
SUBSTITUTE SENATE BILL 5449

State of Washington

62nd Legislature

2011 Regular Session

By Senate Labor, Commerce & Consumer Protection (originally sponsored by Senators Brown, Pflug, Carrell, Harper, Murray, Hobbs, Fain, Delvin, Roach, Ericksen, Shin, Tom, Kohl-Welles, and Kilmer)

READ FIRST TIME 02/21/11.

1 AN ACT Relating to the unfair competition that occurs when stolen
2 or misappropriated information technology is used to manufacture
3 products sold or offered for sale in this state; adding a new chapter
4 to Title 19 RCW; and prescribing penalties.

5 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF WASHINGTON:

6 NEW SECTION. **Sec. 1.** The definitions in this section apply
7 throughout this chapter unless the context clearly requires otherwise.

8 (1) "Article or product" means an article or product, but excludes
9 food and beverages and any services sold, offered for sale, or made
10 available in this state, including restaurant services.

11 (2) "Copyrightable end product" means a work within the subject
12 matter of copyright as specified by section 102 of the United States
13 copyright act.

14 (3) "Manufacture" means to manufacture, produce, or assemble an
15 article or product subject to section 2 of this act, in whole or
16 substantial part, but does not include contracting with or otherwise
17 engaging another person, or that person engaging another person, to
18 develop, manufacture, produce, or assemble an article or product
19 subject to section 2 of this act.

1 (4) "Material competitive injury" means a three percent price
2 difference between the article or product made in violation of section
3 2 of this act designed to harm competition and an article or product
4 that was manufactured without the use of stolen or misappropriated
5 information technology, with such a price difference occurring over a
6 four-month period of time.

7 (5) "Retail price" means the retail price of stolen or
8 misappropriated information technology charged at the time of, and in
9 the jurisdiction where, the alleged theft or misappropriation occurred,
10 multiplied by the number of stolen or misappropriated items used in the
11 business operations of the person alleged to have violated section 2 of
12 this act.

13 (6)(a) "Stolen or misappropriated information technology" means
14 hardware or software that the person referred to in section 2 of this
15 act acquired, appropriated, or used in violation of applicable law, but
16 does not include situations in which the hardware or software alleged
17 to have been stolen or misappropriated was not available for retail
18 purchase on a stand-alone basis at or before the time it was acquired,
19 appropriated, or used by such a person.

20 (b) Information technology is considered to be used in a person's
21 business operations if the person uses the technology in the
22 manufacture, distribution, marketing, or sales of the articles or
23 products subject to section 2 of this act.

24 NEW SECTION. **Sec. 2.** Any person who manufactures an article or
25 product while using stolen or misappropriated information technology in
26 its business operations after notice and opportunity to cure as
27 provided in section 5 of this act and, with respect to remedies sought
28 under section 6(5) or 7 of this act, causes a material competitive
29 injury as a result of such use of stolen or misappropriated information
30 technology, is deemed to engage in an unfair act where such an article
31 or product is sold or offered for sale in this state, either separately
32 or as a component of another article or product, and in competition
33 with an article or product that was manufactured without violating this
34 section. A person who engages in such an unfair act, and any articles
35 or products manufactured by the person in violation of this section, is
36 subject to the liabilities and remedial provisions of this chapter in

1 an action by the attorney general or any person described in section
2 6(4) of this act, except as provided in sections 3, 4, 5, and 8 of this
3 act.

4 NEW SECTION. **Sec. 3.** No action may be brought under this chapter,
5 and no liability results, where:

6 (1) The end article or end product sold or offered for sale in this
7 state and alleged to violate section 2 of this act is:

8 (a) A copyrightable end product;

9 (b) Merchandise manufactured by or on behalf of, or pursuant to a
10 license from, a copyright owner and which displays or embodies a name,
11 character, artwork, or other indicia of or from a work that falls
12 within (a) of this subsection, or merchandise manufactured by or on
13 behalf of, or pursuant to a license from, a copyright or trademark
14 owner and that displays or embodies a name, character, artwork, or
15 other indicia of or from a theme park, theme park attraction, or other
16 facility associated with a theme park; or

17 (c) Packaging, carrier media, or promotional or advertising
18 materials for any end article, end product, or merchandise that falls
19 within (a) or (b) of this subsection;

20 (2) The allegation that the information technology is stolen or
21 misappropriated is based on a claim that the use of the information
22 technology infringes a patent or misappropriates a trade secret under
23 applicable law or that could be brought under any provision of Title 35
24 of the United States Code; or

25 (3) The allegation that the information technology is stolen or
26 misappropriated is based on a claim that the defendant's use of the
27 information technology violates the terms of a license that allows
28 users to modify and redistribute any source code associated with the
29 technology free of charge.

