

# HOUSE BILL REPORT

## HB 1092

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**As Reported by House Committee On:**  
Judiciary

**Title:** An act relating to bad faith assertions of patent infringement.

**Brief Description:** Creating the patent troll prevention act.

**Sponsors:** Representatives Jinkins, Gregerson, Stanford, Bergquist, Goodman and Rodne; by request of Attorney General.

**Brief History:**

**Committee Activity:**

Judiciary: 1/14/15, 1/15/15, 1/29/15 [DPS].

**Brief Summary of Substitute Bill**

- Creates a new chapter in Title 19 RCW prohibiting a person from making assertions of patent infringement in bad faith.
- Authorizes the Attorney General to bring an action to enforce provisions.

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### HOUSE COMMITTEE ON JUDICIARY

**Majority Report:** The substitute bill be substituted therefor and the substitute bill do pass. Signed by 11 members: Representatives Jinkins, Chair; Kilduff, Vice Chair; Rodne, Ranking Minority Member; Shea, Assistant Ranking Minority Member; Goodman, Haler, Kirby, Klippert, Muri, Orwall and Walkinshaw.

**Minority Report:** Do not pass. Signed by 1 member: Representative Hansen.

**Minority Report:** Without recommendation. Signed by 1 member: Representative Stokesbary.

**Staff:** Brent Campbell (786-7152).

**Background:**

Patent Law.

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*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.*

Article One, section 8, clause 8 of the United States Constitution states that Congress shall have power to "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."

Patents grant a limited monopoly that gives the patent holder an exclusive right to make, use, or sell the patented innovation in exchange for disclosure. Patents require five key elements: (1) patentable subject matter; (2) utility; (3) novelty; (4) non-obviousness; and (5) enablement. Patent examiners look at applications to determine if they meet these requirements. Patents that pass this process are presumed valid, but can be found invalid by the courts. Patent holders are not required to work on their innovations in order to retain their patents and may enforce or protect their patents through patent infringement suits in federal courts.

#### Washington Consumer Protection Act.

Washington's Consumer Protection Act (CPA) declares that "unfair or deceptive acts or practices" occurring in trade are unlawful.

The CPA provides that any person who is injured in his or her business or property through such practices may bring a civil action to recover actual damages sustained and costs of the suit, including reasonable attorney's fees. Treble damages may also be awarded in the courts discretion, provided the damage award does not exceed \$25,000. To prevail in a private action under this act, a plaintiff must establish five elements: (1) an unfair or deceptive act or practice; (2) occurring in trade or practice; (3) a public interest impact; (4) injury to plaintiff in his or her business or property; and (5) a causal link between the unfair or deceptive acts and the injury suffered by plaintiff.

The CPA also authorizes the attorney general to bring an action in the name of the state, or as parens patriae on behalf of persons residing in the state, against any person in order to restrain and prevent unfair and deceptive acts or practices.

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#### **Summary of Substitute Bill:**

A person may not make assertions of patent infringement in bad faith.

An "assertion of patent infringement" means:

- sending or delivering of a communication asserting that a person has engaged in patent infringement;
- threatening a person with litigation claiming that a person has engaged in patent infringement;
- sending a communication asserting that a person has engaged in patent infringement to a customer of a target; or
- otherwise claiming that a target has engaged in patent infringement or that a target should obtain a license to a patent to avoid litigation.

Courts may look to a nonexhaustive list of factors to determine if an assertion of patent infringement is made in bad faith. One factor that the court may consider is whether a demand contains specific information, including a patent number, the name and address of the patent owner or owners, and facts relating to the specific areas in which the innovation infringes the patent or is covered by claims of the patent. Another factor is whether the person who sent the assertion of patent infringement failed to provide such information after it is requested.

