Gordon has infringed the plaintiff's copyrights by making unauthorized copies of the plaintiff's software, disseminating those copies to third parties, and using unlicensed modules of the software. Kenneth Gordon began using the software in 1996 and has used it on three machines: a Model 300, a Model 500, and a Model 820. The plaintiff contends that the latter two uses constitute copyright infringement because they are beyond the scope of the license agreement. The Court will address the license agreement issues more fully below. Although the plaintiff is correct that exceeding the scope of a license granted by a copyrightholder may constitute copyright infringement, breach of a license agreement alone does not relieve a plaintiff from its burden of showing that it owns a valid copyright in the software and that protected elements of the software were copied. *S.O.S., Inc. v. Payday, Inc.*, 886 F.2d 1081, 1083-84 (9th Cir.1989); *Gemisys Corp. v. Phoenix Am., Inc.*, 186 F.R.D. 551, 562 (N.D.Cal.1999).

Section 106 of the Copyright Act confers several exclusive rights on the owner of the copyright: copying, distribution, and the creation of derivative works. To establish copyright, infringement, a plaintiff must show 1) that it owns a valid copyright, and 2) that the defendant copied protected elements of the work. 17 U.S.C. § 106; *Feist Publ'ns, Inc. v. Rural Tel. Serv. Co.*, 499 U.S. 340, 360, 111 S.Ct. 1282, 113 L.Ed.2d 358 (1991).

***11** Section 201(a) of the Copyright Act says that a copyright vests initially in the author or authors of the work. In the case of a work for hire, the employer or other person for whom the work was prepared is considered the author. Unless the parties have expressly agreed otherwise in a signed written agreement, the employer-author owns the copyright. 17 U.S.C. § 201(a), (b). All transfers of copyright ownership must be in writing. 17 U.S.C. § 204(a); *MacLean Assocs., Inc. v. Wm. M. Mercer-Meidinger-Hansen, Inc.*, 952 F.2d 769, 778 (3d Cir.1991); *Bieq v. Hovnanian Ents., Inc.*, 157 F.Supp.2d 475, 479-80 (E.D.Pa.2001).

The defendant contends that the copyright registrations asserted by the plaintiff are invalid, that the missing copyright deposits are fatal to the plaintiff's case, and that the plaintiff does not own the copyrights and therefore lacks standing to sue. Defs.' Summ. J. Br. 4-10.

The Court need not reach the question of whether Kenneth Gordon has copied protected elements of the plaintiff's software. Even taking all inferences in favor of the plaintiff, the plaintiff cannot make out a claim of copyright infringement because it cannot establish the first prong: ownership of the copyrights at issue. The Court also need not reach the question of whether the copyright registrations themselves are valid. Whether or not the copyrights are valid, the chain of title is so unclear as to be fatal to the plaintiff's claim. In addition, the plaintiff cannot establish that the software used by the defendants is the software protected by the copyrights at issue, because it has not produced either the deposits made with the copyright office when the registrations were issued or any other evidence of the subject matter that the copyrights protect .FN7

> FN7. The plaintiff has submitted two declarations, from Jean Kopan and James Lawson, to bolster its copyright ownership argument. As discussed below in Section IV.B addressing the Motions to Strike, the Court finds that the declarations do not help establish ownership of the copyrights. The declarants lack personal knowledge of the details of the software development, and their previous deposition testimony was inconsistent with the declarations.

The plaintiff claims that it owns the '742 Copyright and the '536 copyright either as works for hire or through assignment. Neither theory establishes the plaintiff's ownership. There are no work-for-hire documents in the record for either copyright, and the documents that the plaintiff offers to prove assignment are incomplete. Pl.'s Opp. at 8.

The '742 Copyright protects the 5796-RKK (V1M0) software, developed by Garry Reinhard and Paul Harkins while they were IBM employees. In the copyright application, Apparel Business Systems is listed as the author and copyright claimant. The '742 copyright is classified as a work for hire. IBM filed the application and an IBM representative signed it as the "author, or other copyright claimant, or owner of exclusive rights." The registration is in the name of Apparel Business Systems (the Pasternacks' fictitious business name).

Section 101 of the Copyright Act provides that a work has been made for hire under two circumstances: "1) a work prepared by an employee within the scope of his or her employment; or a work specially ordered or commissioned for use as a contribution to a collective work ... if the parties expressly agree in a written instrument signed by them that the work shall be considered a work for hire." 17 U.S.C. § 101(1), (2). The United States Supreme Court has held that general agency principles apply in determining whether or not a work was made within the scope of employment, and has cited factors including, *inter alia,* skill required, source of tools, method of payment, provision of benefits, and tax treatment of the hired party. *Cmty. for Creative Non-violence v. Reid,* 490 U.S. 730, 109 S.Ct. 2166, 104 L.Ed.2d 811, 751-53 (1989).

***12** There is no evidence in the record to suggest that the plaintiff formally employed the two software developers at the time the copyright was registered, and the plaintiff has not introduced evidence to support a finding of employment under the factors outlined in *Cmty. for Creative Non-violence.* Nor is there evidence of an express written agreement between ABS and the two software developers, as required by section 101(2). Reinhard and Harkins worked for IBM, not for ABS, when the copyright was registered, and from the face of the copyright registrations, it appears that IBM owns exclusive rights in the '742 copyright. Defs.' Summ. J. Br. Ex. E.

The '536 Copyright protects editorial revisions to the '742 Copyright, a work called System 38. The registration, filed in 1989, says that the work was made for hire, and only INC appears as an author or copyright claimant. According to Garry Reinhard, he, Harkins, and five other independent contractors worked on the editorial revisions (Hafele, Manis, Nardi, Lawson, and Kopan). There are no independent contractor agreements in the record, and the plaintiff has not provided any evidence of their employment under *Cmty. for Creative Non-Violence.* Harkins and Reinhard became INC employees in 1983 and in 1984 or 1985, respectively. The current claimant, according to the Copyright Office records, is Apparel Business Systems, Inc. Taking all inferences in favor of the plaintiff, the Court finds that there is a material dispute as to the ownership of the '536 copyright. *Id.* Ex. H; Ex. M; Defs.' Fact Stmt. ¶¶ 28-29, 33.

The plaintiff's second theory of copyright ownership is assignment. It has introduced three documents that it claims establish that LLC, successor in interest to INC, owns both copyrights: a Stock Purchase Agreement, from 1989; an undated Bill of Sale; and the Harkins *nunc pro tunc* confirmation, from 2007. None of these documents establish assignment of the two copyrights. Under 17 U.S.C. § 204(a), a transfer of copyright ownership is not valid unless the conveyance is in writing and signed by the owner of the rights conveyed. The terms of the conveyance must be clear, and any ambiguity regarding the transfer must be interpreted in favor of the original copyright holder. *Bieg,* 157 F.Supp.2d at 480; *Cassway v. Chelsea Historic Props.,* 1993 WL 64633 (E.D.Pa. Mar.4, 1993).

The plaintiff claims that the Stock Purchase Agreement, dated December 29, 1989, confirms that the '742 Copyright had been validly assigned to it. Section 3.7 of the agreement covers intellectual property rights and says that "[t]he Corporation [INC] owns and possesses all Intellectual Property rights necessary for or required for the conduct of its business as presently conducted or as proposed to be conducted, which Intellectual Property Rights are identified in Schedule 3.7." Schedule 3.7 is missing from the copy of the agreement that the plaintiff introduced, and it appears nowhere else in the record.

***13** There are several problems with treating the Stock Purchase Agreement as evidence of assignment. First, as discussed above, the plaintiff has not established that INC owns the '742 Copyright. No evidence in the record suggests that IBM, which owns exclusive rights in the copyright, ever transferred those rights to INC. Without evidence that INC owns the exclusive rights, INC may not assign the copyright to ABS Acquisition Corporation. Second, the agreement contains no language of assignment or transfer; rather, it states that INC owns all the intellectual property rights that it needs to conduct business. Third, the missing Schedule means that there is no evidence in the record as to what intellectual property INC claimed to own when its shares were sold to ABS Acquisition Corporation. According to the Copyright Act and the case law, transfer documents must be clear, signed, and in writing. Pl.'s Opp. at 9, Ex. 6.

The plaintiff cites *Billy-Bob Teeth v. Novelty, Inc.,* 329 F.3d 586, 591 (7th Cir.2003) for its argument that the defendants do not have standing to challenge the ownership of the copyright. In that case, both the owner of the copyright and the transferee were parties to the transfer agreement. Tn this case, the author of the copyright is listed as the ABS proprietorship and the owner of exclusive rights is listed as IBM. Neither is a party to the agreement. The defendants have challenged the agreement on the basis that the plaintiff's predecessor in interest, INC, never owned the copyright to begin with and so could not have assigned it to the plaintiff. Part of their defense to the claim of copyright infringement is that the plaintiff does not own the copyrights at issue, and they are entitled to challenge the validity of the document that the plaintiff put into evidence to establish ownership.

The second document that the plaintiff has introduced to establish ownership is an undated document called "Bill of Sale and Assignment." It is signed on behalf of both LLC and INC by George Graham. The Bill of Sale says that "as of January 1, 2003," INC transferred to LLC all of its assets, except for corporate books, unassignable contracts with third parties, and a list of excluded assets set forth on Schedule A. The Bill of Sale mentions no specific assets or intellectual property rights. It claims to include "Schedule A-Excluded Assets (to be completed and attached)," but neither party has entered such a schedule in to the record. At oral argument, plaintiff's counsel said that there either never was a Schedule A or that the plaintiff no longer has it. Defs.' Sanctions Br. I Ex. Q; Oral Arg. Tr. at 71, Nov. 8, 2007.

The Bill of Sale fails to establish the plaintiff's ownership of the copyrights at issue. The statute and the case law require that documents assigning copyrights be clear as to what is being transferred. The Bill of Sale is fatally unclear, as it refers to a schedule of excluded assets that is not in the record. Even with all inferences in the plaintiff's favor, this is an insurmountable hurdle to establishing ownership. *See Broadcast Music, Inc. v. Airhead Corp.*, No. 90-0431, 1990 WL 1739531, at *2 n. 5 (E.D.Va. Dec. 27, 1990) (finding that a missing schedule in a copyright assignment was fatal to the chain of title).

***14** The plaintiff produced the third document, the Harkins Confirmation, in response to two motions by the defendant and after oral argument on January 8, 2001. In the confirmation, Paul Harkins, one of the original software developers, claims to be the author of the software protected by the '742 and ' 536 Copyrights. The document says that on or before December 1989 (the date of the Stock Purchase Agreement) he transferred, assigned, quit claimed, and set over to INC all rights and interests he then had or would have in the copyrights. Pl.'s Opp. Ex. 5.

The Harkins Confirmation does not solve the plaintiff's ownership problems. First, the parties do not dispute that Harkins was not the only person to develop the software. Garry Reinhard was also involved from the beginning. It is unclear how Harkins, as a co-developer, can assign more than his share of ownership in the work. Second, as discussed above, the '742 copyright was a work for hire, and from the copyright registration it appears that IBM owns the exclusive rights. Harkins cannot assign, transfer, or quitclaim rights that are not his to begin with. Defs.' Fact Stmt ¶¶ 9-10.

The plaintiff has produced two documents from other legal proceedings to support their ownership claims. The Settlement Agreement, from 1996, governs the disposition of a case brought by the Pasternacks against INC. The non-compete clause in the agreement states that Lawson and Kopan agree that ABS is the exclusive owner of all right, title, and interest to the '742 and '536 Copyrights and that Lawson and Kopan claim no right to them. Lawson and Kopan are employees of the plaintiff; their previous claims to the copyrights are not at issue here. The fact that two non-parties agreed that the plaintiff owned the copyrights as part of a non-compete clause in a Settlement Agreement between the plaintiff and two other non-parties has no bearing on the Court's summary judgment decision.

The Consent Decree purporting to resolve the 1994 case of *Apparel Business Systems, Inc. v. Garry Reinhard and Applications Consultants, Inc.* does not establish ownership of the copyrights. The copy produced by the plaintiff is signed only by one party, George Graham, and not by either the judge or by Reinhard. The Consent Decree says that INC owns the '742 and '536 Copyrights and that Reinhard infringed the copyrights. Like the Settlement Agreement, the Consent Decree governs the relationship between its signatories and has no effect on non parties. *See, e.g., SeaLand Servs., Inc. v. Gaudet,* 414 U.S. 573, 593, 94 S.Ct. 806, 39 L.Ed.2d 9 (1974). Even assuming that the Consent Decree binds Reinhard, an assumption the Court hesitates to make because Reinhard's signature does not appear on the copy in the summary judgment record, Reinhard is not a party to the current litigation, and his acknowledgment of ownership and infringement has no bearing on this case.

Even if the plaintiffs could establish ownership, there is no evidence in the record to establish the subject matter protected by the '536 and '742 Copyrights. This means that there is no evidence that the software on Kenneth Gordon's machines is subject to the two copyrights. Without such evidence, the Court cannot conclude, even taking all inferences in the plaintiffs favor, that Kenneth Gordon infringed either of the copyrights when it moved the software in 1996 and in 2001. The plaintiff argues, correctly, that it does not need to provide the deposit in order to prove infringement. Some evidence of the copyright's subject matter, however, is required. *See F.W. Woolworth Co. v. Contemp. Arts, Inc.,* 193 F.2d 162, 165 (1st Cir.1951); *Gerlach-Barklow Co. v. Morris & Bendien, Inc.,* 23 F.2d 159, 162 (2d Cir.1927); *Computer Assocs. Int'l, Inc. v. Am. Fundware, Inc.,* 831 F.Supp. 1516, 1529 (D.Colo.1993) (observing that the plaintiff had initially waived its copyright claim when it could not locate the original version of what it had copyrighted). The plaintiff has neither the deposits nor copies of the deposits, and George Graham, the plaintiffs CEO, admitted at his deposition that the plaintiff has no records of what the software was at the time the copyright applications were filed. Defs.' Summ. J. Br. Ex. A at 37; Ex. E; Ex. G; Ex. H.

***15** The plaintiff has the burden of proving ownership of the copyrights and that the allegedly infringing material is the same as that protected by the copyrights. The plaintiff here cannot do that, and the Court will grant summary judgment to Kenneth Gordon on the issue of copyright infringement.

B. *Breach of Contract*

1. *Tom James*

The complaint alleges that defendant Tom James violated its license agreement by using the software on upgraded hardware, using the software on multiple computers, and disseminating the software to third parties. Tom James licensed the plaintiffs software for its apparel accessories business in 1996, and used the software on the AS/400 Model 200 computer specified in the license agreement. Tom James stopped using the plaintiffs software in 1999, when it moved its accessory operations over to a FoxPro-based software that it had developed in house. The plaintiff conceded at oral argument that there was no evidence in the summary judgment record of any unauthorized copying, dissemination, or use of the plaintiffs software by Tom James. Compl. ¶¶ 35-36, 38, 39; Defs.' Fact Stmt. ¶¶ 44, 46-48; Oral Arg. Tr. at 10, Nov. 8, 2007.

In addition, the statute of limitations has run on the breach of contract claim against Tom James. Tom James stopped using the plaintiffs software in 1999. The plaintiff filed suit on March 13, 2006. The statute of limitations for contract claims in Pennsylvania is four years. 42 Pa. Cons.Stat. § 5525; *Gustine Uniontown Assoc., Ltd. v. Anthony Crane Rental, Inc.,* 577 Pa. 14, 842 A.2d 334 (Pa.2004).

The Court will grant summary judgment to defendant Tom James on the breach of contract claim.

2. *Kenneth Gordon*

Defendant Kenneth Gordon entered into a license agreement with the plaintiff on April 17, 1996, and still uses the software today. The agreement said that Kenneth Gordon would use the software on a Model 300 computer, and the plaintiff participated in the installation of the software on the Model 300. Kenneth Gordon moved the software to two different machines: to a Model 500 machine on May 29, 1996 (six weeks after the installation on the Model 300, with the plaintiff's assistance), and then to a Model 820 machine in April 2001. The plaintiff alleges that these two moves breach the license agreement.

The software license agreement says:

> The Software shall be used only on the Hardware and at the location set forth on Appendix "B." ... Customer shall not ... make changes or alterations to the Hardware covered hereunder without prior written notice to ABS. In the event the capacity or performance of Customer's Hardware is increased, ABS shall receive from Customer an additional Software License Fee, not to exceed ABS's then current Software License Fee for similar Hardware, less the Software License Fee previously paid by Customer to ABS with respect to the Original Hardware.

