
Judiciary Committee

ESSB 5449

Title: An act relating to the unfair competition that occurs when stolen or misappropriated information technology is used to manufacture products sold or offered for sale in this state.

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

<p style="text-align: center;">Brief Summary of Engrossed Substitute Bill</p> <ul style="list-style-type: none">• Creates a civil cause of action against persons that manufacture products sold in Washington while using stolen or misappropriated information technology in its business operations.
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Hearing Date: 3/14/11

Staff: Trudes Tango (786-7384).

Background:

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. Several statutes specify practices that constitute unfair acts, but they do not provide an exhaustive list. A court may find that conduct not specifically enumerated in statute constitutes an unfair or deceptive act. A private plaintiff or the Attorney General may bring a civil action to enjoin future violations of the CPA or to recover damages caused by an unfair act.

"Personal" vs. "In Rem" Jurisdiction.

This analysis was prepared by non-partisan legislative staff for the use of legislative members in their deliberations. This analysis is not a part of the legislation nor does it constitute a statement of legislative intent.

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 because the person made certain minimum contacts with the state. 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. However, 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."

Intellectual Property.

Federal and state laws protect certain intellectual property rights in creations, such as computer software (programs) and hardware (equipment). A 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.

Summary of Bill:

Cause of Action.

A civil cause of action is created for an injured party or the Attorney General to sue a person that manufactures a product while using stolen or misappropriated information technology ("stolen IT") in its business operations. The products made with stolen IT must be sold in Washington, either separately or as a component of another product, in competition with a product made without use of stolen IT. A person may not sue under this cause of action under certain enumerated circumstances, such as when the end product sold is copyrightable or there are allegations dealing with patents.

To be considered an injured party, the person must show, among other things, that the person manufactures products in direct competition with products made with stolen IT and the person suffered economic harm. Economic harm may be established by evidence that the retail price of the stolen IT was at least \$20,000.

Notice.

Before a plaintiff can file suit, the owners of stolen IT must provide written notice to the party allegedly using stolen IT, allowing that party to prove it is not using stolen IT or giving the party 90 days to stop using it, subject to any extensions approved by the owner. The notice must contain certain information and must state, under penalty of perjury, that after a reasonable and good-faith investigation, the information in the notice is accurate based on the notifier's reasonable knowledge, information, and belief.

Remedies against Manufacturers.

If the use of stolen IT continues despite the required notice, an injured person or the Attorney General may bring an action to enjoin violations of the bill's provisions, including ordering a person not to sell products in Washington. A plaintiff also may seek the greater of actual damages or the amount of the retail price of the stolen IT. The court may triple the damages if the defendant willfully used stolen IT. A court may award costs and reasonable attorneys' fees to the prevailing party in actions brought by an injured person.

Remedies against Third Parties.

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 first entered judgment against the person using stolen IT. Damages may be imposed against a third party only if certain conditions are met, including the requirement that the third party received 90 days notice before entry of the judgment and the person who was found to have used stolen IT either did not appear in court or has insufficient attachable assets to satisfy the judgment.

Damages against a third party are limited to the lesser of the retail price of the stolen IT or \$250,000, minus any amounts recovered from the person using stolen IT. The court may award attorneys' fees to a third party who qualifies for an affirmative defense if the third party notified the plaintiff of the affirmative defense prior to being added to the action.

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

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

Stay and Dismissal of Proceedings.

The court must dismiss an action against a person using stolen IT or a third party if the person or third party has been subject to a final judgment, or has entered into a final settlement, in a proceeding in any federal or state court arising out of the same theft. If the person or third party is subject to a pending action in a federal or other state court, the court must stay the action pending resolution of the prior action.

In rem Proceedings.

If the court is unable to obtain personal jurisdiction over a person using stolen IT, the court may proceed in rem against any products sold in the state for which the person holds title. Before the enforcement of an attachment order, the court must notify any person in possession of the products about the pending attachment order. The person may either show that he or she has an affirmative defense or may post a bond to stay enforcement of the order and establish an affirmative defense. If the court fails to provide notice, a third party may seek a stay of the enforcement of the attachment order for 90 days.

If a person is proceeding in rem or seeks injunctive relief, the person must show he or she suffered material competitive injury, which means at least a 3 percent retail price difference over a period of four months between the person's product and the product made with stolen IT.

Affirmative Defenses for Third Parties.

A court may not award damages against a third party if the third party establishes that: (1) it is an end consumer or end user; (2) it is a business with annual revenues of no more than \$50 million; (3) it does not have a contractual relationship with the person using stolen IT; or (4) it acquired the products in reliance on a code of conduct applicable to its manufacturers or, in general, undertook commercially reasonable efforts to implement a code of conduct with its manufacturer regarding the use of stolen IT. The steps a third party must take to establish an affirmative defense based on "commercially reasonable efforts" are set forth in the bill.

The court may not enforce any damages award against a third party until after it has ruled on the third party's affirmative defenses. Prior to its ruling, the court may allow discovery only on the particular defenses raised by the third party. The court must allow discovery against a third party on an issue only after all discovery on that issue between the parties has been completed and there is an unresolved issue of material dispute between the parties.

Appropriation: None.

Fiscal Note: Available.

Effective Date: The bill takes effect 90 days after adjournment of the session in which the bill is passed.