

**GENERAL ASSEMBLY OF NORTH CAROLINA
SESSION 2013**

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HOUSE BILL 1032

Short Title: Patent Abuse Bill. (Public)

Sponsors: Representative Murry (Primary Sponsor).

For a complete list of Sponsors, refer to the North Carolina General Assembly Web Site.

Referred to: Commerce and Job Development, if favorable, Judiciary Subcommittee B.

May 15, 2014

1 A BILL TO BE ENTITLED
2 AN ACT TO PREVENT THE ABUSIVE USE OF PATENTS.
3 The General Assembly of North Carolina enacts:

4 **SECTION 1.** Chapter 75 of the General Statutes is amended by adding a new
5 Article to read:

"Article 8.

"Abusive Patent Assertions.

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7
8 **"§ 75-136. Title.**

9 This Article shall be known and may be cited as the "Abusive Patent Assertions Act."

10 **"§ 75-137. Purpose.**

11 (a) The General Assembly finds the following:

12 (1) North Carolina is home to a growing high-technology, knowledge-based
13 economy. With its top-tier research universities and active technology
14 sector, North Carolina is poised to continue its growth. To continue growing,
15 North Carolina must attract new, small, or mid-sized technology companies.
16 Doing so will help provide jobs for North Carolina's residents and boost
17 North Carolina's economy. North Carolina also is home to companies in
18 retail, manufacturing, and other industries, many of whom are customers of
19 technology companies. Those other businesses are more likely to succeed if
20 not inhibited by abusive and bad-faith demands and litigation.

21 (2) Patents encourage research, development, and innovation. Patent holders
22 have legitimate rights to enforce their patents.

23 (3) The General Assembly does not wish to interfere with good-faith patent
24 litigation or the good-faith enforcement of patents. The General Assembly
25 also recognizes that North Carolina is preempted from passing any law that
26 conflicts with federal patent law.

27 (4) Patent litigation can be technical, complex, and expensive. The expense of
28 patent litigation, which may cost millions of dollars, can be a significant
29 burden on small- and medium-sized companies. North Carolina wishes to
30 help its businesses avoid these costs by encouraging the most efficient
31 resolution of patent infringement claims without conflicting with federal
32 law.

33 (5) In order for North Carolina companies to be able to respond promptly and
34 efficiently to patent infringement assertions against them, it is necessary that
35 they receive specific information regarding how their product, service, or



1 technology may have infringed the patent at issue. Receiving this
2 information at an early stage will facilitate the resolution of claims and
3 lessen the burden of potential litigation on North Carolina companies.

4 (6) Abusive patent litigation, and especially the assertion of bad-faith
5 infringement claims, can harm North Carolina companies. A business that
6 receives a letter asserting such claims faces the threat of expensive and
7 protracted litigation and may feel that it has no choice but to settle and to
8 pay a licensing fee even if the claim is meritless. This is especially so for
9 small- and medium-sized companies and nonprofits that lack the resources to
10 investigate and defend themselves against infringement claims.

11 (7) Not only do bad-faith patent infringement claims impose a significant
12 burden on individual North Carolina businesses, they also undermine North
13 Carolina's efforts to attract and nurture technology and other companies.
14 Funds used to avoid the threat of bad-faith litigation are no longer available
15 to invest, produce new products, expand, or hire new workers, thereby
16 harming North Carolina's economy.

17 (8) North Carolina has a strong interest in patent matters involving its citizens
18 and its businesses, including protecting its citizens and businesses against
19 abusive patent assertions and ensuring North Carolina companies are not
20 subjected to abusive patent assertion by entities acting in bad faith.

21 (9) In lawsuits involving abusive patent assertions, an accused infringer
22 prevailing on the merits will usually be awarded its costs, and less
23 frequently, its fees. These awards do not serve as a deterrent to abusive
24 patent assertion entities who have limited liability, as these companies may
25 hold no cash or other assets. North Carolina has a strong interest in making
26 sure that prevailing North Carolina companies sued by abusive patent
27 assertion entities can recover what is awarded to them.

28 (b) The General Assembly seeks, by this narrowly tailored act, to strike a balance
29 between (i) the interests of efficient and prompt resolution of patent infringement claims,
30 protection of North Carolina businesses from abusive and bad-faith assertions of patent
31 infringement, and building of North Carolina's economy and (ii) the intentions to respect
32 federal law and be careful not to interfere with legitimate patent enforcement actions.

33 **§ 75-138. Definitions.**

34 The following definitions apply in this Article:

35 (1) Demand. – A letter, e-mail, or other communication asserting or claiming
36 that a target has engaged in patent infringement or should obtain a license to
37 a patent.

38 (2) Target. – A North Carolina person that meets one or more of the following:

39 a. The person has received a demand or is the subject of an assertion or
40 allegation of patent infringement.

41 b. The person has been threatened with litigation or is the defendant of
42 a filed lawsuit alleging patent infringement.

43 c. The person has customers who have received a demand asserting that
44 the person's product, service, or technology has infringed a patent.

