

# SENATE STAFF ANALYSIS AND ECONOMIC IMPACT STATEMENT

(This document is based on the provisions contained in the legislation as of the latest date listed below.)

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Prepared By: Judiciary Committee

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BILL: CS/SB 202

INTRODUCER: Judiciary Committee, Senator Aronberg, and Senator Crist

SUBJECT: Consumer Protection

DATE: April 21, 2006

REVISED: \_\_\_\_\_

	ANALYST	STAFF DIRECTOR	REFERENCE	ACTION
1.	<u>Earlywine</u>	<u>Cooper</u>	<u>CM</u>	<u>Fav/1 amendment</u>
2.	<u>Chinn</u>	<u>Maclure</u>	<u>JU</u>	<u>Fav/CS</u>
3.	_____	_____	_____	_____
4.	_____	_____	_____	_____
5.	_____	_____	_____	_____
6.	_____	_____	_____	_____

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## I. Summary:

This bill provides legal standing for a receiver appointed in an unfair trade practices proceeding to bring actions in the name of and on behalf of the defendant enterprise, regardless of whether wrongful acts were committed by that enterprise. Under current statutory and common law, a receiver does not have the explicit ability to assert claims against other wrongdoers that may have contributed to an unfair trade practice. In addition, the bill revises effective dates provided in statute to capture changes made in federal law since 2001, the current year provided in statute.

The bill provides that the use of a creation that is not protected under federal copyright law shall not give rise to a claim or cause of action unless the parties to the claim or cause of action have executed a writing sufficient to indicate that a contract has been made between them governing such use.

This bill amends the following sections of the Florida Statutes: 501.203, 501.204, and 501.207. The bill creates section 501.972, Florida Statutes.

## II. Present Situation:

### Florida Deceptive and Unfair Trade Practices Act

The Florida Deceptive and Unfair Trade Practices Act (FDUTPA), part II of ch. 501, F.S., provides remedies and penalties for “[u]nfair methods of competition, unconscionable acts or practices, and unfair or deceptive acts or practices in the conduct of any trade or commerce.”<sup>1</sup> Willful violations of FDUTPA occur when the person knew or should have known that the

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<sup>1</sup> Section 501.204, F.S.

conduct was unfair, deceptive, or prohibited by rule.<sup>2</sup> Remedies for acts prohibited by FDUTPA may include an action to enjoin a person from committing such acts,<sup>3</sup> as well as the imposition of a civil penalty of not more than \$10,000.<sup>4</sup> A person or entity found liable for a violation of FDUTPA may be assessed a civil penalty, but orders of restitution or reimbursement are given priority over the imposition of a civil penalty.<sup>5</sup>

Actions may be brought by a state attorney, the Department of Legal Affairs,<sup>6</sup> or by a consumer.<sup>7</sup> The Attorney General<sup>8</sup> or other enforcing authority may bring an action on behalf of a consumer or governmental entities for the actual damages caused by an act or practice in violation of FDUTPA.<sup>9</sup> Further, the enforcing authority may seek the appointment of a receiver<sup>10</sup> for the entity alleged to have violated FDUTPA in order to protect the entity's assets and facilitate in the recovery process, should the entity be found liable for a violation of the statute.<sup>11</sup>

Generally, a receiver has only the powers conferred upon him or her by statutes, rules, orders, and decrees of the appointing court.<sup>12</sup> The receiver's duties are to hold and preserve property in his or her custody and to protect the rights and interests of all creditors which take priority over the duty to protect property for the stockholders.<sup>13</sup> While the receiver has a duty to protect these assets for creditors, the receiver is not the class representative for creditors and receives no general assignment of rights from the creditors to prosecute claims.<sup>14</sup> The receiver could, however, bring an action "previously owned by the party in receivership *for the benefit* of the creditors, but he or she cannot pursue claims *owned directly by* the creditors."<sup>15</sup> Thus, if the corporation would not have had a claim against a third party,<sup>16</sup> a receiver could not pursue a cause of action—regardless of whether a creditor could pursue a claim against the third party—even if such a suit might benefit the creditors.

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<sup>2</sup> 10 Fla. Jur. 2d *Consumer Etc. Protection* s. 159 (2006).

<sup>3</sup> Section 501.207(1)(b), F.S.

<sup>4</sup> Section 501.2075, F.S. Under s. 501.2077, F.S., the penalty for a violation under FDUTPA involving persons over age 60 or handicapped persons is increased to \$15,000 per violation.

<sup>5</sup> 10A Fla. Jur 2d *Consumer Etc. Protection* s. 159 (2006), cites s. 501.2077(3), F.S., for the general proposition that orders of restitution or reimbursement are given priority over the imposition of civil penalties. This section of statute, however, addresses violations involving senior citizens or handicapped persons. It is unclear whether reimbursement of creditors takes priority over payment of civil penalties where the victims are not senior citizens or handicapped persons.