No Appendix B appears in the copy of the Kenneth Gordon software license agreement in the record, but Appendix A lists prices "based on machine type AS/400 9406-300 2040 processor." None of the parties argue that the license agreement, as written, covers any machine other than the Model 300. Defs.' Fact Stmt. ¶¶ 53-54, 70; Ex. R § 1(b), App'x A; Compl. ¶¶ 42-45.

***16** According to the defendants, Kenneth Gordon was awaiting delivery of a Model 500 computer at the time it signed the agreement, and the parties agreed that the Model 500 would run the plaintiff's software once the new machine arrived. Whether or not there was an agreement about the Model 500 ahead of time, one of the plaintiff's employees, Suzette James, participated in the installation of the software on the Model 500 on May 79, 1996, six weeks alter the agreement was signed. James confirmed and recorded the model and serial number of the Model 500 machine. At oral argument, the plaintiff conceded that at least one of its employees knew of the move to the Model 500 machine at the time of the move. Defs.' Fact Stmt. ¶¶ 53-54, 56-57; Oral Arg. Tr. at 22, Nov. 8, 2007.

Despite having been involved in the installation of the software on the Model 500, the plaintiff did not seek any additional license fees for what it calls the "upgrade" until three years later. In 1999, the plaintiff sought a multi-year maintenance agreement and Kenneth Gordon balked at extending the maintenance contract, because it had been dissatisfied with the plaintiff's service. The plaintiff offered to waive some of its claimed upgrade charges if Kenneth Gordon agreed to sign up for the extended maintenance contract, but Kenneth Gordon did not respond. Defs.' Fact Stmt. ¶¶ 56-57, 63-65, Ex. V.

The Model 300 and Model 500 machines both have P-20 processors. According to the plaintiff's price guidelines (the only information in the summary judgment record as to what the plaintiff charges for its software), the plaintiff charges the same amount for all P-20 machines. Defs.' Fact Stmt. Ex. T; Ex. R.

In April of 2001, in the process of downsizing its apparel operations, Kenneth Gordon moved the software from the Model 500 P-20 machine to a Model 820 machine, which has a less powerful P-10 processor. The defendants acknowledged at oral argument that the plaintiff was not aware of the move from the Model 500 to the Model 820, According to the plaintiff's price guidelines, software for P-10 computers cost less than software for P-20 computers. Defs.' Fact Stmt. ¶ 70, Ex. P ¶ 34, Ex. T; Oral Arg. Tr. at 19, Nov. 8, 2007.

The plaintiff argues that both of the software moves-to the Model 500 and to the Model 820-breach the license agreement. Under Pennsylvania law, to make out a cause of action for breach of contract, a plaintiff must establish: 1) the existence of a contract; 2) a breach of a duty imposed by the contract; and 3) damages resulting from the breach. *Halstead v. Motorcycle Safety Found., Inc.,* 71 F.Supp.2d 455, 458 (E.D.Pa.1999); *Corestates Bank v. Cutillo,* 723 A.2d 1053, 1058 (Pa.Super.1999). The Kenneth Gordon license agreement requires that the customer not change the hardware covered by the license agreement without prior written notice to the plaintiff. The customer cannot copy the software, except to make a backup copy. INC is entitled to an extra fee "in the event the capacity or performance of Customer's Hardware is increased." Defs.' Pact. Stmt. Ex. R § 1(b).

***17** Taking all inferences in favor of the plaintiff, the plaintiff has not made out a claim for breach of contract on the move from the Model 300 to the Model 500. There is a dispute as to whether the plaintiff and Kenneth Gordon agreed in advance that the software would be moved, but it is not material. The plaintiff participated in the software move only six weeks after it had installed the software on the Model 300. The plaintiff's employee, Suzette James, recorded the model number and serial number of the new computer. The plaintiff not only had notice of the move, but actively participated in it. [FN8]

> FN8. Even if the plaintiff could establish all elements of breach of contract, it is far too late to bring the claim arising from the move to the model 500. The Pennsylvania statute of limitations for claims arising out of breach of contract is four years. The plaintiff had notice of the move to the Model 500 in 1996, and it filed suit in 2006. If the plaintiff did not have notice in 1996, it certainly had notice in 1999, when it threatened Kenneth Gordon with additional fees unless Kenneth Gordon extended its maintenance agreement. 42 Pa. Cons.Stat. § 5525; *Gustine Uniontown Assoc. Ltd. v. Anthony Crane Rental, Inc.*, 577 Pa. 14, 842 A.2d 334 (Pa.2004).

Even if the defendant had breached the notice clause of the contract, the plaintiff cannot make out any damages for the breach. The contract calls for an additional software license fee only if the capacity or performance of the hardware is increased. The Model 300 and the Model 500 both have P-20 processors and therefore have the same capacity and level of performance. The only information in the record about the plaintiff's prices says that the plaintiff charges the same amount for all P-20 machines. Even if the plaintiff had not participated in the software move to the Model 500, no extra fee would have been due under the contract. Therefore, the plaintiff cannot make out damages, the third prong of the breach of contract action. Defs.' Fact Stmt. Ex. R; Ex. T.

The damages issue also defeats the plaintiff's claim as to the move from the Model 500 to the Model 820, even taking all inferences in favor of the plaintiff. Although the plaintiff did not know about the move, the price guideline says that the plaintiff charges less for P-10 machines like the Model 820 than it does for P-20 machines like the Model 300 and Model 500. No extra fee would have been due under the contract, and the plaintiff cannot make out damages. *Id.* Ex. T.

The plaintiff conceded at oral argument that there is no unauthorized copying, dissemination, or use by Kenneth Gordon other than the two instances previously discussed. Oral Arg. Tr. at 35, Nov. 8, 2007.

The Court will grant summary judgment to the defendants on both breach of contract claims.

C. *Unjust Enrichment*

The plaintiff pled unjust enrichment in the alternative to breach of contract. The Court has granted summary judgment to the defendants on the breach of contract claims; however, unjust enrichment is not available as an alternative pleading when a written agreement governs the relationship between the parties. *See Ne. Fence & Iron Works, Inc. v. Murphy Quigley Co., Inc.*, 933 A.2d 664, 669 (Pa.Super.2007) ("A cause of action for unjust enrichment arises only when a transaction is not subject to a written or express contract,"); *Villoresi v. Femminella,* 856 A.2d 78, 84 (Pa.Super.2004). The defendant does not argue that the license agreement was invalid, and both parties agree that the license agreements govern their relationship. The Court will grant summary judgment to the defendant on the unjust enrichment claim.

D. *Conversion*

***18** The plaintiff claims that the defendants have converted copies of the software. In its opposition to the defendants' motion for summary judgement, the plaintiff says that the defendants "have treated the Software as their own by copying or distributing any portion of the ABS source code to any other computers including those of non-licensees." It is unclear to the Court whether the plaintiff claims conversion in the copyrights or in the software; the Court will address both.[FN9] Compl. ¶¶ 53-55; Pl.'s Opp. at 39.

FN9. Neither party raises the issue of preemption, so the Court will not decide whether the plaintiff's claim for conversion of software is preempted by the Copyright Act. The sole protection for works that fail within the general subject matter of copyright is an action for copyright infringement. 17 U.S.C. § 301. Computer programs, including software, are protected under the Copyright Act. *Id.* § 101. The plaintiff's conversion claim arises from the alleged copying and misuse of the work, which is equivalent to a copyright claim. The plaintiff's claim does not have an extra element (such as breach of trust) that takes it beyond the scope of copyright protection. *See Dun & Bradstreet Software Servs., Inc. v. Grace Consulting, Inc.,* 307 F.3d 197, 2-16-18 (3d Cir.2002). Most courts that have addressed the question have found such software conversion claims preempted. *See U.S. ex rel Berge v. Bd. of Trustees of the Univ. of Ala.,* 104 F.3d 1453, 1463 (4th Cir.1997); *Daboub v. Gibbons,* 42 F.3d 285, 289 (5th Cir.1995); *Meridian Project Sys., Inc. v. Hardin Construction Co., LLC,* No. 04-2728, 2006 WL 1062070 (E.D.Cal. Apr.21, 2006); *Vigilante.com. Inc. v. Argus Test.com,* No. 04-413, 2005 WL 2218405 (D.Or. Sept.6, 2005); *Firyooze v. Earthlink Network,* 153 F.Supp.2d 1115, 1124 (N.D.Cal.2001).

Under Pennsylvania law, conversion is a tort by which a defendant deprives the plaintiff of his right to a chattel or interferes with the chattel without the plaintiff's consent and without lawful justification. Conversion, which initially applied only to tangible property, has expanded from its roots in the common law, and the Pennsylvania Superior Court has noted that various forms of property may be converted. The conversion of intangible property is limited, however, to the kind of intangible rights that are customarily merged in, or identified with, a particular document (for example, a deed or a stock certificate). *Famology.com Inc. v. Perot Sys. Corp.,* 158 F.Supp.2d 589, 591 (E.D.Pa.2001); *Northcraft v. Michener,* 319 Pa.Super. 432, 466 A.2d 620, 625 (Pa.Super.1983).

The plaintiff's conversion claim fails for a number of reasons. As discussed above, the plaintiff has not established that it owns the copyrights that protect the software. Without ownership, the plaintiff has no standing to make a conversion claim. There are also doctrinal reasons why the plaintiff's conversion claim cannot stand.

Copyrights are not the kind of intangible rights that customarily merge in a particular document, and are not subject to conversion under Pennsylvania law. The rights associated with copyright ownership are not embodied in the physical paper of the copyright registration; rather, those rights arise as soon as the work is fixed in a tangible medium of expression. 17 U.S.C. §§ 102(a), 408; *Neles-Jamesbury, Inc., v. Bill's Valves,* 974 F, Supp. 979, 982 (S.D.Tex.1997).

Software is not the kind of property subject to a conversion claim, either. As discussed in footnote 9, *supra,* most courts faced with software conversion claims have found those claims preempted and have not discussed whether software is the kind of intangible property subject to conversion. One court that did discuss the intangible property issue granted summary judgment to the defendant, saying that it was doubtful that images copied from the plaintiff's software amounted to "chattel," or that the copying deprived the plaintiff of the use of his own software. *Clarity Software LLC v. Allianz Life Ins., Co. of N. Am.,* No. 04-1441, 2006 WL 2346292, at *12 (W.D.Pa. Aug.11, 2006). Courts in the Eastern District of Pennsylvania have found that domain names and satellite signals are not subject to conversion because they are not types of intangible property that merge with particular documents. *Famology.com Inc. v. Perot Sys. Corp.,* 158 F.Supp.2d 589, 591 (E.D.Pa.2001); *DirecTV, Inc. v. Prick,* No. 03-6045, 2004 WL 438663, at *2-3 (E.D.Pa. Mar.2, 2004).

***19** The plaintiff cites a case in which a court granted summary judgment to the plaintiff on a software conversion claim. *Stenograph, L.L.C. v. Sims,* No. 99-5354, 2000 WL 964748 (E.D.Pa. July 12, 2000). The defendant in that case was found liable for conversion for taking and refusing to return a software key, a physical object that had to be inserted into the machine in order to run the software. *Id.* at *3. *Stenograph* is not applicable to a situation like the one here: there is no physical object required to operate the plaintiff's software; the defendants have not carried off a disk containing the plaintiff's program and refused to give it back. The plaintiff's rights in its intangible property, the software, are not embodied in a particular document, and the software is not subject to conversion.

Because neither the copyrights nor the software at issue in the case are subject to conversion, the Court need not decide whether the plaintiff's conversion claim is barred by the gist of the action doctrine. The Court will grant summary judgment to the defendant on the conversion claim.

IV. *Plaintiff's Cross-Motion for Partial Summary Judgment*

The plaintiff has filed a cross-motion for partial summary judgment on copyright infringement. It contends that copyright infringement has been established as a matter of law because the defendants admitted at the oral argument on January 8, 2007, that they modified the source code of the plaintiff's software. Pl.'s Opp. at 4.

As discussed in Section III.A above, and in the Court's order of April 10, 2007 (Docket No. 71), the defendants purchased the source code from the plaintiff in order to modify the software to better suit their needs. This use was contemplated by the license agreement, and the plaintiff conceded during a hearing on March 22, 2007, that the agreement stated that the defendants would receive the source code for an additional fee. The reference by the defendants' counsel to modifying source code was not an admission of copyright infringement, and the Court's April 10, 2007, order makes clear that the Court will not consider source code as part of the infringement claim. *Id.* at 4-5; Oral Arg. Tr. at 93, Jan. 8, 2007; Hearing Tr. at 13, Mar. 22, 2007; Order, Apr. 10, 2007 (Docket No. 71).

Additionally, as discussed above, the plaintiff has not established that it owns the '742 and '536 Copyrights, and so does not have standing to sue for copyright infringement.

The Court will deny the plaintiff's motion for partial summary judgment on copyright infringement.

V. *Motions to Strike*

Both parties have filed motions to strike. The plaintiff has moved to strike the declaration of Garry Reinhard. The defendants have moved to strike the declarations of George Graham, Jean Kopan, and James Lawson. The Court will deny all of the motions to strike, and will give weight to the affidavits only to the extent they are based on personal knowledge.

A. *The Reinhard Declaration*

***20** Garry Reinhard helped develop the software at issue, both as an IBM employee in the early 1980s and as an employee of the plaintiff. His February 7, 2007, declaration discusses the development of the software. Reinhard is named in two documents that the plaintiff has introduced into the summary judgment record. Reinhard signed the Stock Purchase Agreement as one of the sellers of INC to ABS Acquisition Corporation. The Agreement claims that INC owned all intellectual property rights it needed to conducts its business, but there is no language of assignment or transfer and the document is missing the schedule that lists the intellectual property rights at issue. The Consent Decree ended a lawsuit between INC and Reinhard, and Reinhard acknowledged that INC owned the '742 and '536 Copyrights and that he had infringed them. The copy in the summary judgment record is signed only by George Graham, not by Reinhard or by the presiding judge. Defs.' Fact Stmt. Ex. C; Pl.'s Opp. Ex. 6; Ex. 7.

The plaintiff argues that the Court should strike Reinhard's declaration because it contradicts the Stock Purchase Agreement and t he Consent Decree in which Reinhard affirmed the plaintiff's ownership of the '742 and '536 Copyrights. The plaintiff claims that Reinhard is incompetent to provide testimony challenging the ownership of the copyrights at issue and that Reinhard has perjured himself. Pl.'s Opp. at 14; Defs.' Fact Stmt. Ex. C.

Neither of these documents prevents Reinhard from testifying about the development of the copyrights at issue. In his declaration, Reinhard relates the factual history of the development of the software called 5796-RKK (V1M0) and System 38, including the names of the people involved in the project, where they worked, and the date each project was completed. Reinhard does not mention the '742 Copyright or the '536 Copyright and makes no factual or legal assertions about the ownership of the copyrights. Reinhard was involved with the development of the software at issue from its beginnings in the early 1980s through several revisions in the late 1980s. He is competent to provide testimony on the subject.

The Court will deny the motion to strike the declaration of Garry Reinhard.

B. *The Kopan and Lawson Declarations*

Jean Kopan is currently the plaintiff's president. In her March 13, 2007, declaration she says that she is familiar with the plaintiff's software that is the subject of the '742 and the '536 Copyrights and that the software package licensed by the plaintiff to its licensees incorporates portions of the copyrighted software protected by both the '742 and the '536 Copyrights. In an earlier deposition, Kopan testified that she did not know how much the code changed from the time that she started working at INC until 1989 (when the '536 Copyright was registered). She also said that she was not aware that an earlier copyright (the '742 Copyright) had been filed before she started working at INC. Pl.'s Opp. Ex. 3; Defs.' Reply Ex. HH, at 88.

***21** James Lawson has been an employee of the plaintiff since 1992. In his May 9, 2007, declaration he says that Paul Nardi and Syd Manis may have worked on some aspects of software developed by INC, but that he has no knowledge of either man working on the program licensed by LLC. Like Kopan, Lawson says that the software package licensed to companies like Tom James and Kenneth Gordon incorporates portions of the software protected by both the '742 and the '536 Copyrights. In one previous deposition, Lawson testified that he had no knowledge of the work that Manis did, and only knew what Nardi did in the 1990s, not the 1980s, when the software at issue was developed. In another previous deposition, Lawson testified that there was no way to tell how close the software protected by the '536 Copyright was to the version INC licensed to Tom James or Kenneth Gordon. Pl.'s Opp. to Defs.' M. to Strike Ex. B; Defs.' M. to Strike Ex. II, at 26, 28, 29, 36, 137-39.