45 (3) Interested Party. – A person, other than the party alleging infringement, that
46 (i) is an assignee of the patent or patents at issue; (ii) has a right, including a
47 contingent right, to enforce or sublicense the patent or patents at issue; or
48 (iii) has a direct financial interest in the patent or patents at issue, including
49 the right to any part of an award of damages or any part of licensing revenue.
50 A "direct financial interest" does not include either of the following:

- 1 a. An attorney or law firm providing legal representation in the civil
2 action described in sub-subdivision b. of subdivision (2) of this
3 section if the sole basis for the financial interest of the attorney or
4 law firm in the patent or patents at issue arises from the attorney or
5 law firm's receipt of compensation reasonably related to the
6 provision of the legal representation.
- 7 b. A person whose sole financial interest in the patent or patents at issue
8 is ownership of an equity interest in the party alleging infringement,
9 unless such person also has the right or ability to influence, direct, or
10 control the civil action.

11 **"§ 75-139. Abusive Patent Assertions.**

12 (a) It is unlawful for a person to make a bad-faith assertion of patent infringement. A
13 court may consider the following factors as evidence that a person has made a bad-faith
14 assertion of patent infringement:

- 15 (1) The demand does not contain all of the following information:
- 16 a. The patent application number or patent number.
- 17 b. The name and address of the patent owner or owners and assignee or
18 assignees, if any.
- 19 c. Factual allegations concerning the specific areas in which the target's
20 products, services, and technology infringe the patent or are covered
21 by specific, identified claims in the patent.
- 22 d. An explanation of why the person making the assertion has standing,
23 if the United States Patent and Trademark Office's assignment
24 system does not identify the person asserting the patent as the owner.
- 25 (2) Prior to sending the demand, the person failed to conduct an analysis
26 comparing the claims in the patent to the target's products, services, and
27 technology, or the analysis was done but does not identify specific areas in
28 which the products, services, and technology are covered by the claims in
29 the patent.
- 30 (3) The demand lacks the information described in subdivision (1) of this
31 subsection, the target requests the information, and the person fails to
32 provide the information within a reasonable period of time.
- 33 (4) The person demands payment of a license fee or response within an
34 unreasonably short period of time.
- 35 (5) The person offers to license the patent for an amount that is not based on a
36 reasonable estimate of the value of the license, or the person offers to license
37 the patent for an amount that is based on the cost of defending a potential or
38 actual lawsuit.
- 39 (6) The claim or assertion of patent infringement is meritless, and the person
40 knew or should have known that the claim or assertion is meritless; or the
41 claim or assertion relies on an interpretation of the patent that was
42 disclaimed during prosecution, and the person making the claim or assertion
43 knows or should have known about the disclaimer, or would have known
44 about the disclaimer if the person reviewed the patent's prosecution history.
- 45 (7) The claim or assertion of patent infringement is deceptive.
- 46 (8) The person or its subsidiaries or affiliates have previously or concurrently
47 filed or threatened to file one or more lawsuits based on the same or similar
48 claim of patent infringement and (i) those threats or lawsuits lacked the
49 information described in subdivision (1) of this subsection, or (ii) the person
50 attempted to enforce the claim of patent infringement in litigation and a
51 court found the claim to be meritless.

- 1 (9) The person making the claim or assertion sent the same demand or
2 substantially the same demand to multiple recipients and made assertions
3 against a wide variety of products and systems without reflecting those
4 differences in a reasonable manner in the demands.
- 5 (10) The person making the claim or assertion is aware of, but does not disclose,
6 any final, nonfinal, or preliminary postgrant finding of invalidity or
7 unpatentability involving the patent.
- 8 (11) The person making the claim or assertion seeks an injunction when that is
9 objectively unreasonable under the law.
- 10 (12) Any other factor the court finds relevant.
- 11 (b) A court may consider the following factors as evidence that a person has not made a
12 bad-faith assertion of patent infringement:
- 13 (1) The demand contains the information described in subdivision (a)(1) of this
14 section.
- 15 (2) Where the demand lacks the information described in subdivision (a)(1) of
16 this section and the target requests the information, the person provides the
17 information within a reasonable period of time.
- 18 (3) The person engages in a good-faith effort to establish that the target has
19 infringed the patent and to negotiate an appropriate remedy.
- 20 (4) The person makes a substantial investment in the use of the patent or in the
21 production or sale of a product or item that the person reasonably believes is
22 covered by the patent. "Use of the patent" in the preceding sentence means
23 actual practice of the patent and does not include licensing without actual
24 practice.
- 25 (5) The person is either (i) the inventor or joint inventor of the patent or, in the
26 case of a patent filed by and awarded to an assignee of the original inventor
27 or joint inventor, is the original assignee or (ii) an institution of higher
28 education or a technology transfer organization owned or affiliated with an
29 institution of higher education.
- 30 (6) The person has demonstrated good-faith business practices in previous
31 efforts to enforce the patent, or a substantially similar patent, or has
32 successfully enforced the patent, or a substantially similar patent, through
33 litigation.
- 34 (7) Any other factor the court finds relevant.
- 35 (c) Nothing in this Article shall be construed to apply a demand letter or assertion of
36 patent infringement arising under 35 U.S.C. 271(e)(2) or 42 U.S.C. 262.
- 37 (d) Subject to the provisions of subsections (a) and (b) of this section and provided the
38 activities are not carried out in bad faith, nothing in this section shall be construed to deem it an
39 unlawful practice, in and of itself, for any person who owns or has the right to license or
40 enforce a patent to do any of the following:
- 41 (1) Advise others of that ownership or right of license or enforcement.
42 (2) Communicate to others that the patent is available for license or sale.
43 (3) Notify another of the infringement of the patent.
44 (4) Seek compensation on account of past or present infringement or for a
45 license to the patent.

