

HOUSE BILL REPORT

SSB 5059

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: Senate Committee on Law & Justice (originally sponsored by Senators Frockt, Fain, Pedersen and Chase; by request of Attorney General).

Brief History:

Committee Activity:

Judiciary: 3/17/15, 3/26/15 [DP].

Brief Summary of Substitute Bill

- Prohibits a person from making assertions of patent infringement in bad faith.
- Authorizes the Attorney General to bring civil actions regarding bad faith patent assertions.

HOUSE COMMITTEE ON JUDICIARY

Majority Report: Do pass. Signed by 12 members: Representatives Jinkins, Chair; Kilduff, Vice Chair; Rodne, Ranking Minority Member; Shea, Assistant Ranking Minority Member; Goodman, Haler, Kirby, Klippert, Muri, Orwall, Stokesbary and Walkinshaw.

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

Staff: Brent Campbell (786-7152).

Background:

Patent Law.

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 of the patented innovation. 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

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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 lawsuit, including reasonable attorney's fees. Treble damages may also be awarded in the court's discretion, provided the damage award does not exceed \$25,000. To prevail in a private action under the CPA, 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 the plaintiff in his or her business or property; and (5) a causal link between the unfair or deceptive acts and the injury suffered by the plaintiff.

The CPA also authorizes the Attorney General (AG) 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.

Summary of 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; or
- otherwise claiming that a person has engaged in patent infringement or that a person 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 letter 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; or
- reasonably seek compensation on account of past or present infringement.

The AG 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, and bad faith assertions of patent infringement vitally affect the public interest for causes of action brought by the AG. Violations are also not reasonable in relation to the development and preservation of business and are 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.

Demand letters 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.

Appropriation: None.

Fiscal Note: Available.

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

Staff Summary of Public Testimony:

(In support) Using the threat of lawsuits, non-practicing entities, also known as patent trolls, attempt to extort licensing agreements. These patent trolls do not investigate their claims, they simply obtain a list of targets and send letters hoping that the businesses will capitulate and pay a fee. Part of their strategy is also to target small and medium sized businesses who do not have the resources to pay for costly patent litigation. Eighteen percent of these business settle without a fight to avoid potentially exorbitant legal costs. In 2011 alone, patent trolls costs the United States \$29 billion in direct legal fees.

Washington businesses are currently suffering due to bad faith assertions of patent infringement. Many retailers, especially small retailers, have been sent these letters and have paid the fees so they will not be subject to unknown legal costs. The building industry has been affected as well.

This is important, reasonable, and fair legislation that protects both legitimate patent holders and Washington businesses. It is focused on only the most abusive practices and clearly sets forth factors that may be used to determine whether an assertion is made in good or bad faith. The federal government isn't going to do anything about this in the near future, so states must act. Seventeen states have already passed similar legislation. There has been concern against private enforcement actions, but this bill solves that by having the AG decide when an enforcement action should be brought.

(Opposed) None.

Persons Testifying: Senator Frockt, prime sponsor; Shannon Smith, Office of the Attorney General; Mark Johnson, Washington Retail Association; and Jan Himebaugh, Building Industry Association of Washington.

Persons Signed In To Testify But Not Testifying: None.