

# ADOPTED



NORTH CAROLINA GENERAL ASSEMBLY  
AMENDMENT  
Senate Bill 648

AMENDMENT NO. A1  
(to be filled in by  
Principal Clerk)

S648-AMH-96 [v.1]

Page 1 of 7

Comm. Sub. [YES]  
Amends Title [NO]  
Fifth Edition

Date \_\_\_\_\_, 2014

Representative Murry

1 moves to amend the bill on page 3, line 41, by inserting the following language after that line:

2 "SECTION 2.1.(a) Chapter 75 of the General Statutes is amended by adding a new  
3 Article to read:

4 "Article 8.  
5 "Abusive Patent Assertions.

6 "§ 75-136. Title.

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

8 "§ 75-137. Purpose.

9 (a) The General Assembly finds the following:

- 10 (1) North Carolina is home to a growing high-technology, knowledge-based  
11 economy. With its top-tier research universities and active technology  
12 sector, North Carolina is poised to continue its growth. To continue growing,  
13 North Carolina must attract new, small, and mid-sized technology  
14 companies. Doing so will help provide jobs for North Carolina's residents  
15 and boost North Carolina's economy. North Carolina also is home to  
16 companies in retail, manufacturing, and other industries, many of whom are  
17 customers of technology companies. Those other businesses are more likely  
18 to succeed if not inhibited by abusive and bad-faith demands and litigation.
- 19 (2) Patents encourage research, development, and innovation. Patent holders  
20 have legitimate rights to enforce their patents.
- 21 (3) The General Assembly does not wish to interfere with good-faith patent  
22 litigation or the good-faith enforcement of patents. The General Assembly  
23 also recognizes that North Carolina is preempted from passing any law that  
24 conflicts with federal patent law.
- 25 (4) Patent litigation can be technical, complex, and expensive. The expense of  
26 patent litigation, which may cost millions of dollars, can be a significant  
27 burden on companies. North Carolina wishes to help its businesses avoid  
28 these costs by encouraging the most efficient resolution of patent  
29 infringement claims without conflicting with federal law.
- 30 (5) In order for North Carolina companies to be able to respond promptly and  
31 efficiently to patent infringement assertions against them, it is necessary that  
32 they receive specific information regarding how their product, service, or



\* S 6 4 8 - A M H - 9 6 - V - 1 \*

NORTH CAROLINA GENERAL ASSEMBLY

AMENDMENT

Senate Bill 648

**ADOPTED**

AMENDMENT NO. A1

(to be filled in by  
Principal Clerk)

S648-AMH-96 [v.1]

Page 2 of 7

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 may be awarded costs and, less frequently, fees.  
23 These awards do not serve as a deterrent to abusive patent assertion entities  
24 who have limited liability, as these companies may hold no cash or other  
25 assets. North Carolina has a strong interest in making sure that prevailing  
26 North Carolina companies sued by abusive patent assertions entities can  
27 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 to not interfere with legitimate patent enforcement actions. Except as  
33 specifically set forth in this act regarding bad-faith patent assertions, nothing in this act is  
34 intended to alter current law concerning personal liability of principals in business entities.

35 **§ 75-138. Definitions.**

36 The following definitions apply in this Article:

37 (1) Affiliate. – A business establishment, business, or other legal entity that  
38 wholly or substantially owns, is wholly or substantially owned by, or is  
39 under common ownership with another entity.

40 (2) Demand. – A letter, e-mail, or other communication asserting or claiming  
41 that a target has engaged in patent infringement or should obtain a license to  
42 a patent.

43 (3) Institution of higher education. – Defined in 20 U.S.C. § 1001(a).

ADOPTED

AMENDMENT NO. A1

(to be filled in by  
Principal Clerk)

S648-AMH-96 [v.1]

Page 3 of 7

1 (4) Interested party. – A person, other than the party alleging infringement, that  
2 (i) is an assignee of the patent or patents at issue; (ii) has a right, including a  
3 contingent right, to enforce or sublicense the patent or patents at issue; or  
4 (iii) has a direct financial interest in the patent or patents at issue, including  
5 the right to any part of an award of damages or any part of licensing revenue.

6 A "direct financial interest" does not include either of the following:

7 a. An attorney or law firm providing legal representation in the civil  
8 action alleging patent infringement if the sole basis for the financial  
9 interest of the attorney or law firm in the patent or patents at issue  
10 arises from the attorney or law firm's receipt of compensation  
11 reasonably related to the provision of the legal representation.

12 b. A person whose sole financial interest in the patent or patents at issue  
13 is ownership of an equity interest in the party alleging infringement,  
14 unless such person also has the right or ability to influence, direct, or  
15 control the civil action.

16 (5) Operating entity. – A person primarily engaged in, when evaluated with its  
17 affiliates over the preceding 24-month period and when disregarding the  
18 selling and licensing of patents, one or more of the following activities:

19 a. Research and technical or experimental work to create, test, qualify,  
20 modify, or validate technologies or processes for commercialization  
21 of goods or services;

22 b. Manufacturing; or

23 c. The provision of goods or commercial services.