The defendants argue that the Lawson and Kopan declarations are inadmissible because they contradict prior sworn testimony. The Court will not strike the declarations. Rather, the Court will consider them under the standard laid out in Fed. R. Civ. Pro. 56(e), which requires that declarations be made upon personal knowledge. The breadth and depth of Lawson and Kopan's personal knowledge has been demonstrated by their depositions. The depositions show that both Lawson and Kopan lack personal knowledge of the details of the software development, and their declarations are too general to provide a sufficient basis to oppose summary judgment.

The Court will deny the defendants' motion to strike the Kopan and Lawson declarations.

C. *The Graham Declaration*

In his March 16, 2007, declaration, George Graham testifies that the plaintiff learned through a November, 2004, encounter with a former Hubbard employee, Randall Spake, that the plaintiff's software was used at Hubbard and "was everywhere." As discussed above, Graham learned of this encounter from James Lawson, who denied at his deposition that Randall Spake ever said that the ABS software was "everywhere." Graham also testifies in the declaration that LLC timely attempted to locate and preserve all documents relevant to the case and that "it would be untrue to state" that LLC did not search for relevant documents and e-mails. Graham reported that LLC lost the Kenneth Gordon file in an office move in late 2005.

In the plaintiff's 30(b)(6) deposition, taken in October of 2006, Graham testified that he did not know the specific steps the plaintiff took to preserve e-mail or other documents, and that he did not know when the Kenneth Gordon file went missing. Defs.' Fact Stmt. Ex. I at 37; Pl.'s Opp. Ex. 4 ¶¶ 22, 28-30; Defs.' Mot. to Strike Ex. KK at 68-69; Ex. LL at 78-81; Ex. MM at 46-47.

The defendants seek to strike the March 16, 2007, declaration of George Graham for lack of personal knowledge and because his declaration testimony is inconsistent with previous deposition testimony. As with the Kopan and Lawson declarations, the Court will not strike the Graham declaration, but rather evaluates the declaration under the personal knowledge requirement of Rule 56(e).

***22** The Court will deny the defendant's motion to strike the Graham declaration.

An appropriate Order follows.

ORDER

AND NOW, this 28th day of March, 2008, upon consideration of the defendants' motion for summary judgment (Docket No. 53), the plaintiff's cross-motion for partial summary judgment and motion to strike (Docket No. 66), and the defendants' motion to strike (Docket No. 73), it IS HEREBY ORDERED that:

1. The defendants' motion for summary judgment is GRANTED;

2. The plaintiff's cross-motion for partial summary judgment and motion to strike the declaration of Garry Reinhard is DENIED;

3. The defendants' motion to strike improper testimony and precluded documents is DENIED.

Judgment is hereby entered for the defendants and against the plaintiff.

E.D.Pa.,2008.
Apparel Business Systems, LLC v. Tom James Co.
Not Reported in F.Supp.2d, 2008 WL 858754 (E.D.Pa.)

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Only the Westlaw citation is currently available.

United States District Court,
W.D. Washington,
at Seattle.
CALENCE, LLC, Plaintiff,
v.
DIMENSION DATA HOLDINGS, et al., Defendants.

No. C06-0262RSM.
May 23, 2007.

Christian N. Oldham, Christopher Brian Wells, Michael D. Reilly, Michael A. Nesteroff, Lane Powell PC, Seattle, WA, for Plaintiff.

James Sanders, Laura Marie Solis, Perkins Coie, Clemens H. Barnes, April Upchurch Olsen, Graham & Dunn, Seattle, WA, for Defendants.

ORDER GRANTING IN PART DEFENDANT ABB'S MOTION FOR SUMMARY JUDGMENT AND DENYING PLAINTIFF'S MOTION FOR SUMMARY JUDGMENT

RICARDO S. MARTINEZ, United States District Judge.

I. INTRODUCTION

***1** This matter comes before the Court on defendant Jon Abb's Motion for Summary Judgment and plaintiff's related Motion for Partial Summary Judgment. (Dkts. # 198 and # 218). Defendant essentially argues that because he was an at-will employee, who never signed an employment agreement or non-compete or non-solicitation agreement with plaintiff, there is no support for any of the claims against him.

Plaintiff has moved for partial summary judgment against defendant Abb, asking the Court to find that he violated the Washington Uniform Trade Secrets Act ("UTSA"), breached the confidentiality provisions of his employment agreement, breached his fiduciary duty to maintain confidentiality, and violated the Computer Fraud and Abuse Act ("CFAA") as a matter of law.

For the reasons set forth below, the Court DENIES plaintiff's motion for summary judgment and GRANTS IN PART defendant's motion for summary judgment.

II. DISCUSSION

A. Background

The Court has set forth the background of this action in its previous Orders, and will not repeat it here. Facts specifically relevant to the instant defendant will be discussed in context below. This Order addresses arguments pertaining only to defendant Jon Abb.[FN1] Mr. Abb was employed as an Account Manager with plaintiff prior to his resignation.

FN1. The remaining motions for summary judgment will be addressed in separate Orders.

B. Motions to Strike

Plaintiff raises the same motions to strike with respect to defendant Abb's briefing and arguments as it raised with respect to defendant Dunlap's briefing and arguments. The decisions made on those motions to strike, as set forth in the Court's Order on defendant Dunlap's motion for summary judgment, apply with equal force to the instant motion, and they will not be repeated here. (*See* Dkt. # 319).

C. Standard of Review for Summary Judgment

Summary judgment is proper where "the pleadings, depositions, answers to interrogatories, and admissions on file, together with the affidavits, if any, show that there is no genuine issue as to any material fact and that the moving party is entitled to judgment as a matter of law." Fed.R.Civ.P. 56(c); *Anderson v. Liberty Lobby, Inc.*, 477 U.S. 242, 247 (1986). The Court must draw all reasonable inferences in favor of the non-moving party. *See F.D.I.C. v. O'Melveny & Meyers,* 969 F.2d 744, 747 (9th Cir.1992), *rev'd on other grounds,* 512 U.S. 79 (1994). The moving party has the burden of demonstrating the absence of a genuine issue of material fact for trial. *See Anderson,* 477 U.S. at 257. Mere disagreement, or the bald assertion that a genuine issue of material fact exists, no longer precludes the use of summary judgment. *See California Architectural Bldg. Prods., Inc., v. Franciscan Ceramics, Inc.,* 818 F.2d 1466, 1468 (9th Cir.1987).

Genuine factual issues are those for which the evidence is such that "a reasonable jury could return a verdict for the non-moving party." *Anderson,* 477 U.S. at 248. Material facts are those which might affect the outcome of the suit under governing law. *See id.* In ruling on summary judgment, a court does not weigh evidence to determine the truth of the matter, but "only determine[s] whether there is a genuine issue for trial." *Crane v. Conoco, Inc.,* 41 F.3d 547, 549 (9th Cir.1994) (citing *O'Melveny & Meyers,* 969 F.2d at 747). Furthermore, conclusory or speculative testimony is insufficient to raise a genuine issue of fact to defeat summary judgment. *Anheuser-Busch, Inc. v. Natural Beverage Distributors,* 60 F.3d 337, 345 (9th Cir.1995). Similarly, hearsay evidence may not be considered in deciding whether material facts are at issue in summary judgment motions. *Blair Foods, Inc. v. Ranchers Cotton Oil,* 610 F.2d 665, 667 (9th Cir.1980).

D. Tortious Interference

***2** In its Amended Complaint, plaintiff first alleges that defendant knowingly and intentionally, and with malicious and improper motive: (1) acted to interfere with and misappropriate Calence's contractual relationships with the customers of its Seattle office; (2) acted to induce the breach of each other's contracts with Calence; (3) acted to induce the breaches of Calence's employment contracts with each of the other terminating employees; (4) acted to induce each other's breaches of fiduciary duty; and (5) acted to induce breaches of fiduciary duty and other contractual duties by the other terminating employees. (Dkt. # 127 at 19-20).

In *Pleas v. Seattle,* 112 Wn.2d 794 (1989), the Washington Supreme Court adopted the Oregon Supreme Court's approach to tortious interference claims, holding that:

> a cause of action for tortious interference arises from either the defendant's pursuit of an improper objective of harming the plaintiff or the use of wrongful means that in fact cause injury to plaintiff's contractual or business relationships. A claim for tortious interference is established when interference resulting in injury to another is wrongful by some measure beyond the fact of the interference itself. Defendant's liability may arise from improper motives or from the use of improper means.... No question of privilege arises unless the interference would be wrongful but for the privilege ... Even a recognized privilege [however] may be overcome when the means used by defendant are not justified by the reason for recognizing the privilege.
>
> Interference can be "wrongful" by reason of a statute or other regulation, or a recognized rule of common law, or an established standard of trade or profession. Therefore, plaintiff must show not only that the defendant intentionally interfered with his business relationship, but also that the defendant had a "duty of non-interference; *i.e.,* that he interfered for an improper purpose ... or ... used improper means ...".

Pleas, 112 Wn.2d at 803-04 (citations omitted).

As an initial matter, the Court agrees with defendant that plaintiff has failed to allege tortious interference with a business expectancy. It is clear from the language of the Amended Complaint, that plaintiff's focus is on alleged interference with contractual relationships. Moreover, while plaintiff attempts to persuade the Court to the contrary, (*see* Dkt. # 273 at 2-3), the allegation that defendants have induced others to breach their fiduciary duties does not give notice to defendants of an alleged interference with a business expectancy. Indeed, the very elements required to prove such a claim demonstrates the trouble with plaintiff's argument. In *Calbom v. Knudtzon,* 65 Wn.2d 157 (1964), the Washington Supreme Court explained that to make a claim for tortious interference with a business expectancy, a plaintiff must point to an expectancy of business with a third party, plaintiff must allege that defendant was aware of the expectancy, and plaintiff must allege that defendant interfered with the expectancy. *Calbom,* 65 Wn.2d at 164-65. Here, plaintiff fails to allege any of those elements. Accordingly, the Court focuses only on allegations that defendants interfered with plaintiff's contractual relationships.

***3** In that regard, the Court finds that there are genuine issues of material fact as to whether defendant interfered with the contractual relationships between plaintiff and the individually-named co-defendants or between plaintiff and the other former employees. Plaintiff has produced evidence that defendant had conversations with co-defendants Tom Falk and Mark Zerbe about recruiting fellow employees, and suggested appropriate compensation and bonuses for those employees. Plaintiff has also produced evidence that defendant drove fellow employees to the Dimension Data job fair, and encouraged fellow employees to accept offers from Dimension Data. While defendant argues with the characterization of that evidence, it is up to the trier of fact to assess the credibility of the witnesses and determine what actually happened in each alleged instance.

Further, plaintiff points to evidence in the record from which this Court can infer that defendant intended to induce customers to breach a contractual relationship with plaintiff. Abb contacted approximately two dozen of his customers to inform them that he was leaving, both prior to his official resignation with plaintiff and afterwards. Further, plaintiff has produced evidence that defendant retained confidential information and continued to use that information in contacting his former customers. Accordingly, the Court finds that summary judgment in favor of defendant on this claim is not appropriate.

E. Misappropriation of Trade Secrets

Plaintiff next alleges that defendant has misappropriated, and continues to intentionally misappropriate, its trade secrets, in violation of the Washington Uniform Trade Secrets Act ("UTSA"), RCW 19.108, *et seq.* (Dkt. # 127 at 20). Specifically, plaintiff argues that the information retained by defendant on his Blackberry device, including customer contact lists and e-mails, constitutes trade secrets.

As an initial matter, the Court notes that there is a question of fact as to whether any trade secrets were contained on the disks at issue in this case. As plaintiff itself acknowledges, whether a particular piece of information is a trade secret, is a question of fact for the jury. *Ed Nowogroski Ins., Inc. v. Rucker,* 137 Wn.2d 427, 436 (1999). That reason alone is enough to deny summary judgment. Indeed, should a jury determine that no trade secrets were contained on the Blackberry, the claim against defendant necessarily fails.

Further, even presuming that defendant did possess plaintiff's trade secrets, there are significant questions of fact as to whether such trade secrets were misappropriated. Under the UTSA, a misappropriation is defined as the:

(a) Acquisition of a trade secret of another by a person who knows or has reason to know that the trade secret was acquired by improper means; or

(b) Disclosure or use of a trade secret of another without express or implied consent by a person who:

(i) Used improper means to acquire knowledge of the trade secret; or

***4** (ii) At the time of disclosure or use, knew or had reason to know that his or her knowledge of the trade secret was (A) derived from or through a person who had utilized improper means to acquire it, (B) acquired under circumstances giving rise to a duty to maintain its secrecy or limit its use, or (C) derived from or through a person who owed a duty to the person seeking relief to maintain its secrecy or limit its use; or

(iii) Before a material change of his or her position, knew or had reason to know that it was a trade secret and that knowledge of it had been acquired by accident or mistake.

RCW 19.108.010(2); *McLeod v. Northwest Alloys, Inc.*, 90 Wn.App. 30, 35-36 (1998).

In this case, plaintiff and defendant dispute whether the information was obtained improperly. Defendant has produced evidence that the information he retained on his Blackberry device was assembled and kept with his employer's permission. Plaintiff has produced evidence that no authorization for defendant's actions was ever given, and that such action was expressly forbidden by company policy. Accordingly, the Court does not believe that summary judgment in favor of either party on this claim is appropriate.

F. Unfair Competition

By essentially reiterating its arguments with respect to tortious interference and misappropriation of trade secrets, plaintiff next alleges that defendants' actions constitute unfair trade practices under RCW 19.86.020 and .030 and under the common law. (Dkt. # 127 at 21). For the reasons set forth above with respect to the tortious interference and UTSA claim, the Court finds that summary judgment on the unfair competition claim is also not appropriate.

G. Civil Conspiracy

Plaintiff next alleges that defendants "conspired among themselves and with others to, among other things, interfere with Calence's relationships with its customers, interfere with Calence's contractual relationships with its employees, induce breaches of fiduciary duty by Calence employees, and misappropriate Calence's trade secrets." (Dkt. # 127 at 21).

To establish a civil conspiracy, [plaintiff] must prove by clear, cogent, and convincing evidence that (1) two or more people combined to accomplish an unlawful purpose, or combined to accomplish a lawful purpose by unlawful means; and (2) the conspirators entered into an agreement to accomplish the conspiracy. "Mere suspicion or commonality of interests is insufficient to prove a conspiracy." "[When] the facts and circumstances relied upon to establish a conspiracy are as consistent with a lawful or honest purpose as with an unlawful undertaking, they are insufficient."

All Star Gas, Inc. v. Bechard, 100 Wn.App. 732, 740 (2000) (citations omitted).

Plaintiff fails to raise any genuine issue of material fact with respect to its civil conspiracy claim against defendant. Plaintiff argues in sweeping terms that it is "entitled to reasonable inferences based upon defendants' statements and records and circumstantial evidence" that the first element of a civil conspiracy has been satisfied. However, plaintiff points to no evidence in the record of any agreement between any of the defendants to accomplish any unlawful purpose, or any agreement to conspire to commit an unlawful purpose. Further, plaintiff provides no meaningful citation to specific portions of the record. Indeed, plaintiff cites to "Dkt. # 216 at 218, 417-21" in support of its assertion that "there can be no doubt about an agreement among the defendants." (Dkt. # 244 at 15). However, the declaration contained at Dkt. # 216 does not utilize that system of pagination; therefore, it is not clear what evidence plaintiff relies on. In any event, a review of the numerous exhibits contained in that document suggests that the evidence plaintiff relies on is an e-mail from former Calence employee Chad Marsh to Mark Zerbe asking questions about Dimension Data account manager ratios. (Dkt.# 216, Ex. P). It is not clear how that evidence relates at all to the instant defendant, or how it supports a civil conspiracy claim. Plaintiff also appears to point to an e-mail from Mark Zerbe to other Dimension Data executives noting that he had successfully recruited Abb, and that there was a plan in place to recruit other Seattle employees. (Dkt.# 216, Ex. KK). However, a hearsay statement by Mr. Zerbe is not sufficient to create an inference that Jon Abb had conspired to accomplish an unlawful purpose or a lawful purpose by unlawful means. Accordingly, the Court agrees with defendant that summary judgment in his favor on this claim is appropriate.