<sup>6</sup> Section 501.203(2), F.S.

<sup>7</sup> Section 501.211(1), F.S.

<sup>8</sup> The Attorney General is the head of the Department of Legal Affairs. See s. 20.11, F.S.

<sup>9</sup> Section 501.207(1)(c), F.S.

<sup>10</sup> A "receiver" is a disinterested person appointed by a court, or by a corporation or other person, for the protection or collection of property that is the subject of diverse claims (for example, because it belongs to a bankrupt or is otherwise being litigated); a "judgment receiver" is a receiver who collects or diverts funds from a judgment debtor to the creditor. BLACK'S LAW DICTIONARY (8th ed. 2004).

<sup>11</sup> Section 501.207(3), F.S.

<sup>12</sup> 44 Fla. Jur. 2d *Receivers* s. 49 (2006).

<sup>13</sup> *Forcum v. Symmes*, 143 So. 630, 632 (Fla. 1932).

<sup>14</sup> See 44 Fla. Jur. 2d *Receivers* ss. 49 and 84 (2006); see also *Freeman v. Dean Witter Reynolds, Inc.*, 865 So. 2d 543, 550 (Fla. 2d DCA 2003).

<sup>15</sup> 44 Fla. Jur. 2d *Receivers* s. 84 (2006) (emphasis added) (citing *Freeman*, 865 So. 2d 543).

<sup>16</sup> For example, if the corporation in receivership, itself, could not bring the claims because of unclean hands, then the receiver is in no better position to pursue such claims. See *Freeman*, 865 So. 2d at 548.

## Copyright Law

Copyright law is addressed at the federal level based upon art. I, s. 8, cl. 8, of the United States Constitution, which gives Congress the power “[t]o promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries.”<sup>17</sup> The United States Patent and Trademark Office provides the following definitions for terms related to copyrights:<sup>18</sup>

- a “patent”<sup>19</sup> for an invention is the grant of a property right to the inventor, issued by the Patent and Trademark Office;
- a “trademark”<sup>20</sup> is a word, name, symbol or device which is used in trade with goods to indicate the source of the goods and to distinguish them from the goods of others; and
- a “servicemark” is the same as a trademark except that it identifies and distinguishes the source of a service rather than a product.

The United States Copyright Office (Copyright Office) defines “copyright”<sup>21</sup> as a form of protection provided to the authors of “original works of authorship”<sup>22</sup> including literary, dramatic, musical, artistic, and certain other intellectual works, both published and unpublished.<sup>23</sup> A “patent” protects the substance or the idea embodied in a work, whereas a “copyright” protects the manner of expression of the work.<sup>24</sup> It is important to note that copyright protection exists from the time the work is created in a fixed form (i.e., copy or phonorecord).<sup>25</sup> The copyright in the work of authorship immediately becomes the property of the author who created the work.<sup>26</sup> It is a common misconception that a work is not protected by copyright until it is registered with the Copyright Office; however in actuality, “[n]o publication or registration or other action in the Copyright Office is required to secure copyright.”<sup>27</sup>

<sup>17</sup> 18 Am. Jur. 2d *Copyright and Literary Property* s. 1 (2005).

<sup>18</sup> *What Are Patents, Trademarks, Servicemarks, and Copyrights?*, available at [www.uspto.gov/web/offices/pac/doc/general/whatis.htm](http://www.uspto.gov/web/offices/pac/doc/general/whatis.htm).

<sup>19</sup> The term of a new patent is 20 years from the date on which the application for the patent was filed in the United States or, in special cases, from the date an earlier related application was filed, subject to the payment of maintenance fees.

<sup>20</sup> The terms “trademark” and “mark” are commonly used to refer to both trademarks and servicemarks.

<sup>21</sup> Copyright protection for an original work of authorship does not extend to the following: “idea, procedure, process, system, method of operation, concept, principle, or discovery, regardless of the form in which it is described, explained, illustrated, or embodied in such work.” 18 Am. Jur. 2d *Copyright and Literary Property* s. 21 (2005).

<sup>22</sup> In this regard, “original” means only that it possesses at least some minimal degree of creativity. The level of creativity required is extremely low; originality is something less than the novelty or uniqueness necessary for patent protection. 18 Am. Jur. 2d *Copyright and Literary Property* s. 18 (2005).

<sup>23</sup> *Circular 1: Copyright Basics*, available at <http://www.copyright.gov/circs/circ1.html#wci>.

<sup>24</sup> 77 Am. Jur. 449 *Trials* s. 10.