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

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

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

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

31 **§ 75-139. Abusive patent assertions.**

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

35 (1) The demand does not contain all of the following information:

36 a. The patent application number or patent number.

37 b. The name and address of the patent owner or owners and assignee or  
38 assignees, if any.

39 c. Factual allegations concerning the specific areas in which the target's  
40 products, services, and technology infringe the patent or are covered  
41 by specific, identified claims in the patent.

**ADOPTED**

AMENDMENT NO. A1

(to be filled in by  
Principal Clerk)

S648-AMH-96 [v.1]

Page 4 of 7

- 1                    d. An explanation of why the person making the assertion has standing,  
2                    if the United States Patent and Trademark Office's assignment  
3                    system does not identify the person asserting the patent as the owner.  
4                    (2) Prior to sending the demand, the person failed to conduct an analysis  
5                    comparing the claims in the patent to the target's products, services, and  
6                    technology, or the analysis was done but does not identify specific areas in  
7                    which the products, services, and technology are covered by the claims in  
8                    the patent.  
9                    (3) The demand lacks the information described in subdivision (1) of this  
10                    subsection, the target requests the information, and the person fails to  
11                    provide the information within a reasonable period of time.  
12                    (4) The person demands payment of a license fee or response within an  
13                    unreasonably short period of time.  
14                    (5) The person offers to license the patent for an amount that is not based on a  
15                    reasonable estimate of the value of the license, or the person offers to license  
16                    the patent for an amount that is based on the cost of defending a potential or  
17                    actual lawsuit.  
18                    (6) The claim or assertion of patent infringement is meritless, and the person  
19                    knew or should have known that the claim or assertion is meritless; or the  
20                    claim or assertion relies on an interpretation of the patent that was  
21                    disclaimed during prosecution, and the person making the claim or assertion  
22                    knows or should have known about the disclaimer, or would have known  
23                    about the disclaimer if the person reviewed the patent's prosecution history.  
24                    (7) The claim or assertion of patent infringement is deceptive.  
25                    (8) The person or its subsidiaries or affiliates have previously or concurrently  
26                    filed or threatened to file one or more lawsuits based on the same or similar  
27                    claim of patent infringement and (i) those threats or lawsuits lacked the  
28                    information described in subdivision (1) of this subsection, or (ii) the person  
29                    attempted to enforce the claim of patent infringement in litigation and a  
30                    court found the claim to be meritless.  
31                    (9) The person making the claim or assertion sent the same demand or  
32                    substantially the same demand to multiple recipients and made assertions  
33                    against a wide variety of products and systems without reflecting those  
34                    differences in a reasonable manner in the demands.  
35                    (10) The person making the claim or assertion is aware of, but does not disclose,  
36                    any final, nonfinal, or preliminary postgrant finding of invalidity or  
37                    unpatentability involving the patent.  
38                    (11) The person making the claim or assertion seeks an injunction when that is  
39                    objectively unreasonable under the law.  
40                    (12) Any other factor the court finds relevant.  
41                    (b) A court may consider the following factors as evidence that a person has not made a  
42                    bad-faith assertion of patent infringement:

NORTH CAROLINA GENERAL ASSEMBLY

AMENDMENT

Senate Bill 648

**ADOPTED**

AMENDMENT NO. A1

(to be filled in by  
Principal Clerk)

S648-AMH-96 [v.1]

Page 5 of 7

- 1           (1)    The demand contains the information described in subdivision (1) of  
2                    subsection (a) of this section.
- 3           (2)    Where the demand lacks the information described in subdivision (1) of  
4                    subsection (a) of this section and the target requests the information, the  
5                    person provides the information within a reasonable period of time.
- 6           (3)    The person engages in a good-faith effort to establish that the target has  
7                    infringed the patent and to negotiate an appropriate remedy.
- 8           (4)    The person makes a substantial investment in the use of the patent or in the  
9                    production or sale of a product or item that the person reasonably believes is  
10                   covered by the patent. "Use of the patent" in the preceding sentence means  
11                   actual practice of the patent and does not include licensing without actual  
12                    practice.
- 13           (5)    The person is either (i) the inventor or joint inventor of the patent or, in the  
14                    case of a patent filed by and awarded to an assignee of the original inventor  
15                    or joint inventor, is the original assignee or (ii) an institution of higher  
16                    education or a technology transfer organization owned or affiliated with an  
17                    institution of higher education.
- 18           (6)    The person has demonstrated good-faith business practices in previous  
19                    efforts to enforce the patent, or a substantially similar patent, or has  
20                    successfully enforced the patent, or a substantially similar patent, through  
21                    litigation.
- 22           (7)    Any other factor the court finds relevant.
- 23   (c)    This Article does not apply to any of the following:
- 24           (1)    A demand letter or assertion of patent infringement arising under any of the  
25                    following:
- 26                    a.    7 U.S.C. § 136 et seq.
- 27                    b.    7 U.S.C. § 2321 et seq.
- 28                    c.    21 U.S.C. § 301 et seq.
- 29                    d.    35 U.S.C. § 161 et seq.
- 30                    e.    35 U.S.C. § 271(e)(2).
- 31                    f.    42 U.S.C. § 262.
- 32           (2)    A demand letter or assertion of patent infringement by or on behalf of (i) an  
33                    institution of higher education incorporated under the laws of and with its  
34                    principal offices in North Carolina or (ii) a technology transfer organization  
35                    owned by or affiliated with the institution of higher education.
- 36           (3)    A demand letter or assertion of patent infringement by or on behalf of a  
37                    nonprofit research organization recognized as exempt from federal income  
38                    tax under 26 U.S.C. § 501(c)(3) incorporated under the laws of and with its  
39                    principal offices in North Carolina, or a technology transfer organization  
40                    owned by or affiliated with the organization.
- 41           (4)    A demand letter or assertion of patent infringement made by an operating  
42                    entity or its affiliate.