H. Breach of Contract

***5** Plaintiff next alleges that defendant breached his contractual obligations to Calence, including his agreement not to disclose or utilize for his own benefit or for the benefit of a third party the confidential information of Calence; his agreement not to solicit or aid others to solicit employees of Calence to accept competitive employment; his agreement not to induce or aid others to induce employees of Calence to terminate their employment; and his agreement not to interfere with Calence's business. (DKT. # 127 at 22).

Defendant first asserts that there is no agreement between defendant and plaintiff, and that plaintiff may not enforce a previously-signed agreement, which was signed by defendant when he began his employment with Kent Datacomm ("Kent") prior to the mergers between Kent and Avnet, and later Avnet and Calence. Accordingly, defendant argues that there can be no claim for breach of contract. Defendant then argues that, even if there was an enforceable contract, he has not breached any of its provisions.

The Court first turns to whether an enforceable contract exists. There is no dispute that defendant signed an employment agreement, containing a restrictive covenant, when hired by Kent in 1998. (Dkt .# 203, Ex. A). That agreement contained provisions stating that defendant agreed not to disclose to an unauthorized person confidential information, and that defendant agreed not to induce or aid others to induce any employee to terminate his or her employment or violate his or her employment agreement in any way. (Dkt.# 203, Ex. A). However, defendant argues that the contract was not assigned to Avnet as part of the merger between Kent and Avnet, or subsequently to Calence as part of the merger between Calence and Avnet. Defendant further argues that it could not be assigned because it contained a restrictive covenant. The Court disagrees.

The merger between Kent and Avnet occurred in 2001. The parties' Plan of Merger is governed by Texas law. (Dkt. # 252, Ex. KKK at § 7.07). Under Texas law, the surviving corporation of a merger "represents the continuation of a business that was operated before in the form of its constituents. For practical, business, and many tax purposes, it is treated the same as its components which formed it. It accedes to the rights and privileges as well as the obligations of its components by operation of law." *Reliance Ins. Co. v. Nutt,* 403 S.W.2d 828, 830 (Tex.App.1966) (citation omitted). Further, under the Texas Business Corporation Act, when a merger takes place:

> all liabilities and obligations of each domestic or foreign corporation and other entity that is a party to the merger shall be allocated to one or more of the surviving or new domestic or foreign corporations and other entities in the manner set forth in the plan of merger, and each surviving or new domestic or foreign corporation, and each surviving or new other entity to which a liability or obligation shall have been allocated pursuant to the plan of merger, shall be the primary obligor therefor and, except as otherwise set forth in the plan of merger or as otherwise provided by law or contract, no other party to the merger, other than a surviving domestic or foreign corporation or other entity liable thereon at the time of the merger and no other new domestic or foreign corporation or other entity created thereby, shall be liable therefor.

***6** Tex. Bus. Corp. Act art. 5.06(A)(3). The Plan of Merger allocated all liabilities and obligations to the newly formed Avnet. Accordingly, the Court agrees that defendant's employment agreement transferred to Avnet.

Likewise, as previously determined, this Court finds that the employment agreement was then assigned to Calence through its merger with Avnet. The plain language of the Asset Contribution Agreement makes clear that all contracts were assigned from Avnet to the newly merged company. (Dkt.# 209, Ex. 21). That agreement assigns "all contracts and agreements to which Avnet is a party" including those contracts set forth in specific schedules. The fact that defendant's contract was not among those listed on the schedules does not exclude it from the agreement. Rather, the agreement references all contracts and agreements, and simply chooses to name some contracts specific- ally.

In addition, the Court finds the assignment of the agreement lawful. Generally, in Washington, contract rights "may be freely assigned unless forbidden by statute or rendered ineffective for public policy reasons. An assignee of a contract 'steps into the shoes of the assignor, and has all of the rights of the assignor.' " *Federal Fin. Co. v. Gerard,* 90 Wn.App. 169, 177 (1998) (citations omitted). Many other jurisdictions find such assignments lawful, as well. *See, e.g., Special Products Mfg., Inc. v. Douglass,* 159 A.D.2d 847, 849 (N.Y.App.Div.1990) (explaining that "[w]hen the original parties to an agreement so intend, a covenant not to compete is freely assignable."); *Gill v. Poe & Brown of Ga.,* 241 Ga.App. 580, 582 (Ga.Ct.App.1999) (finding no merit in plaintiff's claim that the non-solicitation agreement could not be assigned without his consent). Accordingly, the Court agrees with plaintiff that plaintiff had an enforceable agreement with defendant .FN2

FN2. Interestingly, the same employment agreement undermines plaintiff's arguments that a breach of contract claim can be based on an Employee Handbook. Indeed, defendant's agreement expressly states that "handbooks and all other written and oral material provided ... is intended for information purposes only. Neither it, nor company practices, nor other communications create an employment contract or term of employment." (Dkt. # 203, Ex. A). Thus, the Court finds that plaintiff's breach of contract claim against this defendant based on any alleged breach of an employee handbook or other written material must fail.

As discussed above, there are genuine issues of material fact with respect to whether defendant solicited or aided in soliciting any of the other employees to breach their own employment agreements. There are also issues of fact with respect to whether defendant improperly interfered with customer contracts. Accordingly, the Court finds that summary judgment in favor of defendant on this claim is not appropriate.

I. Breach of Duty of Loyalty and Fiduciary Duty

Plaintiff next alleges that defendant breached his duty of loyalty and fiduciary duties to Calence by, among other things, entering into a conspiracy with corporate defendants, misappropriating Calence's valuable confidential information and customer relationships, and interfering with Calence's contractual relationships with its employees and customers. (Dkt. # 127 at 22).

As an initial matter, the Court finds that the conspiracy allegation may not support this claim, as the Court has already determined above that there is no evidence to support the conspiracy claim.

Defendant concedes that he had a duty to refrain from soliciting employees; however, he argues, there is no evidence that he did so. For the reasons set forth above, the Court has already determined that there are genuine issues of material fact with respect to whether defendant solicited or aided in soliciting any of the other employees to breach their own employment agreements. Accordingly, the Court finds that summary judgment in favor of defendant on this claim is not appropriate.

J. Conversion and Replevin

***7** Plaintiff next alleges that defendant has "appropriated Calence's confidential information without Calence's knowledge and consent, and without legal justification" and that defendant is "using and will use this information to harm Calence and benefit Defendants." (Dkt. # 127 at 23). Plaintiff apparently bases its claim against defendant on his possession of information he downloaded onto his Blackberry device. That information was subsequently returned to defendants' counsel in the course of litigation in this Court.

Defendant argues that a replevin claim cannot succeed because there is no evidence that he continues to possess any of plaintiff's property. In its response, plaintiff ignores that argument, and focuses only on the conversion claim. Therefore, the Court deems the replevin claim conceded, and turns to the conversion claim.

Conversion is the unjustified, willful interference with a chattel which deprives a person entitled to the property of possession. *Meyers Way Dev. Ltd. P'ship v. Univ. Sav. Bank,* 80 Wn.App. 655, 674-75(1996), *review denied,* 130 Wn.2d 1015 (1996). "The burden is on the plaintiff to establish ownership and a right to possession of the converted property.... [T]o maintain a conversion action, the plaintiff need only establish 'some property interest in the goods allegedly converted.' " *Id.* at 675 (citations omitted). Plaintiff's sole basis for its conversion claim against defendant appears to be the information downloaded onto defendant's Blackberry device, which was then allegedly downloaded onto defendant's work computer. Plaintiff argues that defendant willfully deprived it of its property during the time he was in possession of that information, and therefore he is liable for any damages that resulted.

Plaintiff fails to produce any evidence that it was not in full possession of the information contained on the Blackberry, even while defendant held it. Such lack of evidence is fatal to plaintiff's claim. Indeed, "an owner [cannot] state a claim for conversion when it retains originals or other copies of documents another improperly uses because the owner is not deprived of the beneficial use of the information." *Furash & Co., Inc. v. McClave,* 130 F.Supp.2d 48, 58 (D.D.C.2001) (citing *Pearson v. Dodd,* 410 F.2d 701, 706 (D.C.Cir.1969)). Accordingly, the Court finds that plaintiff's claims fails as a matter of law, and summary judgment in favor of defendant is appropriate.

K. Unjust Enrichment

Plaintiff next alleges that defendant's "actions have unjustly enriched Dimension, Falk, Abb and Dunlap at the expense of Calence." (Dkt. # 127 at 23). "Unjust enrichment occurs when one retains money or benefits which in justice and equity belong to another. The doctrine also applies to retention of property or benefits." *Bailie Communications v. Trend Business Sys.,* 61 Wn.App. 151, 160 (1991).

Defendant argues that plaintiff cannot show he was unjustly enriched, and, to the extent that he received a signing bonus from Dimension Data, he is entitled to such. In response, plaintiff has asserted in conclusory fashion that defendant was unjustly enriched because he received a signing bonus and his legal fees in this action are being paid for by Dimension Data. Plaintiff provides no authority for this assertion. Therefore, the Court finds no basis for an unjust enrichment claim against defendant. Accordingly, the Court agrees with defendant that summary judgment in his favor is appropriate.

L. Computer Fraud and Abuse Act

***8** Finally, plaintiff alleges that defendant violated two provisions of the Computer Fraud and Abuse Act-18 U.S.C. § 1030(a)(2)(C) and (a)(4). (Dkt. # 127 at 23-24). As an initial matter, the Court addresses the scope of the Computer Fraud and Abuse Act. Defendant suggests that this criminal statute was not intended to reach situations such as the instant one. While the Court acknowledges that federal courts around the country appear to be at odds as to the extent of the scope of civil claim under the statute, this Court has generally accepted the notion that Congress intended to encompass actions such as those allegedly taken by defendant. *Shurgard Storage Centers, Inc. v. Safeguard Self Storage, Inc.*. 119 F.Supp.2d 1121, 1127-29 (W.D.Wash.2000). The Court is aware of no binding authority to the contrary. Accordingly, the Court proceeds to an analysis of the allegations in this case.

Section 1030(a)(2)(C) punishes those who intentionally access a protected computer without authorization or in excess of his or her authorization, thereby obtaining information, if the conduct involves interstate or foreign communication. *See* 18 U.S.C. § 1030(a)(2)(C). Section (a)(4) punishes those who knowingly and with intent to defraud access a protected computer without authorization or in excess of his or her authorization, and by means of such conduct furthers the intended fraud. *See* 18 U.S.C. § 1030(a)(4). Plaintiff has failed to point to any specific evidence in the record demonstrating that defendant was unauthorized or exceeded his authorization when downloading information onto his Blackberry device. Accordingly, the Court finds summary judgment appropriate with respect to section 1030(a)(2)(C).

However, because questions of fact have been raised with respect to the confidentiality of the information retained on the Blackberry, the Court also finds that genuine questions of fact have been raised with respect to defendant's intent. Section (a)(4) is applicable only to those who access a protected computer with an intent to defraud, and whose acts further the fraud. Defendant has produced evidence that he retained only unprotected customer contacts on his Blackberry, and returned all other information. Whether any information retained was protected is a question for the jury, as explained above. Should the jury determine that defendant actually retained confidential or trade secret information, that fact may lend support to plaintiff's argument pertaining to intent under section (a)(4). Accordingly, the Court finds that summary judgment is not appropriate on this claim.

III. CONCLUSION

Having considered plaintiff's and defendant's motions for summary judgment, the briefs and evidence in support and opposition of those motions, and the remainder of the record, the Court hereby ORDERS:

(1) Defendant's Motion for Summary Judgment (Dkt.# 198) is GRANTED IN PART. For the reasons set forth above, the Court hereby DISMISSES plaintiff's claims for civil conspiracy, conversion and replevin, and unjust enrichment against defendant Jon Abb. The Court DISMISSES IN PART plaintiff's claim under the Computer Fraud and Abuse Act. All other claims against defendant Abb remain pending for resolution at trial

***9** (2) Plaintiff's Motion for Summary Judgment with respect to defendant Abb (Dkt.# 218) is DENIED for the reasons discussed above.

(3) The Clerk SHALL direct a copy of this Order to all counsel of record.

W.D.Wash.,2007.
Calence, LLC v. Dimension Data Holdings
Not Reported in F.Supp.2d, 2007 WL 1526349 (W.D.Wash.)

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This case was not selected for publication in the Federal Reporter.

Not for Publication in West's Federal Reporter See Fed. Rule of Appellate Procedure 32.1 generally governing citation of judicial decisions issued on or after Jan. 1, 2007. See also Fifth Circuit Rules 28.7, 47.5.3, 47.5.4. (Find CTA5 Rule 28 and Find CTA5 Rule 47)

United States Court of Appeals,
Fifth Circuit.
CARBO CERAMICS, INC., Plaintiff-Appellant,
v.
Terry P. KEEFE, Defendant-Appellee.

No. 04-20873.
Decided Jan. 26, 2006.

Background: Former employer brought action against its former employee, alleging claims for misappropriation of trade secrets, breach of confidentiality agreement, and breach of fiduciary duty. The United States District Court for the Southern District of Texas, following jury verdict in favor of employer, granted employee's motion for new trial. Employer appealed.

Holdings: The Court of Appeals, Reavley, Circuit Judge, held that:
(1) it would not defer to trial judge as against the jury, and would not affirm trial judge's order granting a new trial unless on review it was satisfied, independently, that the jury verdict was against the great weight of the evidence;
(2) jury finding that employee misappropriated trade secrets and failed to comply with confidentiality agreement was supported and not against the great weight of the evidence, and, thus, new trial on liability issues was not warranted;
(3) jury's $45,000 award of damages in favor of employer on its breach of contract claim was supported by evidence, and was not against great weight of the evidence, as would warrant a new trial;
(4) employer failed to present sound and reliable evidence from which jury could derive a dollar value for trade secrets misappropriated by employee, for purposes of calculating damages for misappropriation claim; and
(5) employer failed to present sufficient evidence from which jury could value its breach of fiduciary duty claim against former employee, for purposes of calculating damages.

Affirmed in part, reversed in part, and remanded.

West Headnotes

[1] Federal Courts 170B ⚷763.1

170B Federal Courts
170BVIII Courts of Appeals
170BVIII(K) Scope, Standards, and Extent
170BVIII(K)1 In General
170Bk763 Extent of Review Dependent on Nature of Decision Appealed from
170Bk763.1 k. In General. Most Cited Cases

Federal Courts 170B ⚷825.1

170B Federal Courts
170BVIII Courts of Appeals
170BVIII(K) Scope, Standards, and Extent
170BVIII(K)4 Discretion of Lower Court
170Bk825 New Trial or Rehearing
170Bk825.1 k. In General. Most Cited Cases

Court of Appeals would not defer to trial judge as against the jury, and would not affirm trial judge's order granting a new trial unless on review it was satisfied, independently, that the jury verdict was against the great weight of the evidence, where issues in the case were not overly-complicated, although evidence in the case was disputed, there were numerous areas of agreement between the parties, and, absent allegations that the case was improperly tried, or that counsel on either side made prejudicial statements, there was no "pernicious" event at trial.

[2] Federal Civil Procedure 170A 2342

170A Federal Civil Procedure
170AXVI New Trial
170AXVI(B) Grounds
170Ak2338 Verdict or Findings Contrary to Law or Evidence
170Ak2342 k. Tort Actions. Most Cited Cases

Jury finding that former employee misappropriated his former employer's trade secrets, and that he failed to comply with parties' confidentiality agreement was supported and not against the great weight of the evidence, and, thus, new trial on liability issues was not warranted, on employer's misappropriation and breach of confidentiality agreement claims against employee.

[3] Federal Civil Procedure 170A 2342

170A Federal Civil Procedure
170AXVI New Trial
170AXVI(B) Grounds
170Ak2338 Verdict or Findings Contrary to Law or Evidence
170Ak2342 k. Tort Actions. Most Cited Cases

Jury finding that former employer's patents did not reveal its trade secrets was supported and not against the great weight of the evidence, and, thus, new trial was not warranted on employer's misappropriation of trade secret claim against employee, although there was conflicting evidence, where employer's expert witnesses testified that patents alone did not reveal employer's manufacturing process.