<sup>25</sup> A work is “fixed” in a tangible medium of expression when its embodiment in a copy or phonorecord, by or under the authority of the author, is sufficiently permanent or stable to permit it to be perceived, reproduced, or otherwise communicated for a period of more than transitory duration. A work consisting of sounds, images, or both, that are being transmitted, is “fixed” for purposes of this title if a fixation of the work is being made simultaneously with its transmission. See United States Copyright Office, *Circular 1: Copyright Basics*, available at [www.copyright.gov/circs/circ1.html#wci](http://www.copyright.gov/circs/circ1.html#wci).

<sup>26</sup> *Id.*

<sup>27</sup> *Id.*

A “tradename” is an individual name, surname, or firm name used by a manufacturer and others to identify its business.<sup>28</sup> While a “trademark” is typically a specific word, phrase, or design, “trade dress” usually is a combination of sometimes unrelated elements.<sup>29</sup> A “trade secret” is information including a “formula, pattern, compilation, program, device, method, technique or process, that derives independent economic value, actual or potential,” from not being generally known to or readily ascertainable by other persons who can obtain “economic value from its disclosure or use, and that is the subject of efforts that are reasonable under the circumstances to maintain secrecy.”<sup>30</sup>

Title 17 of the United States Code s. 204(a) provides that “[a] transfer of copyright ownership, other than by operation of law, is not valid unless an instrument of conveyance, or a note or memorandum of the transfer, is in writing and signed by the owner of the rights conveyed or such owner’s duly authorized agent.” The writing requirement contained within this provision is “sometimes called the copyright statute of frauds.”<sup>31</sup>

Although 17 U.S.C. s. 204 is often referred to as the “copyright statute of frauds,” it actually differs materially from state statutes of frauds. State law may be satisfied by a writing not intended as a memorandum of contract, not communicated to the other party, and even made in pleadings or testimony years after the alleged agreement,<sup>32</sup> but federal 17 U.S.C s. 204 may not. State statutes of frauds serve a purely evidentiary function--to prevent enforcement through fraud or perjury of fictitious agreements.<sup>33</sup> Thus, agreements subject to state statutes of frauds may be perfectly valid, yet unenforceable without evidence of a writing. By contrast, a transfer of copyright is simply “not valid” without a writing.<sup>34</sup>

Florida’s statute of frauds s. 725.01, F.S., bars actions on an oral “agreement that is not to be performed within the space of 1 year from the making thereof.”<sup>35</sup> A person could initiate a lawsuit to enforce an oral agreement so long as that agreement under a theory of implied contract, for example, was capable of being fully performed within one year of when it was entered into.

To apply both federal and state principles, when a person shares an idea with another party, but he or she has not:

- protected the idea under federal copyright law, or
- executed a writing sufficient to indicate a contract<sup>36</sup> governing use of that idea,

<sup>28</sup> 47 Am. Jur. 2d *Proof of Facts* 643 s. 1.

<sup>29</sup> 55 Am. Jur. 3d *Proof of Facts* 383 s. 3.

<sup>30</sup> 59 A.L.R. 4th 641 s. 3 (discussing the Uniform Trade Secrets Act).

<sup>31</sup> *Lyrick Studios, Inc. v. Big Idea Productions, Inc.*, 420 F. 3d 388, 391 (5th Cir. 2005).

<sup>32</sup> See Restatement (Second) of Contracts s. 133 cmts. b, d (1981).

<sup>33</sup> *Id.* at s. 131 cmt. c.

<sup>34</sup> *Konigsberg Int’l. Inc. v. Rice*, 16 F. 3d 355, 357 (9th Cir. 1994) (citing 17 U.S.C. § 204(a)).

<sup>35</sup> *Korman v. Iglesias*, 736 F. Supp. 261, 267 (S.D. Fla. 1990).

<sup>36</sup> At a minimum the writing must state with reasonable certainty: (a) the identity of both contracting parties; (b) the subject matter of the contract so that it can be identified either from the writing or if the writing is not clear by the aid of extrinsic evidence; (c) the essential terms and conditions of all the promises constituting the contract and by whom and to whom the promises are made. Restatement (Second) of Contracts s. 131.(1981).

that person could have difficulty bringing a claim or cause of action against the party who has allegedly misappropriated that person's work.

If the work is protected under federal copyright law, even though an unregistered copyright is valid, the copyright must be registered before an action for infringement can be commenced or it will be dismissed for lack of subject-matter jurisdiction. The registration may be obtained at any time during the copyright term. "The fact that plaintiff did not register a copyright until after an alleged infringement has occurred does not preclude the plaintiff from recovering for infringement of copyrights occurring before the date of registration."<sup>37</sup>

### **III. Effect of Proposed Changes:**

#### **Florida Deceptive and Unfair Trade Practices Act**

This bill amends s. 501.207, F.S., to permit the court to enter orders to bring actions "in the name of and on behalf of the defendant enterprise, without regard to any wrongful acts that were committed by the enterprise." The proposed change in statute permits a receiver or other court appointed person to pursue an action under the Florida Deceptive and Unfair Trade Practices Act (FDUTPA) on behalf of a defendant corporation in receivership against a third party who played some role in the alleged wrongdoing. This change would provide standing to the receiver to pursue an action for the defendant corporation in receivership, regardless of whether the defendant corporation had a part in the wrongdoing.