30 NEW SECTION. **Sec. 4.** No injunction may issue against a person
31 other than the person alleged to violate section 2 of this act, and no
32 attachment order may issue against articles or products other than
33 articles or products in which the person alleged to violate section 2
34 of this act holds title. A person other than the person alleged to
35 violate section 2 of this act includes any person who contracts with or

1 otherwise engages another person to develop, manufacture, produce,
2 market, distribute, or assemble an article or product alleged to
3 violate section 2 of this act.

4 NEW SECTION. **Sec. 5.** (1) No action may be brought under section
5 2 of this act unless the person subject to section 2 of this act
6 received written notice of the alleged use of the stolen or
7 misappropriated information technology from the owner or exclusive
8 licensee of the information technology or the owner's authorized
9 representative and the person: (a) Failed to establish that its use of
10 the information technology in question did not violate section 2 of
11 this act; or (b) failed, within ninety days after receiving such a
12 notice, to cease use of the owner's stolen or misappropriated
13 information technology. However, that if the person commences and
14 thereafter proceeds diligently to replace the information technology
15 with information technology whose use would not violate section 2 of
16 this act, such a period must be extended for an additional period not
17 to exceed one hundred eighty days total. The information technology
18 owner or the owner's authorized representative may extend any period
19 described in this section.

20 (2) To satisfy the requirements of this section, written notice
21 must: (a) Identify the stolen or misappropriated information
22 technology; (b) identify the lawful owner or exclusive licensee of the
23 information technology; (c) identify the applicable law the person is
24 alleged to be violating and state that the notifier has a reasonable
25 belief that the person has acquired, appropriated, or used the
26 information technology in question in violation of such applicable law;
27 (d) if known by the notifier, state the manner in which the information
28 technology is being used by the defendant; (e) state the articles or
29 products to which the information technology relates; and (f) state the
30 basis and evidence supporting such an allegation.

31 NEW SECTION. **Sec. 6.** (1) No earlier than ninety days after the
32 provision of notice in accordance with section 5 of this act, the
33 attorney general, or any person described in subsection (4) of this
34 section, may bring an action against any person that is subject to
35 section 2 of this act:

1 (a) To enjoin violation of section 2 of this act, including by
2 enjoining the person from selling or offering to sell in this state
3 articles or products that are subject to section 2 of this act.

4 (b) Only after a determination by the court that the person has
5 violated section 2 of this act, to recover the greater of:

6 (i) Actual damages, which may be imposed only against the person
7 who violated section 2 of this act; or

8 (ii) Statutory damages of no more than three times the retail price
9 of the stolen or misappropriated information technology, which may be
10 imposed only against the person who violated section 2 of this act.

11 (2)(a) After determination by the court that a person has violated
12 section 2 of this act and entry of a judgment against the person for
13 violating section 2 of this act, the attorney general, or a person
14 described in subsection (4) of this section, may add to the action a
15 claim for actual damages against a third party who sells or offers to
16 sell in this state products made by that person in violation of section
17 2 of this act, subject to the provisions of section 8 of this act.
18 However, damages may be imposed against a third party only if:

19 (i) The third party was provided a copy of a written notice that
20 satisfies the requirements of section 5 of this act at least ninety
21 days prior to the entry of the judgment;

22 (ii) The person who violated section 2 of this act did not make an
23 appearance or does not have sufficient attachable assets to satisfy a
24 judgment against the person;

25 (iii) Such a person either manufactured the final product or
26 produced a component equal to thirty percent or more of the value of
27 the final product; and

28 (iv) Such a person has a direct contractual relationship with the
29 third party respecting the manufacture of the final product or
30 component.