[4] Federal Civil Procedure 170A 2342

170A Federal Civil Procedure
170AXVI New Trial
170AXVI(B) Grounds
170Ak2338 Verdict or Findings Contrary to Law or Evidence
170Ak2342 k. Tort Actions. Most Cited Cases

Evidence was sufficient for a reasonable jury to conclude that former employer had a trade secret in its business plans and strategies, including pricing for its products as well as detailed information regarding industry trends, customers, and customer preferences, and, thus, new trial was not warranted on employer's misappropriation of trade secret claim against employee.

[5] Federal Civil Procedure 170A 2342

170A Federal Civil Procedure
170AXVI New Trial
170AXVI(B) Grounds
170Ak2338 Verdict or Findings Contrary to Law or Evidence
170Ak2342 k. Tort Actions. Most Cited Cases

Evidence was sufficient for a reasonable jury to conclude that former employee commercially used his former employer's trade secrets, and, thus, new trial was not warranted on employer's misappropriation of trade secret claim against employee, where employee conceded that he used employer's information.

[6] Federal Civil Procedure 170A 2342

170A Federal Civil Procedure
170AXVI New Trial
170AXVI(B) Grounds
170Ak2338 Verdict or Findings Contrary to Law or Evidence
170Ak2342 k. Tort Actions. Most Cited Cases

Evidence was sufficient for a reasonable jury to conclude that former employee failed to prove that his actions were within scope of his privilege to prepare or make arrangements to compete with his former employer, and, thus, new trial was not warranted on employer's breach of fiduciary duty claim against employee, although there was conflicting evidence as to whether employee was a loyal and productive employee until his resignation, where there was also evidence that employee was not giving employer his undivided and unselfish loyalty beginning when he became unhappy with his work and had decided that it was "time to go."

[7] Labor and Employment 231H 139(3)

231H Labor and Employment
231HIII Rights and Duties of Employers and Employees in General
231Hk128 Actions by Employee Against Employer
231Hk139 Damages and Amount of Recovery
231Hk139(3) k. Amount. Most Cited Cases

Jury's $45,000 award of damages in favor of former employer and against former employee, on employer's breach of contract claim, was supported by evidence, and was not against great weight of the evidence, as would warrant a new trial, where evidence was sufficient for a reasonable jury to conclude that employer did not get use of employee's services during his last four months with employee, when employee only worked on his own project.

[8] Damages 115 188(2)

115 Damages
115IX Evidence
115k183 Weight and Sufficiency
115k188 Loss of or Damage to Property
115k188(2) k. Value of Property. Most Cited Cases

Former employer failed to present sound and reliable evidence from which jury could derive a dollar value for trade secrets misappropriated by former employee, for purposes of calculating damages, where employer's revenue projections and operating profits for employee's business enterprise, even if based on employee's own figures and estimations, were inadmissible, given that damage model based on speculative revenues and operating profit was itself inherently speculative.

[9] Labor and Employment 231H 139(6)

231H Labor and Employment
231HIII Rights and Duties of Employers and Employees in General
231Hk128 Actions by Employee Against Employer
231Hk139 Damages and Amount of Recovery
231Hk139(6) k. Evidence. Most Cited Cases

Former employer failed to present sufficient evidence from which jury could value its breach of fiduciary duty claim against former employee, for purposes of calculating damages, where employer presented no evidence of actual damages.

***716** Peter E. Strand, Shook, Hardy & Bacon, Washington, DC, Manuel Lopez, M. Scott Michelman, Shook, Hardy & Bacon, Houston, TX, for Plaintiff-Appellant.

Susan C. Stevenson, James J. McConn, Jr., Hays, McConn, Rice & Pickering, Houston, TX, for Defendant-Appellee.

Appeal from the United States District Court for the Southern District of Texas.

Before REAVLEY, DAVIS and WIENER, Circuit Judges.

REAVLEY, Circuit Judge: FN*

FN* Pursuant to 5TH CIR. R. 47.5, the Court has determined that this opinion should not be published and is not precedent except under the limited circumstances set forth in 5TH CIR. R. 47.5.4.

****1** The summary judgment denying Carbo recovery on its breach of fiduciary duty and misappropriation of trade secrets (tort) claims is affirmed, not because of lack of evidence to support those claims, but because of lack of legally recoverable actual damages. The award for breach of contract found by the jury is supported by the evidence and is reinstated. Without actual damages for the tort claims, no punitive damages could be recovered. Because the liability finding of the jury on Carbo's misappropriation claim is supported by the evidence, and there is a genuine issue of material fact as to Carbo's breach of fiduciary duty claim, Carbo may renew its claim for an injunction on remand.

A.

To uphold the award for breach of contract, we must overcome the order for a ***717** new trial. Our review of the evidence explains our rulings on both of the district court's orders.

We review a district court's decision to grant or deny a motion for new trial for abuse of discretion. *Shows v. Jamison Bedding, Inc.*, 671 F.2d 927, 930 (5th Cir.1982). "Where a motion for new trial is granted, we scrutinize the decision more closely." *Cates v. Creamer,* 431 F.3d 456, 460 (5th Cir.2005) (citation omitted). A district court may grant a new trial if the jury verdict was against the great weight of the evidence. *Shows*, 671 F.2d at 930. We review the evidence closely to ensure that this difficult standard has been met. *Id.* Three factors guide us-the simplicity of the issues, the extent to which the evidence is in dispute, and the absence of any pernicious or undesirable occurrence at trial. *Id.* When these three factors are not present it is more appropriate to affirm the district court's decision, recognizing its first-hand knowledge of the course of the trial. *Id.* However, "[w]hen all three factors are present, our deference to the jury is reinforced by our confidence in its ability to understand the issues, to evaluate credibility and sort through conflicting testimony, and to act reasonably and fairly in the absence of prejudicial influences." *Id.* at 931. Therefore, when the three factors are present, "there is little, if any, need to defer to the judge as against the jury, and we will not affirm an order granting a new trial unless on review we are satisfied, independently, that the jury verdict was against the great weight of the evidence." *Id.*

[1] We turn to whether the three *Shows* factors are present in this case. The issues in this case were not overly-complicated. While there was technical testimony regarding ceramic manufacturing and patents, nevertheless, technical testimony should not as a matter of law preclude a jury from being able to comprehend and address the issues in this case. *Cf. Spurlin v. General Motors Corp.*, 528 F.2d 612, 620-21 (5th Cir.1976) ("[j]uries are constantly being called upon to pass upon negligent design issues in products liability area, and the sometimes confusing amount and type of technical testimony ... should not as a matter of law have precluded the jury that heard the case from being able fully to comprehend ... [the] issues involved."). Further, although the evidence in this case was disputed, there were numerous areas of agreement between the parties. Finally, there were no allegations that the case was improperly tried, or that counsel on either side made prejudicial statements and, accordingly, there was no "pernicious" event at trial. The *Shows* factors are present and we need not defer to the judge as against the jury, and we will not affirm an order granting a new trial unless on review we are satisfied, independently, that the jury verdict was against the great weight of the evidence. *See Spurlin*, 528 F.2d at 621.

****2** [2] The evidence in the record satisfies us that the jury finding that Keefe misappropriated trade secrets and that he failed to comply with the confidentiality agreement were supported and not against the great weight, and that the damage award for breach of contract was supported. We therefore hold that the district court abused its discretion in granting a new trial on the *liability* issues for Carbo's misappropriation claim. Then we hold that the district court abused its discretion in granting a new trial on the *liability* and *damages* issue for Carbo's breach of contract claim. It follows that the record does not support summary judgment on Carbo's misappropriation and breach of contract claims. As for Carbo's breach of fiduciary duty claim, the jury was not instructed on the issue and was not asked to ***718** find that Keefe breached his fiduciary duty. Further, there was a genuine issue of material fact as to whether Keefe breached his fiduciary duty.

The holding of the district court on the absence of proof of trade secrets was critical to the district court's grant of new trial and summary judgment. We begin with Keefe's confidentiality agreement and the evidence of trade secret misappropriation.

In granting Keefe's motion for a new trial, the district court held that Carbo failed to identify what information it claimed to be confidential, other than the alleged trade secrets, which the district court found were not, in fact, trade secrets. The district court also held that the damage awards were not supported by the evidence.

The facts show that Keefe signed a confidentiality agreement with Standard Oil, Carbo's predecessor-in-interest. Carbo purchased the rights to the confidentiality agreement when it purchased the Alabama plant from Standard Oil. That agreement requires Keefe "not to disclose to others outside the Company, nor to use for yourself or for others any confidential information which you may originate or acquire while you are employed by the Company...." Confidential information is defined as:

> any technical, economic, financial, marketing or other information which is not common knowledge among competitors or other companies who may like to possess such confidential information or may find it useful. Some examples in our business might be items in research or development, scientific studies or analyses, details of training methods, new products or new uses for old products, refining technology, merchandising and selling techniques, customer lists, contracts and licenses, purchasing, accounting, business systems and computer programs, long-range planning, financial plans and results, etc. This is merely illustrative and confidential information is not limited to the illustrations.

Further, the confidentiality agreement provided:

> The Company wants you to use on your job all information which is generally known and used by persons of your training and experience and all information which is common knowledge in the industry but does not want you to disclose any confidential information belonging to any former employer which you are legally or ethically bound not to disclose.

****3** The rationale the district court provided in granting the new trial on the breach of contract claim was that Carbo failed to identify what information it claimed to be confidential, other than the alleged trade secrets, which the district court found were not, in fact, trade secrets. Thus, our analysis of this issue necessarily turns on whether the district court's determination that the great weight of the evidence showed that Carbo's alleged trade secrets are disclosed in three patents and that Carbo failed to show specific and identifiable trade secrets. Thus, we turn to the evidence relating to the existence of a trade secret.[FN1]

> FN1. At the outset, we note that a trade secret "is one of the most elusive and difficult concepts in the law to define." *Lear Siegler, Inc. v. Ark Ell Springs, Inc.*, 569 F.2d 286, 288 (5th Cir.1978). In many cases, the question of whether certain information constitutes a trade secret ordinarily is best "resolved by a fact finder after full presentation of evidence from each side." *Id.* at 289. The Texas Supreme Court has held that to determine whether there is a trade secret protected from disclosure or use, a court must examine six relevant but nonexclusive criteria: (1) the extent to which the information is known outside the business; (2) the extent to which it is known by employees and others involved in the business; (3) the extent of measures taken to safeguard the secrecy of the information; (4) the value of the information

to him and to his competitors; (5) the amount of effort or money expended in developing the information; and (6) the ease or difficulty with which the information could be properly acquired or duplicated by others. *In re Bass,* 113 S.W.3d 735, 739 (Tex.2003). The court further held that "the party claiming a trade secret should not be required to satisfy all six factors because trade secrets do not fit neatly into each factor every time." *Id.* at 740. Determining whether any given piece of information is entitled to trade secret protection, then, is a contextual inquiry, which must evaluate a number of factors.

***719** In its complaint Carbo alleged the following, among others,[FN2] to be trade secrets: (1) the unique combination of specifications, sequence, manufacturing steps, characteristics and components employed by Carbo in manufacturing high strength proppant (HSP) and developed by experimentation, trial and error over more than twenty years and (2) Carbo's business plans and strategies, including pricing, industry trends, customers and customer preferences, and current and historical financial data. We address the evidence supporting each alleged trade secret in turn.

FN2. Carbo alleged nine trade secrets in its second amended complaint. We need not analyze all of the alleged trade secrets as the jury was only required to find the existence of at least one trade secret to support its verdict.

[3] Carbo contends that its overarching trade secret is its proppant manufacturing process-the unique combination of specifications, manufacturing steps, characteristics and components employed by Carbo in manufacturing HSP and developed by experimentation, with trial and error over more than twenty years. The district court concluded that the greater weight of the evidence revealed that Carbo's manufacturing processes was in the public domain through patents. After reviewing the record, we conclude that there was conflicting evidence regarding whether the patents revealed Carbo's manufacturing process.

Dr. Richard Bradt, Carbo's expert witness, testified that the interrelationship of all the steps in Carbo's process is critical to achieving the product that Carbo desires.[FN3] Steve Canova, technical services development engineer at Carbo's McIntyre, Georgia plant, described Carbo's manufacturing process and testified that it is unique to Carbo. He further testified that "each of [Carbo's] steps has specifications associated with it, and we have to hit those specifications to have a sealable, good product."

FN3. We recognize that the district court *sua sponte* excluded Dr. Bradt's testimony in granting summary judgment. However, Dr. Bradt was permitted to testify at trial. Further, even without Dr. Bradt's testimony, there was sufficient evidence both on which the jury's decision could rest and to defeat summary judgment.

Canova and Dr. Bradt also testified that the patents provide only general information. Canova stated, "[t]he patents are really so broad there's not much more new information that I can use there." He also explained that there are thousand of possible combinations of set points contained within the patents. Dr. Bradt stated, "[t]he patents are very general and they give ranges for different aspects of production that the patents provide only general information."

There was testimony from Carbo that the two of the patents were insufficient to create a commercially-viable proppant. Canova testified that it was "highly unlikely" that someone would be able to make a commercially acceptable proppant based ***720** on the Seider patent. He also testified that "you could probably make a proppant" but it was "very unlikely" that you could make a commercially viable proppant from the Fitzgibbon patent. He continued that having Carbo's "know-how," in addition to the patents, would be helpful.

****4** Keefe testified that Carbo's alleged trade secrets were not in fact trade secrets. He testified that Carbo's manufacturing process is well known within the industry and revealed through the patents.

Given the existence of conflicting evidence from which a reasonable person might draw differing conclusions, it is clear that the jury could have concluded-and apparently did conclude-that the patents did not reveal Carbo's trade secrets. Therefore, the district court abused its discretion in granting a new trial on that basis.

[4] In granting the new trial, the district court did not specifically discuss Carbo's claim-that its business plans and strategies, including pricing for its products as well as detailed information regarding industry trends, customers and customer preferences developed by Carbo over many years, and current and historical financial data, were trade secrets.

Jesse Orsini and Mark Pearson provided testimony regarding Carbo's marketing and pricing strategy, including information about where Carbo prefers to try to price its products relative to its competitor. Carbo provided evidence about its business plans and customer relationships, in particular, relationships with the "service companies" who use the proppants on behalf of the ultimate customer. Carbo provided documentary evidence of its 2001 business plan that was marked "confidential" and a January 2001 performance report. Vitek testified that Carbo has significant financial information, including its production costs, research and development costs, and trend information, the usefulness of which extends much longer than the particular time period in which those costs are incurred, and further, specifically references the evidence cited in the business plan and performance report above. Vitek also testified that much of Carbo's business and financial information is not disclosed in its annual report.

On the other hand, there no is evidence that Keefe took any written materials with him when he resigned from Carbo. Keefe testified that Carbo's financial plans, pricing and projections are subject to market conditions and energy costs, time sensitive and would be obsolete from the time Keefe could open a plant. He further testified that pricing is well-known in the industry. The jury was not required to believe-and apparently did not believe-Keefe's self-interested testimony; but rather, believed Carbo's rendition of the facts.

Accordingly, there was abundant evidence for a reasonable jury to conclude that Carbo had a trade secret in its business plans and strategies, including pricing for its products as well as detailed information regarding industry trends, customers and customer preferences.

[5] In granting the new trial, the district court stated that Carbo did not produce evidence to show that Keefe has plans to use any of the alleged trade secrets. To prove an action for trade secret misappropriation, Carbo must establish that Keefe used or disclosed the trade secret in breach of a confidential or contractual relationship that it had with the plaintiff. *Hyde Corp. v. Huffines,* 158 Tex. 566, 314 S.W.2d 763, 769 (1958); *Trilogy Software v. Callidus Software,* 143 S.W.3d 452, 463 (Tex.App.-Austin 2004, pet. denied). " 'Use' of a trade secret means commercial use, by which a person seeks to profit from the use of the secret." ***721** *Trilogy Software,* 143 S.W.3d at 463 (citing *ForScan Corp. v. Dresser Indus.,* 789 S.W.2d 389, 395 (Tex.App.-Houston [14th Dist.] 1990, writ denied). Any misappropriation of trade secrets, followed by an exercise of control and domination, is considered a commercial use. *University Computing Co. v. Lykes-Youngstown Corp.,* 504 F.2d 518, 542 (5th Cir.1974); *Garth v. Staktek Corp.,* 876 S.W.2d 545, 548 (Tex.App.-Austin 1994, writ dism'd). "[C]ommercial use encompasses using a product design to procure financing for development of that product." *Garth,* 876 S.W.2d at 548. In *Garth,* the party charged with misappropriation of

trade secrets used the trade secret to complete a basic design for a competing device, consulted a patent attorney about protection of the competing device, and sought financing for the competing product from investors. The appellate court affirmed the trial court's holding that using a trade secret to design a competing product for which a patent application was then submitted comprised a "commercial use." The appellate court also held that using the product designed through use of the trade secret to procure financing for development of the product was a "commercial use" of the trade secret. *Id.*

****5** Keefe conceded that he used Carbo's information:

Q. So you will agree with me, won't you sir, that you took what you learned, both positive and negative, from your experience at Carbo and tried to put it in place here in the Keefe proppant plant, didn't you?