Additionally, the bill amends ss. 501.203 and 501.204, F.S., to update the year in order to capture changes in the Federal Trade Commission Act up to July 1, 2006.

#### **Copyright Law**

The bill creates s. 501.927, F.S., to provide that the use of a creation that is not protected under federal copyright law shall not give rise to a claim or cause of action unless the parties to the claim or cause of action have executed a writing sufficient to indicate that a contract has been made between them governing such use. Creations include but are not limited to an idea, procedure, process, system, method of operation, concept, principle, discovery, or thought that is not a work of authorship protected under federal copyright law. It appears that this new writing requirement may limit the ability for parties to prove breaches of implied contract arising from an oral agreement where that agreement was capable of being fully performed within one year of when it was entered into. The bill does not limit an individual's ability to seek relief under "any cause of action based in copyright, trademark, patent, or trade secret; or any defense raised in connection" with that cause of action.

The bill provides an effective date of July 1, 2006.

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<sup>37</sup> 18 Am. Jur. 2d *Copyright and Literary Property* s. 145 (2005).

**IV. Constitutional Issues:**

## A. Municipality/County Mandates Restrictions:

None.

## B. Public Records/Open Meetings Issues:

None.

## C. Trust Funds Restrictions:

None.

## D. Other:

**Single Subject Rule**

Article III, s. 6 of the State Constitution requires that a bill must pertain to a single subject that is briefly stated in the bill's title. Courts have interpreted this to mean that all provisions of a bill must be "properly connected" to the subject of the bill in a "natural or logical" way.<sup>38</sup> This bill may raise single-subject questions because the two provisions of the bill may not appear to be naturally and logically connected, although both sections relate in a general way to lawsuits and appear in ch. 501, F.S. The title of the bill includes the relating to clause "consumer protection."

**V. Economic Impact and Fiscal Note:**

## A. Tax/Fee Issues:

None.

## B. Private Sector Impact:

The bill will allow receivers for defendant corporations to maintain actions against third-parties who may have helped facilitate a violation under the Florida Deceptive and Unfair Trade Practices Act (FDUTPA). If a receiver were to be successful in a suit against a third-party, the third-party may be liable for contribution for the overall amount that is recovered for creditors<sup>39</sup> and stockholders of the defendant company. Creditors and stockholders currently have the right to maintain a suit for actual damages, attorney's fees, and costs under s. 501.211, F.S., but the proposed legislation would allow the receiver for the defendant corporation to pursue recovery in the name of the defendant corporation from third-parties in cases where the individual creditors and stockholders of

<sup>38</sup> See, e.g., *Franklin v. State*, 887 So. 2d 1063, 1078-79 (Fla. 2004); *Envtl. Confed. of Sw. Fla. v. State*, 886 So. 2d 1013, 1018-19 (Fla. 1st DCA 2004).

<sup>39</sup> Here, "creditors" refers to both consumers and creditors who have suffered actual damages as a result of the defendant's actions.

the defendant corporation choose not to file suit against third parties.<sup>40</sup> If the receiver is successful and more assets are added to the receivership of the defendant corporation, the creditors and stockholders would stand to recover more from the defendant corporation.

The bill would also require that there be a writing to reflect an agreement of use between parties for a person to have a cause of action for the unauthorized use of a noncopyright-protected creation. This would limit one's ability to prove a breach of implied contract by a party who has not administered a written agreement when sharing ideas with others.

**C. Government Sector Impact:**

None.

**VI. Technical Deficiencies:**

Proposed s. 501.927(2), F.S., reads: "Any cause of action based in copyright, trademark, patent, or trade secret; or [a]ny defense raised in connection with a cause of action described in paragraph (a)." The bill does not mention causes of actions involving a tradename, a servicemark, a trade dress, or unfair competition. These additional terms encompass possible causes of action that a party might pursue for the misappropriation of his or her idea, and it is unclear whether the terms of the bill would apply to situations involving these issues.

In addition, it is unclear what "a writing sufficient to indicate that a contract has been made between [the parties] governing such use" must contain for purposes of new s. 501.927, F.S.

**VII. Related Issues:**

None.

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This Senate staff analysis does not reflect the intent or official position of the bill's introducer or the Florida Senate.

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<sup>40</sup> Where the amount that is owed to a creditor or stockholder is of relatively little monetary value, the individual may choose not to go through the process of litigation.





## **VIII. Summary of Amendments:**

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