31 (b) An award of damages against such a third party pursuant to this
32 subsection (2) must be the lesser of the retail price of the stolen or
33 misappropriated information technology at issue or two hundred fifty
34 thousand dollars.

35 (3) In an action under this chapter, a court may:

36 (a) Against the person found to have violated section 2 of this
37 act, increase the damages up to three times the damages authorized by

1 subsection (1)(b) of this section where the court finds that the
2 person's use of the stolen or misappropriated information technology
3 was willful; and

4 (b) With respect to an award under subsection (1)(b) of this
5 section only, award costs and reasonable attorneys' fees to: (i) A
6 prevailing plaintiff in actions brought by an injured person under
7 section 2 of this act; or (ii) a prevailing defendant in actions
8 brought by an injured person.

9 (4) A person is deemed to have been injured by the sale or offer
10 for sale of an article or product subject to section 2 of this act if
11 the person establishes by a preponderance of the evidence that:

12 (a) The person manufactures articles or products that are sold or
13 offered for sale in this state in competition with articles or products
14 that are subject to section 2 of this act;

15 (b) The person's articles or products were not manufactured using
16 stolen or misappropriated information technology in violation of
17 section 2 of this act; and

18 (c) The person suffered economic harm, which may be shown by
19 evidence that the retail price of the stolen or misappropriated
20 information technology was twenty thousand dollars or more.

21 (5) If the court determines that a person found to have violated
22 section 2 of this act lacks sufficient attachable assets in this state
23 to satisfy a judgment rendered against it, the court may enjoin the
24 sale or offering for sale in this state of any articles or products
25 subject to section 2 of this act, except as provided in section 4 of
26 this act.

27 (6) The court shall determine whether a cure period longer than the
28 period reflected in section 5 of this act would be reasonable given the
29 nature of the use of the information technology that is the subject of
30 the action and the time reasonably necessary either to bring such use
31 into compliance with applicable law or to replace the information
32 technology with information technology that would not violate section
33 2 of this act. If the court deems that a longer cure period would be
34 reasonable, then the action shall be stayed until the end of that
35 longer cure period. If by the end of that longer cure period, the
36 defendant has established that its use of the information technology in
37 question did not violate section 2 of this act, or the defendant ceased

1 use of the stolen or misappropriated information technology, then the
2 action must be dismissed.

3 NEW SECTION. **Sec. 7.** In a case in which the court is unable to
4 obtain personal jurisdiction over a person subject to section 2 of this
5 act, the court may proceed in rem against any articles or products
6 alleged to be subject to section 2 of this act, including any articles
7 or products sold or offered for sale in this state. Except as provided
8 in section 4 of this act, all such articles or products are subject to
9 attachment at or after the time of filing a complaint, regardless of
10 the availability or amount of any monetary judgment.

11 NEW SECTION. **Sec. 8.** (1) A court may not award damages against
12 any third party pursuant to section 6(2) of this act where that party,
13 after having been afforded reasonable notice of at least ninety days
14 and opportunity to plead any of the affirmative defenses set forth in
15 this subsection, establishes by a preponderance of the evidence that:

16 (a) Such a person is the end consumer or end user of an article or
17 product subject to section 2 of this act, or acquired the article or
18 product after its sale to an end consumer or end user;

19 (b) Such a person is a business with annual revenues not in excess
20 of fifty million dollars;

21 (c) The person acquired the articles or products:

22 (i) In good faith reliance on either: (A) A code of conduct or
23 similar written document that governs the person's commercial
24 relationships with the manufacturer alleged to have violated section 2
25 of this act and which includes commitments that prohibit use of the
26 stolen or misappropriated information technology by such manufacturer;

27 or (B) written assurances from the manufacturer of the articles or
28 products that the articles or products, to the manufacturer's

29 knowledge, were manufactured without the use of stolen or
30 misappropriated information technology in the manufacturer's business
31 operations. However, with respect to both (c)(i)(A) and (B) of this
32 subsection, that within one hundred eighty days of receiving written
33 notice of the judgment against the manufacturer for a violation of

34 section 2 of this act and a copy of a written notice that satisfies the
35 requirements of section 5 of this act, the person undertakes
36 commercially reasonable efforts to: (I) Confirm that such a