46 **"§ 75-140. Bond.**

- 47 (a) Upon motion by a target and a finding by the court that a target has established a
48 reasonable likelihood that a person has made a bad-faith assertion of patent infringement in
49 violation of this Chapter, the court shall require the person to post a bond in an amount equal to
50 a good-faith estimate of the target's fees and costs to litigate the claim and amounts reasonably
51 likely to be recovered under G.S. 75-141, conditioned upon payment of any amounts finally

1 determined to be due to the target. A hearing shall be held if either party so requests. A bond
2 ordered pursuant to this section shall not exceed five hundred thousand dollars (\$500,000).

3 (b) The court may waive the bond requirement of subsection (a) of this section if it
4 finds the person has available assets equal to the amount of the proposed bond or for other good
5 cause shown.

6 (c) If the person asserting patent infringement cannot pay any fees or costs ordered by
7 any court in a matter related to the same asserted patent infringement, those fees or costs shall
8 be paid out of the bond posted under subsection (a) of this section, without affecting the
9 obligation of the person asserting patent infringement to pay any remainder of those fees or
10 costs not paid out of the bond.

11 **"§ 75-141. Enforcement; Remedies; Damages.**

12 (a) The Attorney General shall have the same authority under this Chapter to make
13 rules, conduct civil investigations, bring civil actions, and enter into assurances of
14 discontinuance as provided under this Chapter. In an action brought by the Attorney General
15 pursuant to this section, the court may award or impose any relief available under this Chapter.

16 (b) A target or a person aggrieved by a violation of this Chapter or by a violation of
17 rules adopted under this Chapter may bring an action in Superior Court against a person that
18 has made a bad-faith assertion of patent infringement. A court may award to a plaintiff who
19 prevails in an action brought pursuant to this subsection one or more of the following remedies:

20 (1) Equitable relief.

21 (2) Damages.

22 (3) Costs and fees, including reasonable attorneys' fees.

23 (4) Exemplary damages in an amount equal to fifty thousand dollars (\$50,000)
24 or three times the total of damages, costs, and fees, whichever is greater.

25 (c) Joinder of Interested Parties. – In an action arising under subsection (a) or (b) of this
26 section, the court shall grant a motion by the Attorney General or a target to join an interested
27 party if the moving party shows that the party alleging infringement has no substantial interest
28 in the patent or patents at issue other than making demands or asserting such patent claim in
29 litigation.

30 (d) In an action arising under subsection (a) or (b) of this section, any person who has
31 delivered or sent a demand to a target in North Carolina has purposefully availed himself of the
32 privileges of conducting business in this State and shall be subject to suit in this State, whether
33 or not the person is transacting or has transacted any other business in this State. This Chapter
34 shall be construed as a special jurisdiction statute in accordance with G.S. 1-75.4(2).

35 (e) If a party is unable to pay any amount awarded by the court pursuant to subsection
36 (a) or (b) of this section, the court may find any interested party joined pursuant to subsection
37 (c) of this section jointly and severally liable for the abusive patent assertion and make the
38 award recoverable against any or all of the joined interested parties.

39 (f) This Chapter shall not be construed to limit rights and remedies available to the
40 State of North Carolina or to any person under any other law and shall not alter or restrict the
41 Attorney General's authority under this Chapter with regard to conduct involving assertions of
42 patent infringement."

43 **SECTION 2.** G.S. 14-118.4 reads as rewritten:

44 **"§ 14-118.4. Extortion.**

45 (a) Any person who threatens or communicates a threat or threats to another with the
46 intention thereby wrongfully to obtain anything of value or any acquittance, advantage, or
47 immunity is guilty of extortion and such person shall be punished as a Class F felon.

48 (b) A person is guilty of extortion under this section when the person intentionally
49 obtains or attempts to obtain property of another by making or threatening to make an abusive
50 patent assertion under G.S. 75-139 against the other person. For purposes of this subsection, a
51 "person" means an individual, agent, company, firm, or corporation."

1 **SECTION 3.** Section 1 of this act is effective when it becomes law and applies to
2 causes of actions commenced on or after that date and demands made on or after that date.
3 Section 2 of this act becomes effective December 1, 2014, and applies to offenses committed
4 on or after that date. The remainder of this act is effective when it becomes law.