

# FINAL BILL REPORT

## ESHB 1794

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### C 380 L 19

Synopsis as Enacted

**Brief Description:** Concerning agreements between licensed marijuana businesses and other people and businesses, including royalty and licensing agreements relating to the use of intellectual property.

**Sponsors:** House Committee on Commerce & Gaming (originally sponsored by Representatives Stanford, MacEwen, Blake, Vick, Kirby, Young, Reeves and Appleton).

**House Committee on Commerce & Gaming**  
**Senate Committee on Labor & Commerce**

#### **Background:**

A 2017 law addresses the ability of licensed marijuana businesses to enter into licensing agreements or consulting contracts with other individuals and businesses. Such agreements or contracts may relate to any goods or services that are registered as a trademark under federal or state law, any unregistered trademark, trade name, or trade dress, or any trade secret, technology, or proprietary information used to manufacture a cannabis product or used to provide a service related to a marijuana business. All of these agreements entered into by a licensed marijuana business must be disclosed to the Liquor and Cannabis Board (LCB).

Initiative 502 (2012) granted the LCB authority to adopt rules regarding the records to be created and maintained by marijuana licensees, the reports to be made to the LCB, and inspection of the books and records. The LCB adopted these rules, which make marijuana licensees responsible for keeping records that clearly reflect all financial transactions and the financial condition of the business. Under the LCB's rules, specific records must be kept and maintained at the licensed premises for at least five years and made available for inspection upon request.

#### **Summary:**

Terminology referencing authorized agreements related to licensed marijuana businesses and trademarks, trade secrets, and other intellectual property is updated to more broadly describe the types of agreements covered, as well as to more broadly describe the types of business entities that may be parties to any such agreement. Agreements that licensed marijuana businesses may enter involving a registered trademark may also relate to any goods or

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services registered as a trademark under another state's law or international trademark law, and not only to trademarks registered under federal law or Washington state law.

Any agreement between a licensed marijuana business and another person, business, or entity related to goods or services that are trademarked or otherwise protected may include the following types of provisions:

- a royalty fee or flat rate calculated based on sales of each product that includes the licensed intellectual property or was manufactured or sold using the licensed intellectual property or service, provided the royalty fee is no greater than 10 percent of the licensee's gross sales from the product;
- a flat rate or lump sum calculated based on time or milestones;
- terms giving either party exclusivity or qualified exclusivity as it relates to use of the intellectual property;
- quality control standards as necessary to protect the integrity of the intellectual property;
- enforcement obligations to be undertaken by the licensed marijuana business;
- covenants to use the licensed intellectual property; and
- assignment of licensor improvements of the intellectual property.

A person, business, or entity that enters into an agreement with a licensed marijuana business, where both parties to the agreement are in compliance with the authorization, is exempt from the requirement to qualify for a marijuana business license for purposes of the agreement. A requirement is added that all agreements entered into by a licensed marijuana business under the authorization are subject to the LCB's recordkeeping requirements as established by rule.

**Votes on Final Passage:**

House	86	11
Senate	39	6

**Effective:** July 28, 2019