1 manufacturer is not using the stolen or misappropriated information
2 technology in violation of section 2 of this act; (II) require such a
3 manufacturer to cease the theft or misappropriation; or (III) in a case
4 in which the manufacturer has failed to cease such a theft or
5 misappropriation within the one hundred eighty-day period, prevent the
6 future acquisition of the articles or products from the manufacturer
7 during the period that the manufacturer continues to engage in theft or
8 misappropriation subject to section 2 of this act where doing so would
9 not constitute a breach of an agreement between the person and the
10 manufacturer for the manufacture of the articles or products in
11 question that was entered into no later than one hundred eighty days
12 after the effective date of this section;

13 (ii) Pursuant to an agreement between the person and a manufacturer
14 for the manufacture of the articles or products in question that was
15 entered into no later than one hundred eighty days after the effective
16 date of this section. However, that within one hundred eighty days of
17 receiving written notice of the judgment against the manufacturer for
18 a violation of section 2 of this act and a copy of a written notice
19 that satisfies the requirements of section 5 of this act, the person
20 undertakes commercially reasonable efforts to: (A) Confirm that such
21 a manufacturer is not using the stolen or misappropriated information
22 technology in violation of section 2 of this act; (B) require the
23 manufacturer to cease the theft or misappropriation; or (C) in a case
24 in which the manufacturer has failed to cease the theft or
25 misappropriation within the one hundred eighty-day period, prevent the
26 future acquisition of articles or products from the manufacturer during
27 the period that the manufacturer continues to engage in the theft or
28 misappropriation subject to section 2 of this act where doing so would
29 not constitute a breach of such agreement;

30 (d) The person has made commercially reasonable efforts to
31 implement practices and procedures to require its direct manufacturers,
32 in manufacturing articles or products for such person, not to use
33 stolen or misappropriated information technology in violation of
34 section 2 of this act. A person may satisfy this subsection (1)(d) by:

35 (i) Adopting and undertaking commercially reasonable efforts to
36 implement a code of conduct or similar written requirements, which are
37 applicable to the person's direct manufacturers, that prohibit the use
38 of stolen or misappropriated information technology by such a

1 manufacturer, subject to a right of audit, and the person either: (A)
2 Has a practice of auditing its direct manufacturers on a periodic basis
3 in accordance with generally accepted industry standards; or (B)
4 requires in its agreements with its direct manufacturers that they
5 submit to audits by a third party, which may include a third-party
6 association of businesses representing the owner of the stolen or
7 misappropriated intellectual property, and further provides that a
8 failure to remedy any deficiencies found in such an audit that
9 constitute a violation of the applicable law of the jurisdiction where
10 the deficiency occurred constitutes a breach of the contract, subject
11 to cure within a reasonable period of time; or

12 (ii) Adopting and undertaking commercially reasonable efforts to
13 implement a code of conduct or similar written requirements, which are
14 applicable to the person's direct manufacturers, that prohibit use of
15 stolen or misappropriated information technology by such a
16 manufacturer, and the person undertakes practices and procedures to
17 address compliance with the prohibition against the use of the stolen
18 or misappropriated information technology in accordance with the
19 applicable code of conduct or written requirements; or

20 (e) The person does not have a contractual relationship with the
21 person alleged to have violated section 2 of this act respecting the
22 manufacture of the articles or products alleged to have been
23 manufactured in violation of section 2 of this act.

24 (2) The court may not enforce any award for damages against such a
25 third party until after the court has ruled on that party's claim of
26 eligibility for any of the affirmative defenses set out in this
27 section.

28 NEW SECTION. **Sec. 9.** A court may not enforce an award of damages
29 against a third party pursuant to section 6(2) of this act for a period
30 of eighteen months from the effective date of this section.

31 NEW SECTION. **Sec. 10.** A violation of this chapter may not be
32 considered a violation of the state consumer protection act, and
33 chapter 19.86 RCW does not apply to this chapter. The remedies
34 provided under this chapter are the exclusive remedies for the parties.

1 NEW SECTION. **Sec. 11.** If any provision of this act or its
2 application to any person or circumstance is held invalid, the
3 remainder of the act or the application of the provision to other
4 persons or circumstances is not affected.

5 NEW SECTION. **Sec. 12.** Sections 1 through 10 of this act
6 constitute a new chapter in Title 19 RCW.

--- END ---