

FINAL BILL REPORT

SHB 1495

C 98 L 11
Synopsis as Enacted

Brief Description: Regarding the unfair competition that occurs when stolen or misappropriated information technology is used to manufacture products sold or offered for sale in this state.

Sponsors: House Committee on Judiciary (originally sponsored by Representatives Eddy, Rodne, Kirby, Armstrong, Hunter, Hinkle, Chandler, Pettigrew, Carlyle, Springer, Maxwell, Anderson, Clibborn, Kelley and Kenney).

House Committee on Judiciary
Senate Committee on Labor, Commerce & Consumer Protection

Background:

Intellectual Property.

Federal and state laws protect certain intellectual property rights in creations, such as computer software (programs) and hardware (equipment). A federal copyright gives the owner of an original work that expresses ideas, such as certain software, exclusive rights to copy, distribute, and adapt the work. A federal patent may protect a publicly disclosed computer-related invention for a period of time. Federal and state trade secret laws prohibit misappropriation of trade secrets, such as formulas, programs, and techniques.

Consumer Protection Act.

The state's Consumer Protection Act (CPA) prohibits unfair or deceptive acts or practices and unfair methods of competition in the conduct of trade or commerce that directly or indirectly affect the people of Washington.

Either private plaintiffs or the Attorney General may bring civil actions to enjoin future violations of the CPA or to recover damages caused by an unfair act. Private plaintiffs may recover actual damages and costs, including reasonable attorneys' fees. Courts also may award private plaintiffs damages of as much as three times actual damages, in an amount not to exceed \$25,000.

"Personal" vs. "In Rem" Jurisdiction.

In order for a court to hear and determine a controversy, it must have jurisdiction over the matter. Often, courts have "personal" jurisdiction over a person sued in a civil lawsuit

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because the person made certain minimum contacts with the state; for purposes of the CPA, this includes transacting business within Washington.

Foreign defendants whose actions give rise to a lawsuit in a Washington court but who have never visited the state and who have no assets within Washington might not be subject to personal jurisdiction. Yet state courts may have jurisdiction to enter judgment regarding property located within the state, even if the courts do not have personal jurisdiction over that defendant. Such actions against property are called proceedings "in rem."

Summary:

A business that manufactures a product while using stolen or misappropriated information technology ("stolen IT") in its business operations engages in an unfair act when the product is sold in Washington, either separately or as a component of another product, in competition with a product made without using stolen IT. A new cause of action is created to allow private plaintiffs or the Attorney General to sue businesses that engage in these unfair acts.

"Stolen or misappropriated" IT is defined as hardware or software that a business acquired, appropriated, or used unlawfully, unless the hardware or software was not available for stand-alone retail purchase at or before the time it was stolen. A business uses stolen IT in a business operation if it uses the stolen IT to design, manufacture, distribute, market, or sell products.

Notice.

Before a plaintiff can file suit, the owners of the stolen IT must provide written notice to the person allegedly using the stolen IT allowing that person to prove it is not using stolen IT or giving the person 90 days to stop using it, subject to any extensions approved by the owner. The notice must state: (1) the identity of the IT; (2) the identity of the lawful owner; (3) the law allegedly violated and that the notifier reasonably believes the person has acquired, appropriated, or used the IT unlawfully; (4) the manner in which the IT is being used, if known; (5) the products to which the IT relates; and (6) the basis and evidence supporting the allegation.

Jurisdiction.

A court may proceed *in rem* against certain products only when a court is unable to obtain personal jurisdiction over a party who violated the act.

Elements of a Claim.

A person is injured by the sale of a product if the person establishes by a preponderance of the evidence that the person:

- manufactures products sold or offered for sale in Washington in competition with articles or products made using stolen IT;
- makes articles or products not manufactured using stolen IT; and
- suffered economic harm, which may be shown by evidence that the retail price of the stolen IT was at least \$20,000.

Remedy.

If the use of stolen IT continues despite the owner of the stolen IT providing the 90 days' notice, an injured person or the Attorney General may bring an action against a person making products using stolen IT to ask the court to enjoin violations of the act's provisions, including ordering a person not to sell products in Washington. A plaintiff also may ask for the greater of actual damages or an amount of no more than three times the retail price of the stolen IT.

A court may award three times the damages normally allowed when it finds that the defendant willfully used stolen IT. A court also may award costs and reasonable attorneys' fees to the prevailing party in actions brought by an injured person.

In addition, the plaintiff may add to the action a claim for actual damages against a third party who sells the products made with stolen IT, but only if a court has already entered judgment against the person making the products using stolen IT and:

- the third party seller received a copy of the written notice at least 90 days before entry of the judgment;
- the person who made the products in violation of the act did not make an appearance or lacks sufficient attachable assets to satisfy a judgment against him or her;
- such a person either made the final product or a component of it equal to 30 percent or more of the product's final value; and
- the person has a direct contractual relationship with the third party seller.

Damages against a third party must be the lesser of the retail price of the stolen IT or \$250,000.

Before a plaintiff may seek to enjoin products or have a court proceed *in rem*, he or she must show economic injury, defined as a 3 percent price difference, occurring over a four-month period, between the product made in violation of the act designed to harm competition and a product that was manufactured without the use of stolen IT.

If a court determines that a person who violated the act's provisions lacks sufficient attachable assets in Washington, the court may enjoin sale of products made using stolen IT, subject to certain exceptions.

Exceptions.

A person may not sue under this cause of action when: (1) the end product sold or offered for sale in Washington is copyrightable; (2) the product consists of merchandise made by or for a copyright owner displaying elements of copyrighted work or of certain materials; (3) the allegation that the IT is stolen is based on a claim that the IT infringes on patents or misappropriates trade secrets; or (4) the allegation is based on a claim that the use of the IT violates the terms of an open source software license.

A person may avoid liability by proving by a preponderance of the evidence that: (1) the person is an end consumer or user or acquired the product after sale to an end consumer or user; (2) the person is a business with annual revenues of no more than \$50 million; or (3) the person does not have a contractual relationship with the alleged violator.

A third party may avoid liability by showing that it acquired the products in good faith reliance on a code of conduct governing its manufacturers or on written assurances from a manufacturer, or pursuant to an agreement with a manufacturer entered into no later than 180 days after the act's effective date. The code of conduct or assurances must contain certain provisions to, for example, ensure that commercially reasonable efforts will be taken to confirm the manufacturer is not using stolen IT or to require the manufacturer to cease any theft. If the third party relies on an agreement with a manufacturer, the third party also must make these commercially reasonable efforts to require the manufacturer to cease theft or to stop acquisition from that manufacturer. As an alternative, a third party may avoid liability by showing that it made commercially reasonable efforts to implement practices and procedures to require direct manufacturers not to use stolen IT. A third party may satisfy this by adopting a code of conduct that prohibits use of stolen IT subject to audit rights or adopting a code of conduct that prohibits use of stolen IT and undertaking procedures to address compliance with that code of conduct.

A court may not enforce a damage award against a third party for a period of 18 months from the act's effective date.

Consumer Protection Act.

The remedies provided in the act are the exclusive remedies for the parties and the Consumer Protection Act does not apply.

Votes on Final Passage:

House	90	4	
Senate	39	8	(Senate amended)
House	85	11	(House concurred)

Effective: July 22, 2011