A. By your definition, yeah, I used my experience with Carbo and without Carbo and put in there.

Q. What you learned at Carbo, good and bad?

A. Sure.

Further, there was testimony and documentary evidence that Keefe used Carbo's financial information in his own financial estimates. While Keefe testified that the numbers he used were only a "wild ... guess," the evidence showed similarities between Keefe's projections and Carbo's financial numbers, at least one projection being the same as Carbo's. Carbo's damage expert, Brian Benoit, testified that certain items in Keefe's financial plans "were the same types of analyses and line items that were included in the Carbo plan" and that Keefe's projections were "very well done and, in some respects, very similar to the Carbo plan." He also stated that he was not aware of any public source for the information found in Keefe's projections. In addition, Keefe's brochures specifically included Carbo's prices. Keefe admitted that he copied Carbo's pricing information verbatim, specifically referred to Carbo's McIntyre facility by name in his pricing sheets, and when asked what research he did other than look at Carbo's information, he testified "that's about it." Accordingly, we cannot conclude, as the district court did, that Carbo produced no evidence showing that Keefe has plans to use Carbo's alleged trade secrets.

[6] In granting the new trial on the breach of fiduciary duty claim, the district court held that the jury's finding that Keefe failed to prove that his actions between January 7, 2001, and May 7, 2001, were within the scope of his privilege to prepare or make arrangements to compete with Carbo is against the great weight of the evidence. The district court held that all of the evidence showed that Keefe did nothing more than make reasonable preparations or arrangements to compete with Carbo prior to leaving its employment. The district court further held that the great weight of the evidence is that Keefe was a loyal and productive employee of ***722** Carbo until his resignation on May 7, 2001. After a careful review of the record, there was conflicting evidence as to whether Keefe was a loyal and productive employee of Carbo. There is no dispute that Keefe, as an officer of Carbo, owed Carbo a fiduciary duty. In fact, Keefe admitted that he owed Carbo a duty of undivided and unselfish loyalty. There was evidence that would allow a reasonable jury to conclude that Keefe was not giving Carbo his undivided and unselfish loyalty beginning in January 2001, when he was unhappy with his work and had decided that it was "time to go," until May 2001, when he eventually resigned. The evidence supporting Keefe's misappropriation of trade secrets is set forth above and is sufficient to defeat Carbo's motion for summary judgment as to the breach of fiduciary duty liability issue. However, the jury was not instructed on the issue and was not asked to find that Keefe breached his fiduciary duty.

B.

****6** [7] In granting the new trial on Carbo's breach of contract claim, the district court held that the $45,000 award for breach of contract did not come from the damage evidence offered. Paul Vitek, Carbo's Senior Vice President of Finance and Administration, testified that Carbo wanted to be reimbursed for the compensation that Keefe took from Carbo while he was, in fact, working for himself during his last four months of employment. The evidence showed that Carbo paid Keefe $45,000 as his base salary during those four months. The district court held that the $45,000 award was against the great weight of the evidence because it presumes Keefe did not work for Carbo during those four months, but only worked on his project.

Carbo contends that the jury could have easily found, and apparently did find, that Carbo did not get the use of Keefe's services during his last four months at Carbo. Carbo also argues that the jury could have used Keefe's salary as a way to estimate all of the lost employee time that Keefe's evidence-gathering cost Carbo, including time Carbo spent learning about Keefe's evidence-gathering after he left. We agree and hold that the jury's damage award is supported by and was within the range of the evidence presented.

C.

Next we come to the problem of damages for the misappropriation of trade secrets and breach of fiduciary relations.

In an action for trade secret misappropriation, the plaintiff can recover actual damages based on the value of what has been lost by the plaintiff or the value of what has been gained by the defendant. *University Computing Co. v. Lykes-Youngstown Corp.,* 504 F.2d 518, 535-36 (5th Cir.1974) (applying Georgia law).FN4

FN4. While *University Computing* was a decision under the Georgia law of trade secrets, Georgia, like Texas, bases its law of trade secrets on the Restatement of Torts § 757 (1939). In addition, at least one Texas appellate court has relied on *University Computing. See Garth v. Staktek Corp.,* 876 S.W.2d 545, 548 (Tex.App.-Austin 1994, writ dism'd w.o.j.) .

The value of what has been lost by the plaintiff is usually measured by lost profits. *Jackson v. Fontaine's Clinics, Inc.,* 499 S.W.2d 87, 89-90 (Tex.1973); *Elcor Chem. Corp. v. Agri-Sul, Inc.,* 494 S.W.2d 204, 214 (Tex.App.-Dallas 1973, writ ref'd n.r.e.). To recover lost profits, a party must introduce "objective facts, figures, or data from which the amount of lost profits can be ascertained." *Holt Atherton Indus., Inc. v. Heine,* 835 S.W.2d 80, 84 (Tex.1992) (citations omitted).

***723** The value of what the defendant has gained as a result of the misappropriation can be measured by a number of methods. First, the plaintiff can seek damages measured by the defendant's actual profits resulting from the use or disclosure of the trade secret (unjust enrichment). *Elcor Chem. Corp.,* 494 S.W.2d at 214; *University Computing,* 504 F.2d at 536 (defendant's profits may be appropriate measure of damages when defendant used trade secrets to improve manufactured items sold for profit). Second, the plaintiff can seek damages measured by the value that a reasonably prudent investor would have paid for the trade secret. *Precision Plating & Metal Finishing Inc. v. Martin Marietta Corp.,* 435 F.2d 1262, 1263-64 (5th Cir.1970). Third, the plaintiff can seek damages measured by the costs saved by the defendant. *University Computing,* 504 F.2d at 538-39. This is typically shown through saved development costs. *See, e.g., Bourns, Inc. v. Raychem Corp.,* 331 F.3d 704, 709-10 (9th Cir.2003) (affirming award of $9 million, measured by three years' saved time at a "burn rate" of $3 million per year).

****7** Finally, the plaintiff can seek damages measured by a "reasonable royalty." *Elcor Chem. Corp.,* 494 S.W.2d at 214; *Metallurgical Indus., Inc. v. Fourtek, Inc.,* 790 F.2d 1195, 1208 (5th

Cir.1986); *University Computing,* 504 F.2d at 536-39. The royalty is calculated based on what a willing buyer and seller would settle on as the value of the trade secret. *Metallurgical Indus.,* 790 F.2d at 1208; *University Computing,* 504 F.2d at 539.

In *University Computing,* this court recognized that a reasonable royalty method provides a means of measuring the benefit to the defendant, which is the appropriate measure of damages where the secret has not been destroyed, where the plaintiff is unable to prove specific injury, and where the defendant has gained no actual profits by which to value the worth to the defendant of what it misappropriated. 504 F.2d at 536. In calculating what a reasonable royalty would have been had the parties agreed, the trier of fact should consider the following factors: (1) the resulting and foreseeable changes in the parties' competitive posture; (2) prices paid by licensees in the past; (3) the total value of the secret to the plaintiff, including the plaintiff's development cost and the importance of the secret to the plaintiff's business; (4) the nature and extent of the use the defendant intended for the secret; and (5) whatever other unique factors in the particular case might have been affected by the parties' agreement, such as the ready availability of alternative process. *Metallurgical Indus.,* 790 F.2d at 1208.

The only evidence regarding damages for misappropriation came from Brian Benoit, Carbo's damage expert witness. Benoit is the managing director of Houston's Standard and Poor's office. Benoit was asked to analyze Carbo's manufacturing trade secrets and provide his opinion as to their value to Keefe, not to Carbo. He stated that the appropriate approach is to look at the profit of the overall misappropriating business and then determine what portion of that overall profit ought to be given to the owner of the trade secret. He engaged in the "profit-split method" where a portion of the profit is split between a company that is going to use the trade secrets (Keefe) and the company that actually owns the trade secrets (Carbo). Benoit first examined the revenue projections that Keefe put together for his proposed plant over a ten year period. He tested Keefe's proposed projections for accuracy and then compared them to Blumberg Financial Resources data, which includes industry revenue, costs, and profit. He also compared Keefe's plan to Carbo's business plan. He analyzed Keefe's business plan ***724** and determined what the revenue, cost, and profit would be.

Keefe's business plan was for ten years and Benoit assumed that the trade secrets would have benefit to Keefe for the ten years. He stated that he looked at texts and found that the value of the trade secrets can be as long as the product's life. He stated that Keefe's product is going to last for more than ten years. He also spoke with a number of management directors around the United States with Standard and Poor's and asked them if ten years seemed reasonable; they agreed that ten years seemed liked a reasonable useful life of a trade secret.

****8** He then determined the portion of the profits from Keefe's business plan that would be attributable to Carbo's trade secrets. He applied the Goldscheider Rule, which states that approximately 25 percent of gross profit should be attributable to intangible assets, in this case, the manufacturing trade secrets of Carbo. Benoit stated that he analyzed the historical performance of Carbo and looked at what portion of Carbo's business comes from intangible assets and determined that 90 percent of Carbo's value comes from its intangible assets. He noted that 25 percent would be a reasonable percentage of profit for Keefe to share with Carbo for the use of its trade secrets. He concluded that Keefe would improve the process each and every year and therefore reduced that 25 percent profit split every year by 2 1/2 percent.

Based on Keefe's projected revenues over ten years of $238,500,000, Benoit calculated that Keefe's operating profit would be $95,961,000. He then applied 25 percent as the percentage of profit allocated to Carbo's trade secrets for the first year and then decreased the percentage of profit 2 1/2 percent for each of the next nine years. The total profit attributable to Carbo's trade secrets was $9,308,614. He then discounted this number to the present value of $3,900,000.

[8] While Carbo's damage theory, by and through the expert testimony of Benoit, does not fit within any of the damage theories outlined above, we recognize that plaintiffs are entitled to adapt their damage theory to fit within the particular facts of the case. However, the fundamental problem with Carbo's theory of damages, as we see it, is the starting point-Keefe's projected revenues. It is undisputed that Keefe has neither built a plant nor produced a product. Hence, any damage model based on speculative revenues and operating profit from an unbuilt plant, is in an of itself, inherently speculative. *Metallurgical Indus.*, 790 F.2d at 1208 (the value of trade secrets should not "be based on sheer speculation"). We could find no case that permits a theory of damages that values a trade secret, based in part, on ten years of operating profits of a nonexistent plant.

In our opinion, Keefe's financial predictions, all of which serve as the foundation for Carbo's damage theory, are simply too speculative. Carbo's revenue projections and operating profits for Keefe's business enterprise, even if based on Keefe's own figures and estimations, are inadmissible because they are speculative projections based on "uncertain or changing market conditions, or on chancy business opportunities, or on promotion of untested products or entry into an unknown or unviable market, or on the success of a new and unproven enterprise." *Texas Instruments v. Teletron Energy Mgt.*, 877 S.W.2d 276, 279 (Tex.1994).

There is no sound and reliable evidence from which to derive a dollar value for the alleged trade secrets. We have no evidence of lost profits suffered by Carbo, no ***725** evidence of actual sales enjoyed by Keefe, no evidence of development costs saved by Keefe, no evidence as to what a reasonably prudent investor would have paid for the alleged trade secrets, and no evidence of a reasonable royalty for the alleged trade secrets. A plaintiff must introduce evidence "by which the jury can value the rights the defendant has obtained." *University Computing*, 504 F.2d at 545. Carbo has not met its burden in this respect. Because Carbo has failed to meet its burden of presenting sufficient evidence demonstrating a triable issue of material fact as to actual damages recoverable under its trade secret misappropriation claim, we affirm the district court's grant of summary judgment as to that claim.

****9** We turn to damages for breach of fiduciary duty. Carbo could recover actual damages for economic injuries that result from a breach of fiduciary duty. *See, e.g., Kahn v. Seely*, 980 S.W.2d 794, 799 (Tex.App.-San Antonio 1998, pet. denied) (lost profits).

[9] The damage evidence in this case consists of (1) Benoit's testimony relating to the value of Carbo's trade secrets to Keefe and (2) the $45,000 in salary that Carbo paid Keefe for his last four months of employment. As explained above, Benoit's testimony is speculative and cannot serve as a basis for valuing a trade secret. And as explained, Carbo is entitled to the $45,000 jury award on its breach of contract claim, which is based on the $45,000 in compensation that Keefe received during the last four months of employment. Carbo cannot recover duplicative damages on its breach of contract and breach of fiduciary duty theories. *Atkinson v. Anadarko Bank & Trust Co.*, 808 F.2d 438, 441 (5th Cir.1987) (a party "cannot recover the same damages twice, even though the recovery is based on two different theories"). Therefore, Carbo has presented no evidence of actual damages for its breach of fiduciary duty claim. Because Carbo has failed to meet its burden of presenting sufficient evidence demonstrating a triable issue of material fact as to actual damages recoverable under its breach of fiduciary duty claim, we affirm the district court's grant of summary judgment as to that claim.

While Carbo has failed to present a triable issue of material fact as to actual damages recoverable under its trade secret misappropriation and breach of fiduciary duty claims, we note that Carbo might be entitled to a permanent injunction, which it has requested. *Hyde Corp. v. Huffines,* 158 Tex. 566, 314 S.W.2d 763, 780 (Tex.1958); *DSC Comm. Corp. v. Next Level Comm. Corp.,* 107 F.3d 322, 328 (5th Cir.1997). We leave it for the district court to decide on remand whether Carbo is entitled to an injunction.

D.

The summary judgment for Keefe on the tort claims is affirmed because of the lack of evidence of recoverable actual damages. The summary judgment for Keefe on the breach of contract claim is reversed and the jury award is to be reinstated. Because the liability verdict on the misappropriation of trade secrets withstands the erroneous grant of new trial and summary judgment, and there is a genuine issue of material fact as to Carbo's breach of fiduciary duty claim, Carbo is entitled to renew its motion for an injunction on remand.

JUDGMENT AFFIRMED IN PART; REVERSED IN PART; AND CASE REMANDED WITH INSTRUCTIONS.

C.A.5 (Tex.),2006.
Carbo Ceramics, Inc. v. Keefe
166 Fed.Appx. 714, 2006 WL 197340 (C.A.5 (Tex.))

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United States District Court, W.D. Washington, at Seattle.
FMC TECHNOLOGIES, INC., and FMC Foodtech, Inc., successors-in-interest to Design Systems, Inc. and Stein, Inc., d/b/a Stein-DSI, Plaintiffs,
v.
James EDWARDS and Processing Equipment Solutions, Inc., Defendants.

No. C05-946C.
June 12, 2007.

Elizabeth Rose Butler Kennar, Lawrence Carl Locker, Ralph H. Palumbo, Philip S. McCune, Summit Law Group, Seattle, WA, for Plaintiffs.

Angelo J. Calfo, C. Seth Wilkinson, Jordan Gross, Lyle A. Tenpenny, Yarmuth Wilsdon Calfo, Seattle, WA, for Defendants.

ORDER
JOHN C. COUGHENOUR, United States District Judge.

***1** This matter comes before the Court on Defendants' Motion for Partial Summary Judgment regarding Reliance (Dkt. No. 222), Defendants' Motion for Partial Summary Judgment regarding Breach of Settlement (Dkt. No. 223), and Plaintiffs' Motion for Sanctions (Dkt. No. 229). Having considered the papers submitted by the parties on these motions and finding oral argument unnecessary, the Court finds and rules as follows.