A court may also consider a nonexhaustive list of factors as evidence that an assertion of patent infringement has been made in good faith. Such factors include whether the person asserting the patent infringement provided specific requested information within a reasonable period of time. Another such factor is whether the person asserting a patent infringement engaged in a reasonable analysis to establish an infringement and attempted to negotiate an appropriate remedy.

Unless done in bad faith, it is not an unfair or deceptive trade practice to:

- advise others of an ownership or right of license or enforcement;
- communicate to others that a patent is available for sale;
- notify another of an infringement of a patent pursuant to federal law; or
- seek compensation on account of past or present infringement when it is reasonable to believe that the person for whom compensation is sought may own such compensation or may need or want such a license.

The Attorney General is authorized to bring an action in the name of the state or on behalf of persons residing in the state to enforce these provisions. Practices covered are matters vitally affecting the public interest for purposes of applying the CPA. A violation of this section is also not reasonable in relation to the development and preservation of business and is an unfair or deceptive act in trade or commerce and an unfair method of competition for purposes of applying the CPA.

Demand letters may not be used to move for declaratory judgment in any underlying patent infringement litigation.

Demands or assertions of patent infringement that arise under certain federal statutes are exempt. Exempted demand letters include those that relate to: the submission of applications for drugs; veterinary biological products, or biological products; environmental pesticide control; the Plant Variety Protection Office; the Food, Drug, and Cosmetic Act; patents for plants; biological products; and limitations on damages, markings, and notice.

A new chapter is added to Title 19 RCW.

### **Substitute Bill Compared to Original Bill:**

Modifications are made to the nonexclusive lists of factors that courts may use to determine good or bad faith.

Demand letters may not be used to move for declaratory judgment, but demand letters may still be used as evidence in trial or to move for summary judgment.

Four new federal statutes are exempted from the act, and all exemptions are consolidated into a single section.

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**Appropriation:** None.

**Fiscal Note:** Available.

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

**Staff Summary of Public Testimony:**

(In support) The bill is narrowly tailored to only cover people acting in bad faith. Patent trolls, who store patents for the sole purpose of threatening businesses into paying licensing fees, send out demand letters without any research into whether their targets are actually infringing. They only hope to extort fees from business owners who are afraid of the costs of litigation.

Small businesses are particularly harmed by bad faith assertions of patent infringement. They do not have in-house counsel and cannot afford the legal costs of fighting against patent trolls. Some are intimidated by the threatening language in the demand letters and may pay the license after being hounded by these patent trolls.

Many Washington businesses are already affected by patent trolls. Washington broadcasters are affected in two ways. High definition radio has been targeted, and a Delaware company has also sent demand letters saying that the way radio stations store information is patented. Washington banks and retailers, both small and large, have also been impacted. Washington realtors have been targeted by an entity claiming that a part inside their scanners is infringing on a patent. Washington's builders have also been subject to demand letters claiming that the way they dry a home with fans and dehumidifiers is patented. Businesses in the printing industry have also been targeted with demands for tens of thousands of dollars because of the way they convert PDF graphics to a plate.

Patents are key drivers to the economy, but frivolous assertions of patent infringement hurt new technologies and the economy. This bill strikes a fair balance to protect intellectual property and to protect legitimate patent holders.

Many other states from across the nation have enacted similar legislation, and even more are pushing for it. Congress has looked into ways to solve this problem, but they have not yet done anything. States must therefore act. At last count, either 17 or 18 states have enacted legislation like this, and 13 more are attempting to do so.

(Opposed) None.

**Persons Testifying:** Representative Jenkins, prime sponsor; Mike Webb and John Nelson, Office of the Attorney General; Mark Allen, Washington State Associations of Broadcasters; Mark Johnson, Washington Retail Association; Jessica Fortescue, Washington Bankers Association; Nathan Gordon, Washington Realtors; Megan Schrader, Technet; and Bill Stauffacher, Building Industry Association of Washington and Pacific Printing Industries Association.

**Persons Signed In To Testify But Not Testifying:** None.