# ADOPTED

AMENDMENT NO. A1(to be filled in by  
Principal Clerk)

S648-AMH-96 [v.1]

Page 6 of 7

1        (d) Subject to the provisions of subsections (a) and (b) of this section, and provided the  
2 activities are not carried out in bad faith, nothing in this section shall be construed to deem it an  
3 unlawful practice for any person who owns or has the right to license or enforce a patent to do  
4 any of the following:

5            (1) Advise others of that ownership or right of license or enforcement.

6            (2) Communicate to others that the patent is available for license or sale.

7            (3) Notify another of the infringement of the patent.

8            (4) Seek compensation on account of past or present infringement or for a  
9 license to the patent.

10 **"§ 75-140. Bond.**

11        (a) Upon motion by a target and a finding by the court that a target has established a  
12 reasonable likelihood that a person has made a bad-faith assertion of patent infringement in  
13 violation of this Chapter, the court shall require the person to post a bond in an amount equal to  
14 a good-faith estimate of the target's fees and costs to litigate the claim and amounts reasonably  
15 likely to be recovered under G.S. 75-141, conditioned upon payment of any amounts finally  
16 determined to be due to the target. A hearing shall be held if either party so requests. A bond  
17 ordered pursuant to this section shall not exceed five hundred thousand dollars (\$500,000).

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

21        (c) If the person asserting patent infringement fails within 30 days to pay any fee or  
22 cost ordered by a court in a matter related to the asserted patent infringement, the amount not  
23 paid shall be paid out of the bond posted under subsection (a) of this section, without affecting  
24 the obligation of the person asserting patent infringement to pay any remainder of those fees or  
25 costs not paid out of the bond.

26 **"§ 75-141. Enforcement; remedies; damages.**

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

31        (b) A target or a person aggrieved by a violation of this Article or by a violation of rules  
32 adopted under this Article may bring an action in superior court against a person that has made  
33 a bad-faith assertion of patent infringement. A court may award to a plaintiff who prevails in an  
34 action brought pursuant to this subsection one or more of the following remedies:

35            (1) Equitable relief.

36            (2) Damages.

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

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

40        (c) A court may award to a defendant who prevails in an action brought pursuant to this  
41 section costs and fees, including reasonable attorneys' fees, if the court finds the action was not  
42 well-grounded in fact and warranted by existing law or was interposed for any improper



**ADOPTED**

AMENDMENT NO. A1

(to be filled in by  
Principal Clerk)

S648-AMH-96 [v.1]

Page 7 of 7

1 purpose, such as to harass or to cause unnecessary delay or needless increase in the cost of  
2 litigation.

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

8 (e) In an action arising under subsection (a) or (b) of this section, any person who has  
9 delivered or sent a demand to a target in North Carolina has purposefully availed himself or  
10 herself of the privileges of conducting business in this State and shall be subject to suit in this  
11 State, whether or not the person is transacting or has transacted any other business in this State.  
12 This Article shall be construed as a special jurisdiction statute in accordance with  
13 G.S. 1-75.4(2).

14 (f) If a party is unable to pay an amount awarded by the court pursuant to subsection (a)  
15 or (b) of this section, the court may find any interested party joined pursuant to subsection (d)  
16 of this section jointly and severally liable for the abusive patent assertion and make the award  
17 recoverable against any or all of the joined interested parties.

18 (g) This Article shall not be construed to limit rights and remedies available to the State  
19 of North Carolina or to any person under any other law and shall not alter or restrict the  
20 Attorney General's authority under this Article with regard to conduct involving assertions of  
21 patent infringement."

22 **SECTION 2.1.(b)** Section 2.1 of this act is effective when it becomes law and  
23 applies to causes of actions commenced on or after that date and demands made on or after that  
24 date.";

25  
26 And on page 3, line 42, by deleting "This" and substituting the following language:  
27 "Except as otherwise provided, this".

SIGNED \_\_\_\_\_  
Amendment Sponsor

SIGNED \_\_\_\_\_  
Committee Chair if Senate Committee Amendment

**The official copy of this document, with signatures  
and vote information, is available in the  
House Principal Clerk's Office**