I. BACKGROUND

The facts of this case are summarized in various Orders of this Court. *(See, e.g.,* Orders (Dkt.Nos.7, 42, 109, 113, 188, 197, 203).) Plaintiffs now seek relief from their settlement of a prior trade-secret lawsuit ("FMC I") based on claims that the defendants in that state court suit fraudulently induced the settlement. Plaintiffs additionally seek damages for Defendants' alleged breach of the settlement. At issue here are (1) whether Defendants are entitled to summary judgment on Plaintiffs' fraud-related causes of action (hereinafter "fraud claim"), particularly on the issue of reliance, (2) whether Defendants are entitled to summary judgment on various issues of breach, and (3) whether Plaintiffs are entitled to judgment as a sanction for alleged discovery abuses by Defendants in this litigation.

Plaintiffs' Third Amended Complaint (Dkt. No. 206) contains three counts. Count One seeks to affirm the Settlement Agreement and seeks relief for fraud, conversion, unjust enrichment, and breach. Specifically, Count One alleges common law fraudulent misrepresentation (First Cause of Action), common law fraudulent statement of intent (Second Cause of Action), unjust enrichment and constructive trust (Third Cause of Action), reformation of contract based on fraud (Fourth Cause of Action), breach of settlement agreement's implied covenant of good faith and fair dealing (Fifth Cause of Action), breach of settlement agreement by premature design of portioner (Sixth Cause of Action), additional breaches (Seventh Cause of Action), unfair competition (Eighth Cause of Action), and breach of settlement by failure to cooperate (Ninth Cause of Action). Count Two is pled in the alternative to Count One, and seeks rescission of the settlement (First Cause of Action) and reinstatement of Plaintiffs' five settled causes of action in FMC I (Second through Sixth Causes of Action). In Count Three, Plaintiffs seek a declaration that Defendants may not assert the testimonial privilege as a bar to Plaintiffs' claims. The Court has already granted the relief sought in Count Three. (November 27, 2006 Order (Dkt. No. 197).) Thus, Counts One and Two are at issue on the instant motions. Defendants' motion for summary judgment regarding reliance seeks to have Count One's First, Third, and Fourth Causes of Action, as well as the entirety of Count Two, dismissed. Defendants' motion for summary judgment regarding breach seeks to have Count One's Fifth, Sixth, and Ninth Causes of Action dismissed. Count One's Second, Seventh, and Eighth Causes of Action are not at issue here.

II. LEGAL STANDARDS

***2** Rule 56 of the Federal Rules of Civil Procedure governs summary judgment motions, and provides in relevant part, that "[t]he judgment sought shall be rendered forthwith if the pleadings, depositions, answers to interrogatories, and admissions on file, together with the affidavits, if any, show that there is no genuine issue as to any material fact and that the moving party is entitled to a judgment as a matter of law." FED.R.CIV.P. 56(c). In determining whether an issue of fact exists, the Court must view all evidence in the light most favorable to the nonmoving party and draw all reasonable inferences in that party's favor. *Anderson v. Liberty Lobby, Inc.*, 477 U.S. 242, 248-50, 106 S.Ct. 2505, 91 L.Ed.2d 202 (1986); *Bagdadi v. Nazar*, 84 F.3d 1194, 1197 (9th Cir.1996). A genuine issue of material fact exists where there is sufficient evidence for a reasonable factfinder to find for the nonmoving party. *Anderson*, 477 U.S. at 248. The inquiry is "whether the evidence presents a sufficient disagreement to require submission to a jury or whether it is so one-sided that one party must prevail as a matter of law." *Id.* at 251-52.

Motions for sanctions seeking dispositive relief, like other motions for sanctions, are governed by Federal Rule of Civil Procedure 37.

III. ANALYSIS

A. Reliance

The Court has already noted that under Washington contract law, "a release is voidable if induced by fraud, misrepresentation or overreaching or if there is clear and convincing evidence of mutual mistake." *Nationwide Mut. Fire Ins. Co. v. Watson*, 120 Wash.2d 178, 840 P.2d 851, 856 (Wash.1992). The nine elements of fraud are: (1) representation of an existing fact; (2) its materiality; (3) its falsity; (4) the speaker's knowledge of its falsity or ignorance of its truth; (5) the speaker's intent that it should be acted on by the person to whom it is made; (6) ignorance of its falsity on the part of the person to whom it is made; (7) the person's reliance on the truth of the representation; (8) the person's right to rely upon it; and (9) the person's consequent damage. *Sigman v. Stevens-Norton, Inc.*, 70 Wash.2d 915, 425 P.2d 891, 895 (Wash.1967). At issue here are the particular elements involving reliance. Specifically, this Court must determine whether, as a matter of law, the no-reliance language in the parties' settlement contract precludes Plaintiffs' fraud claim. If not, Defendants assert that Washington law would preclude the claim in any event because the alleged fraud goes to statements at the "heart" of the original litigation between the parties and Plaintiffs were not entitled to rely thereon .[FN1] Alternatively, if Plaintiffs' reliance is not barred as a matter of law, Defendants argue that Plaintiffs cannot prove reasonable reliance as a factual matter.

> FN1. This alternative argument stems from *Mergens v. Dreyfoos*, 166 F.3d 1114 (11th Cir.1999). In ruling on Defendants' motion to dismiss for failure to state a claim, the Court declined to rule on the fact-intensive question of whether the *Mergens* rule governs in the instant case, finding the issue best left to resolution on summary judgment. (December 8, 2005 Order (Dkt. No. 42).)

The parties' Settlement Agreement contains a merger/integration clause, which provides:

Full Integration/Amendments in Writing. This Agreement is the entire agreement between the Parties relating to the subject matter discussed above, and replaces any and all prior negotiations, representations, or agreements between the Parties, whether oral, electronic, or written, regardless of subject matter, all of which are merged herein. *The parties acknowledge that they have not relied on any promise, representation,* *or warranty, express or implied, not contained in this Agreement.* No amendment, modification, or supplement to this Agreement shall be effective unless it is in writing and signed by all Parties.

***3** (Settlement Agreement and Release of Claims ¶ 6.9 (emphasis added).) Defendants argue that the second sentence, emphasized above, precludes Plaintiffs' fraud claim as a matter of law. Plaintiffs counter that the foregoing "no-reliance" language is not preclusive, because (1) it is embedded within the integration clause and is merely a continuation of the first sentence of that clause, which appears in a "Miscellaneous" section near the end of the contract, and (2) in any event, this single "boilerplate" sentence is not specific enough to bar a fraud claim.

As with other issues of state law in this litigation, the Court again notes that, while Washington's highest court has not reached the precise question of whether a no-reliance clause embedded in a merger clause serves to bar a subsequent fraudulent inducement claim in the context of a litigation settlement, there exists thoroughly sufficient guidance as to how this Court should approach this issue in the instant case. The Ninth Circuit has held that "[w]hen interpreting state law, federal courts are bound by decisions of the state's highest court." *Nelson v. City of Irvine,* 143 F.3d 1196, 1206 (9th Cir.1998). "In the absence of such a decision, a federal court must predict how the highest state court would decide the issue using intermediate appellate court decisions, decisions from other jurisdictions, statutes, treatises, and restatements as guidance." *Id.* Further, "where there is no convincing evidence that the state supreme court would decide differently, a federal court is obligated to follow the decisions of the state's intermediate appellate courts." *Id.* at 1206-07; *see also Assurance Co. of Am. v. Wall & Assocs. LLC of Olympia,* 379 F.3d 557, 560 (9th Cir.2004). This Court finds guidance from Washington courts as well as from other jurisdictions.

Washington courts "follow the objective manifestation theory of contracts, looking for the parties' intent by its objective manifestations rather than the parties' unexpressed subjective intent." *Paradiso v. Drake,* 135 Wash.App. 329, 143 P.3d 859, 862 (Wash.Ct.App.2006) (citations to Supreme Court of Washington omitted). Accordingly, under Washington law, this Court should "consider only what the parties wrote, giving words in a contract their ordinary, usual, and popular meaning unless the agreement, as a whole, clearly demonstrates a contrary intent." *Id.* Washington courts "do not interpret what was intended to be written but what was written." *Hearst Commc'ns, Inc. v. Seattle Times Co.,* 154 Wash.2d 493, 115 P.3d 262, 267 (Wash.2005). Moreover, it has long been the rule that "in construing a written instrument, that construction will be favored which gives effect to all provisions of the instrument as against one which renders some of them meaningless or ineffective." *Wenatchee Production Credit Ass'n v. Pacific Fruit & Produce Co.,* 199 Wash. 651, 92 P.2d 883, 886 (Wash.1939). Thus, without a compelling rule of counter-construction, there is no reason to find that, when a contract says that the "parties acknowledge that they have not relied on any promise, representation, or warranty, express or implied, not contained in this Agreement," a Washington court would decline to enforce that provision as written.

***4** It is undisputed that there is a significant difference between integration clauses and no-reliance clauses in contracts. The general rule regarding the effect of an integration clause on subsequent fraud claims begins with the purpose of an integration clause. "[A]n integration clause prevents a party to a contract from basing a claim of breach ... on agreements or understandings, whether oral or written" that were part of negotiations but which never were written into the contract itself. *Vigortone AG Prods., Inc. v. PM AG Prods., Inc.,* 316 F.3d 641, 644 (7th Cir.2003). Thus, an integration clause is a function of the parol evidence rule. However, "fraud is a tort, and the parol evidence rule is not a doctrine of tort law and so an integration clause does not bar a claim of fraud based on statements not contained in the contract." *Id.* "[A]ll an integration clause does is limit the evidence available to the parties should a dispute arise over the meaning of the contract. It has nothing to do with whether the contract was induced ... by fraud." *Id.* In contrast, "parties to contracts who do want to head off the possibility of a fraud suit will sometimes insert a 'no-reliance' clause into their contract, stating that neither party has relied on any representations made by the other." *Id.* An integration clause that contains no reference to reliance is nothing more than an integration clause. *Id.* at 645.

The first significant point of contention between the parties to this litigation is whether a "no-reliance" clause may be embedded in an integration clause, yet function in the same way as if it were separately set forth elsewhere in the contract. The Court of Appeals of Washington has strongly suggested that no-reliance language is just as effective within an integration clause as it is set forth in a separate clause. In *Helenius v. Chelius,* 131 Wash.App. 421, 120 P.3d 954, 963-66 (Wash.Ct.App.2005), that court specifically addressed a litigant's claim that an integration clause functioned as a "non-reliance" clause as well. In *Helenius,* the parties' Stock Purchase Agreement contained an integration clause entitled "Complete Agreement," which did *not* "explicitly address 'reliance' " or "explicitly limit a party's reliance on the other party's representations." *Id.* at 964. Citing, *inter alia, Vigortone's* discussion of the general rule that an integration clause, alone, does not preclude a fraud claim, the *Helenius* court found that the integration clause in that case did not prevent a subsequent fraud claim. 120 P.3d at 965-66 & n. 27. In so holding, the *Helenius* court emphasized the absence of any "reliance" language in the integration clause before it. *Id.* at 965-66.

Helenius is significant to the instant analysis for two reasons. First, by pointing out the absence of "reliance" language in the integration clause, the Court of Appeals of Washington acknowledged the possibility of meaningful and binding "reliance" language *within* integration clauses. Though it found none in the case before it, it follows from the *Helenius* court's inquiry into whether the integration clause contained "reliance" language that the *Helenius* court would have at least considered a different result if the integration clause *had* contained such language. Second, as the parties have discussed at length in their briefing, there are important differences between securities fraud cases and other contract disputes. In *Stewart v. Estate of Steiner,* 122 Wash.App. 258, 93 P.3d 919, 927 (Wash.Ct.App.2004), the Court of Appeals of Washington found that "the fact that one signs a non-reliance provision in a subscription agreement is not necessarily dispositive ." Instead, a determination of "reasonable reliance" must take into account a number of contextual factors. *Id.* (adopting and applying the multi-factor test of *Jackvony v. RIHT Fin. Corp.,* 873 F.2d 411 (1 st Cir.1989)). This conclusion flowed from the Court of Appeals' acknowledgment that the Supreme Court of Washington requires that "our state securities laws are to be interpreted liberally to achieve the desired effect of protecting investors." *Id.* Because *Helenius* was a securities case where *Stewart* controlled, it is remarkable that the Court of Appeals of Washington contemplated whether the integration clause in *Helenius* contained "reliance" language. If a securities purchaser could be bound by "reliance" language in an integration clause, surely contracting parties receiving less protection from the courts could be so bound as well. Given that the consumer protection gloss on *Helenius* is not present in the instant case, this Court is further persuaded that Washington courts would give effect to no-reliance language embedded in integration clauses in all varieties of contracts, including the one at issue here.

***5** In the Ninth Circuit too, no-reliance clauses have been held to prevent reliance as a matter of law. In *Bank of the West v. Valley Nat'l Bank of Ariz.,* 41 F.3d 471, 477-78 (9th Cir.1994) (applying California law), the Ninth Circuit held that the "plain and strong words" of a no-reliance clause in a banking contract precluded a fraud claim as a matter of law, because any reliance could not be "justifiable" in light of the no-reliance clause. In *Paracor Finance, Inc. v. General Electric Capital Corp.,* 96 F.3d 1151, 1155, 1159-60 (9th Cir.1996) (applying federal law), the Ninth Circuit relied on *Bank of the West* when it found that a securities contract's no-reliance clause, which stated that investment decisions were made "without relying on any other Person," "goes far to defeat [one party's] present claims that [it] did precisely the opposite and relied on [the opposing party]."

Moreover, the *Vigortone* court explained that "[s]ince reliance is an element of fraud, the [no-reliance] clause, if upheld-and why should it not be upheld, at least when the contract is between sophisticated commercial enterprises-precludes a fraud suit." 316 F.3d at 645. Given the obviousness of the sophistication of the parties to the instant dispute-and their legal counsel-the Court need not belabor this point. However, it is significant that the settlement contract itself speaks to sophistication:

> *Interpretation. Each Party has read and understood all parts of this Agreement and has had the benefit of counsel in negotiating the terms appearing herein.* Accordingly, no rule of contract interpretation that runs against the drafte[r] shall be applied in any subsequent dispute over the terms and conditions contained in this Agreement. To the contrary, this agreement shall be deemed drafted by all Parties jointly.

(Settlement Agreement and Release of Claims ¶ 6.7 (emphasis added).) This Settlement Agreement is far from an adhesion contract. Each term was negotiated with the benefit of counsel. In light of this sophistication and the lack of any rules of construction suggesting that a contract term carries less weight toward the back of an agreement, that a term is less binding if it appears in a part of an agreement denoted "Miscellaneous," or that the plain language of a term can be changed by the paragraph heading under which it falls, the Court finds no reason to deem as surplusage the "no-reliance" language in the Settlement Agreement here. The text of the agreement confirms that the parties negotiated, with the benefit of counsel, the following term: "The parties acknowledge that they have not relied on any promise, representation, or warranty, express or implied, not contained in this Agreement."

Nevertheless, Plaintiffs argue that this single sentence is insufficiently specific to bar their claim for fraud. Plaintiffs rely on a few cases from other jurisdictions for this proposition. For example, in *Manufacturers Hanover Trust Co. v. Yanakas,* 7 F.3d 310, 316-18 (2d Cir.1993) (applying New York law), the Second Circuit acknowledged the general rule that integration clauses do not bar fraud claims and that no-reliance clauses generally do bar such claims, before limiting the latter to situations involving specific, non-"boilerplate" no-reliance clauses negotiated between sophisticated parties. In *Yanakas,* the court found that there was no evidence that the parties had negotiated a preprinted "boilerplate" exclusion, and accordingly the court reinstated a previously dismissed fraud claim. *Id.* at 317. Not only is *Yanakas* distinguishable from the instant case because the parties here are sophisticated and did not use a standard preprinted contract form, *Yanakas's* "specificity" discussion has also been discredited and "applied inconsistently." *MBIA Ins. Corp. v. Royal Indem. Co.,* 426 F.3d 204, 216-17 (3d Cir.2005) (discussing *Valley Nat'l Bank v. Greenwich Ins. Co.,* 254 F.Supp.2d 448, 459 (S.D.N.Y.2003), which distinguished *Yanakas* as "striving to protect the party who had not originally drafted the disclaimer and who might have less sophistication"). In discussing the New York line of cases, and ultimately in declining to apply them to the case before it (involving the enforceability of a waiver), the *MBIA* court [FN2] emphasized how inefficient it would be for negotiators to identify each and every material issue that is "not a part of the foundation of their relationship, and to list them in a contractual schedule." *Id.* at 216. The *MBIA* court also discussed "obvious risks" of fraud and found it "unimaginable" that a party with the "experience and knowledge" of the party subsequently claiming fraud "would not have realized it was assuming that risk when it agreed to [no-reliance] language." *Id* . at 217. Ultimately, the *MBIA* court was unconvinced that specificity was required and rejected the argument that specificity was more important than clarity:

> FN2. While *MBIA's* task was to predict whether Delaware's high court would enforce certain contractual language, and the contract at issue here precludes application of Delaware law, the Court finds nothing in the analysis in *MBIA* peculiar to Delaware law that would conflict with Washington law. Indeed, the *MBIA* court relied heavily on other jurisdictions because the question was unsettled in Delaware.

