


New North Carolina Law Provides Tool to Battle Patent Trolls



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The North Carolina General Assembly recently passed a bill aimed at the abusive assertion of patents. It was part of the Commerce Protection Act of 2014 (S 648, S.L. 2014-110, section 2.1) and was signed into law by Governor Pat McCrory on August 6, 2014.

Patent assertion abuse has been widely discussed in recent years as non-practicing entities (NPEs) (also sometimes called a “patent assertion entity” or PAE) have purchased patents and then asserted them against a variety of companies, both large and small. Sometimes called “patent trolls,” such entities are often formed just for this purpose and in the eyes of many, abuse the assertion process in order to force “targets” (those against whom the patents are being asserted) into paying money to the NPE. Such payments are frequently made simply to avoid the hassle and cost of litigation regardless of the merits of the assertion.

The United States Congress is considering legislation on patent trolling but the effort appears stalled. As a result, a number of states are considering legislation to address the problem.

A broad coalition of companies and associations began working on a North Carolina bill months ago. The group included the Bankers Association, the Retail Merchants Association, the Technology Association, the State Chamber and companies such as SAS and Red Hat. This work led to the introduction of a bill (H 1032) whose provisions were incorporated in the law enacted this year.

The new law was effective upon enactment and applies to causes of action and demands on or after that date. It is detailed and should be read carefully.

Notable provisions in the new law include:

1. It is unlawful for a person to make a bad-faith assertion of patent infringement.
2. The court may consider a number of factors as evidence related to whether an assertion is made in bad faith including whether:
 - The demand contains detailed information about the patent and its owner,
 - Prior to sending the demand, the demander analyzed the ways its patent was violated by the target and if it did such an analysis, whether it identifies those specifics in its demand,
 - The demander asks for a licensee fee or response within an unreasonable amount of time,
 - The demander offers to license the patent for an amount not based on a reasonable estimate of its value or offers to license it for an amount based on the cost of defending a lawsuit,
 - The demander has filed or threatened to file lawsuits based on the same or similar claim and those threats did not contain the information referenced above or a court found those claims to be meritless,
 - The demander has made the same demand or a similar one to multiple targets and made assertions about a wide variety of products and systems without reflecting those differences in a reasonable manner,
 - The demander makes a good faith effort to establish that the target has infringed the patent and seeks to negotiate an appropriate remedy, and
 - The demander makes a substantial investment in the patent's use or in the production or sale of a product or item it reasonably believes is covered by the patent.
3. The law lists specific situations not covered by its provisions, including a demand letter or assertion of infringement by:
 - A North Carolina institution of higher education or a technology transfer organization owned by or affiliated with that institution,
 - A North Carolina nonprofit research organization or a technology transfer organization owned by or affiliated with that organization, or
 - An "operating entity" or its affiliate ("operating entity" is defined to cover entities primarily engaged in doing research and technical or experimental work related to technologies or processes for commercialization of goods or services, or providing goods or commercial services, or engaged in manufacturing).
4. The court can require that the demander post a bond if it finds that a target has shown a reasonable likelihood that the assertion violates the new law. The bond amount would be a good faith estimate of the target's fees and costs to litigate the claim and amounts reasonably likely to be recovered in a suit by a target. The maximum of the bond is \$500,000.
5. The law notes that the Attorney General can bring actions against alleged bad-faith demanders and make rules, conduct civil investigations and enter into assurances of discontinuance related to patent assertion abuse.
6. Additionally, a target of a bad-faith assertion can file a lawsuit in superior court against the demander with the potential recovery of damages (including possible treble damages), equitable relief and costs and fees (including attorney's fees).
7. The court can join "interested parties" (such as an assignee of the patent at issue or one that has a financial interest in the patent assertion) to lawsuits brought by targets and such parties may be jointly and severally liable for the bad-faith assertion.

By providing remedies to fight bad faith patent assertion, North Carolina's new law is an additional tool to keep its business climate strong.