> ***6** The lack of specificity in [the] waivers does not make them any less clear.... "[A] method of identification does not become unclear simply because it is terse." This is all the more true when the method of identification is hammered out by sophisticated parties aided by consummate legal professionals, who can be expected to anticipate the subjects it will identify.
>
> ....
>
> Given the potential for misrepresentation from each side of the agreement, the safer route is to leave parties that can protect themselves to their own devices, enforcing the agreement they actually fashion.

Id. at 218 (internal citations omitted).

This Court is persuaded by the foregoing logic and unconvinced by Plaintiffs' argument that the parties' "no-reliance" clause required more specificity to be enforceable. Likewise, Plaintiffs' claim that the one-sentence clause is "boilerplate" may be true, but this argument nevertheless is unavailing where sophisticated parties have negotiated to include such language. As noted by the Seventh Circuit in construing a single-sentence no-reliance clause,

> the fact that language has been used before does not make it less binding when used again. Phrases become boilerplate when many parties find that the language serves their ends. That's a reason to enforce the promises, not to disregard them. People negotiate about the presence of boilerplate clauses.... Judges need not speculate about the reason a clause appears or is omitted ... what matters when litigation breaks out is what the parties actually signed.

Rissman v. Rissman, 213 F.3d 381, 385 (7th Cir.2000).

For the foregoing reasons, the Court finds that Plaintiffs' fraud claim is barred as a matter of law by the plain "no-reliance" language of the parties' Settlement Agreement. Plaintiffs were free to structure their "no-reliance" clause in such a way as to reserve a cause of action for fraud and they did not do so. Because the fraud claim must be dismissed on this basis, the Court need not reach the parties' arguments regarding whether the *Mergens* rule would separately preclude Plaintiffs' fraud claim or the dispute regarding factual support for a fraud claim.

Finally, the Court finds Plaintiffs' argument that judicial estoppel requires judgment in their favor on the reliance issue unpersuasive. Judicial estoppel is "an equitable doctrine that precludes a party from gaining an advantage by asserting one position, and then later seeking an advantage by taking a clearly inconsistent position." *Hamilton v. State Farm Fire & Cas. Co.,* 270 F.3d 778, 782 (9th Cir.2001). It is designed to " 'protect against a litigant playing fast and loose with the courts.' " *Id.* (quoting *Russell v. Rolfs,* 893 F.2d 1033, 1037 (9th Cir.1990)). Application of the doctrine is restricted to cases "where the court relied on, or 'accepted,' the party's previous inconsistent position." *Id.* at 738. The doctrine may be applied to incompatible statements made in two different cases. *Id.* at 783.

The United States Supreme Court has defined "three factors that courts may consider in determining whether" the doctrine of judicial estoppel applies. *Id.* at 782. The Supreme Court set forth the factors as follows:

> ***7** First, a party's later position must be "clearly inconsistent" with its earlier position.... Second, courts regularly inquire whether the party has succeeded in persuading a court to accept that party's earlier position, so that judicial acceptance of an inconsistent position in a later proceeding would create "the perception that either the first or the second court was misled." ... A third consideration is whether the party seeking to assert an inconsistent position would derive an unfair advantage or impose an unfair detriment on the opposing party if not estopped.
>
> In enumerating these factors, we do not establish inflexible prerequisites or an exhaustive formula.... Additional considerations may inform the doctrine's application in specific factual contexts.

New Hampshire v. Maine, 532 U.S. 742, 750-51, 121 S.Ct. 1808, 149 L.Ed.2d 968 (2001) (internal citations omitted). Here, Plaintiffs have made no showing that this Court or any other court was *persuaded* or actually *accepted* Defendants' assertions that they did not steal Plaintiffs' trade secrets. To the contrary, this Court has never endorsed either side's version of the underlying disputed facts. Moreover, because Plaintiffs' fraud claim must be dismissed as a matter of law, these factual arguments are irrelevant to the disposition of this claim.

Accordingly, the First, Third, and Fourth Causes of Action of Plaintiffs' Count One, as well as the entirety of Plaintiffs' Count Two, shall be DISMISSED with prejudice.

B. Breach

1. Failure to Cooperate

Defendants seek to dismiss Plaintiffs' Count One, Ninth Cause of Action, because it purports to bring a claim for "failure to cooperate" based on Paragraph 4.1 of the Settlement Agreement. This paragraph provides:

> *Press Release.* The Parties shall agree to issue a mutually acceptable public statement to advise the public and their respective customers that the Parties have agreed to settle the dispute in order to avoid the cost of trial. The statement will include an acknowledgment by Edwards and Wattles of the enforceability of FMC's noncompetition agreements and FMC's right and legitimate interest in protecting its Trade Secrets. The form of the release will be as set forth in **Exhibit D.**

(Settlement Agreement and Release of Claims ¶ 4. 1.) Exhibit D to the Settlement Agreement is a one-paragraph press release. It ends with the following sentence: "Jim [Edwards] and Darren [Wattles] have agreed to cooperate with FMC in the future to make sure that FMC's substantial investment in the water jet cutting industry is protected." *(Id.* Ex.D.) As Defendants point out, this Court has already dismissed without prejudice Plaintiffs' "failure to cooperate" claim contained in their First Amended Complaint, because it relied on the text of the parties' joint press release, not a contractual term. (December 8, 2005 Order (Dkt. No. 42) 7-9.) The Court granted Plaintiffs leave to attempt to state a valid claim for "breach of settlement agreement by failure to cooperate," and advised Plaintiffs that such a claim could not rely on text that was not made one of the contract terms and that it still may be subject to Defendants' "agreements to agree" arguments. *(Id.* at 9.)

***8** The Court finds that to the extent that Plaintiffs seek relief for "failure to cooperate," their claim fails for lack of a textual basis in the contract. Paragraph 4.1 required the parties to issue a press release containing certain language. Plaintiffs do not claim breach for failure to issue a press release. Paragraph 4.1 did not contain a contractual term that the parties "cooperate." The Court may not *add* a term to the parties' contract based on the extrinsic evidence of the press release text. *Berg v. Hudesman,* 115 Wash.2d 657, 801 P.2d 222, 229 (Wash.1990). Accordingly, Plaintiffs' "cooperation" claim fails because the "Press Release" *term* contains no obligation to "cooperate." Further, even though extrinsic evidence is generally admissible to show the circumstances under which a contract was entered into and to "ascertain the intention of the parties" and properly construe the writing, *id.,* to do so to introduce to a contract a vague term that was not originally part of the instrument runs contrary to the purpose of interpreting a contract. Moreover, even if a "cooperation" term could be incorporated from the press release and also be considered as potentially binding (which it cannot), there is no definition of such a term anywhere in the contract. Therefore, such a term would fail for vagueness in any event as an unenforceable "agreement to agree." *Sandeman v. Sayres,* 50 Wash.2d 539, 314 P.2d 428, 429 (Wash.1957); *see also Keystone Land & Dev. Co. v. Xerox Corp.,* 152 Wash.2d 171, 94 P.3d 945, 948 (Wash.2004).

Finally, to the extent Plaintiffs' now seek to pitch their "cooperation" claim as a "good faith and fair dealing" claim *(see* Pls.' Opp'n), it is redundant because such a claim is made elsewhere in the Third Amended Complaint (Count One, Fifth Cause of Action).

For the foregoing reasons, Plaintiffs' Count One, Ninth Cause of Action shall be DISMISSED with prejudice.

2. Covenant of Good Faith and Fair Dealing

Under Washington law, the duty of good faith and fair dealing has very specific boundaries. The Supreme Court of Washington has summarized the duty as follows:

> There is in every contract an implied duty of good faith and fair dealing. This duty obligates the parties to cooperate with each other so that each may obtain the full benefit of performance. However, the duty of good faith does not extend to obligate a party to accept a material change in the terms of its contract. Nor does it inject substantive terms into the parties' contract. Rather, it requires only that the parties perform in good faith the obligations imposed by their agreement. Thus, the duty arises only in connection with terms agreed to by the parties.

Badgett v. Security State Bank, 116 Wash.2d 563, 807 P.2d 356, 360 (Wash.1991) (internal quotations and citations omitted). Expansion of a contract beyond the obligations already in the contract is impermissible, and the "duty to cooperate exists only in relation to performance of a specific contract term." *Id.* Moreover, "[a]s a matter of law, there cannot be a breach of the duty of good faith when a party simply stands on its rights to require performance of a contract according to its terms." *Id.* Thus, Plaintiffs' good faith and fair dealing claim is limited to the terms of the contract.

***9** Plaintiffs' good faith and fair dealing claim centers on Defendants' retention and use of Plaintiffs' trade secret drawings. Plaintiffs assert as one textual basis for their good faith and fair dealing claim the "Press Release" clause discussed *supra.* However, that term does not contain any reference to retention or use of drawings. Instead, it is limited to the requirements of the public statement. Having alleged no breach of good faith with respect to issuing the press release, Plaintiffs cannot rely on this term for their good faith and fair dealing claim. That the statement to the press was required to contain certain acknowledgments regarding trade secret "rights" does not separately impose a duty to forfeit or not to use drawings.

Plaintiffs' Third Amended Complaint (¶ 65) also enumerates various additional contract terms in support of the good faith and fair dealing claim. These terms are contained in the Recitals and in Section 2 of the agreement. While none of these terms specifically prohibits the retention and use of trade secret information, they do impose limitations on the activities of Defendants that may or may not be proven if Plaintiffs can show that Defendants did keep and/or use such information. Accordingly, to the extent that the good faith and fair dealing claim is linked to these actual contractual terms, it is permissible.

Plaintiffs cite an "implied" right prohibiting Defendants from concealing and using FMC's drawings. This is not a textual source and, under *Badgett,* such an "implied" *(i.e.,* unenumerated) contractual right cannot support an implied duty of good faith and fair dealing. Plaintiffs could have bargained for a contract term requiring Defendants to turn over the drawings or prohibiting them from using stolen drawings whether or not they turned them over. They did not.

Plaintiffs also argue that the "primary" goal of the settlement was to "confirm FMC's legitimate right to protect its trade secrets ." However, this purpose appears to track the Press Release clause only. In contrast, the introduction to the settlement states that "the Parties have fully and fairly settled their differences and wish to enter into this Agreement providing for certain obligations of the Parties." (Settlement Agreement 1.) Clearly, the purpose was to settle the lawsuit, including the trade secret claims made therein. Plaintiffs are bound to contractual terms in their efforts to enforce the settlement. The Court will not read new terms into the agreement, but Plaintiffs are entitled to enforce terms that are part of the contract.

Finally, to the extent that Plaintiffs intend to claim that Defendants entered into the entire settlement with no intention of ceasing their alleged trade secret violations, such a claim is subsumed elsewhere in the Third Amended Complaint (Count One, Second Cause of Action) in a claim not at issue here (fraudulent statement of intent).

Accordingly, to the extent that Plaintiffs' Count One, Fifth Cause of Action seeks to allege breach of the duty of good faith and fair dealing regarding terms not actually made a part of the contract, it shall be DISMISSED with prejudice. To the extent that Plaintiffs' Count One, Fifth Cause of Action seeks to allege such breach with respect to terms actually agreed to by the parties and contained in the Settlement Agreement, which are also enumerated in the Third Amended Complaint (¶ 65), it survives. Further, for the reasons set forth *supra,* the Court specifically finds that the "Press Release" clause may not form the textual basis for any alleged breach of the covenant of good faith and fair dealing allegedly committed by keeping or using trade secret information. For the foregoing reasons, Plaintiffs' Count One, Fifth Cause of Action shall be DISMISSED IN PART only.

3. Premature Design of Portioner

***10** Defendants claim that there is no material issue of fact for trial as to whether Defendants prematurely engaged in or assisted the design, manufacture, or sale of "water jet equipment that is competitive with the Portioner" in violation of the Settlement Agreement, ¶ 2.4(b) ("Non-Compete" clause). The Court cannot agree. Defendants' arguments that particular equipment developed by Defendants is "not" water jet equipment are factual and only serve to buttress Plaintiffs' assertion that significant factual disputes remain. Such determinations involve evaluation of technical evidence and credibility assessments that are in the sole purview of the jury. The Court declines to address these disputes beyond noting that they are complex, and the Court finds summary judgment on this claim improper.

For the foregoing reasons, Plaintiffs' Count One, Sixth Cause of Action shall proceed to trial.

C. Sanctions

Plaintiffs' "dispositive" motion is one for sanctions against Defendants. Plaintiffs seek dismissal as a sanction, and alternatively, the entirety of their attorneys' fees as well as Court determinations that certain disputed facts are established. Plaintiffs' principal allegation in support of such measures is a charge of spoliation of evidence in this case via the intentional destruction of computer data by Jim Tomlin and Joe Kim, both of whom are former

FMC employees who were hired by PES. Plaintiffs also claim that Defendants have systematically stalled and withheld information throughout the discovery process.

Federal Rule of Civil Procedure 37 provides for the discretionary imposition of a broad variety of sanctions for discovery misconduct. In the Ninth Circuit,

> Dismissal is an available sanction when a party has engaged deliberately in deceptive practices that undermine the integrity of judicial proceedings because courts have inherent power to dismiss an action when a party has willfully deceived the court and engaged in conduct utterly inconsistent with the orderly administration of justice. Before imposing the harsh sanction of dismissal, however, the district court should consider the following factors: (1) the public's interest in expeditious resolution of litigation; (2) the court's need to manage its dockets; (3) the risk of prejudice to the party seeking sanctions; (4) the public policy favoring disposition of cases on their merits; and (5) the availability of less drastic sanctions.

Leon v. IDX Systems Corp., 464 F.3d 951, 958 (9th Cir.2006) (internal quotations and citations omitted). In *Leon*, spoliation of evidence was clear. Here, however, Plaintiffs' allegations regarding the destruction of computer files are anything but clear and this Court cannot find Plaintiffs' assertions any more or less credible than Defendants' explanations for the "missing" data. Moreover, most of the allegations hinge on witness credibility, and those witnesses' credibility will be evaluated by the jury in this case in due course. The arguments regarding delay in discovery production do not rise to the level of "spoliation," and therefore cannot support judgment against Defendants. Furthermore, the Court declines to exercise its discretion to impose any sanctions short of dismissal as well. The discovery disputes in this matter have been numerous and bilateral. Imposing any of the sweeping sanctions suggested by Plaintiffs on the eve of trial is not justified.

***11** For the foregoing reasons, Plaintiffs' motion for sanctions is DENIED in its entirety.

IV. CONCLUSION

For the reasons set forth in this Order, the Court

> (A) GRANTS Defendants' motion for summary judgment regarding Reliance; the First, Third, and Fourth Causes of Action of Plaintiffs' Count One, as well as the entirety of Plaintiffs' Count Two, are hereby DISMISSED with prejudice;
>
> (B) GRANTS IN PART and DENIES IN PART Defendants' motion for summary judgment regarding Breach; the Ninth Cause of Action of Plaintiffs' Count One is hereby DISMISSED with prejudice, the Fifth Cause of Action of Plaintiffs' Count One is DISMISSED IN PART only and shall proceed to trial subject to the terms of this Order, and the Sixth Cause of Action of Plaintiffs' Count One shall proceed to trial as pled in the Third Amended Complaint; and
>
> (C) DENIES Plaintiffs' motion for Sanctions in its entirety.

SO ORDERED.

W.D.Wash.,2007.
FMC Technologies, Inc. v. Edwards
Not Reported in F.Supp.2d, 2007 WL 1725098 (W.D.Wash.)

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