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Short Title: NC Commerce Protection Act of 2014.

(Public)

Sponsors:

Referred to:

April 4, 2013

1 A BILL TO BE ENTITLED
2 AN ACT TO CREATE TRANSPARENCY IN CONTRACTS BETWEEN THE ATTORNEY
3 GENERAL AND PRIVATE ATTORNEYS.

4 The General Assembly of North Carolina enacts:

5 SECTION 1. Chapter 114 of the General Statutes is amended by adding a new
6 Article to read:

7 "Article 2A.

8 "Transparency in Third-Party Contracting by Attorney General.

9 "§ 114-9.2. Title.

10 This Article shall be known and may be cited as the "Transparency in Private Attorney
11 Contracts Act (TIPAC)."

12 "§ 114-9.3. Definitions.

13 The following definitions apply in this Article:

- 14 (1) Contingency fee contract. – A contract entered into by a State agency to
15 retain private counsel that contains a contingency fee arrangement,
16 including, but not limited to, pure contingency fee agreements and hybrid
17 agreements, including a contingency fee aspect.
- 18 (2) Government attorney. – An attorney employed by the State as a staff
19 attorney in a State agency.
- 20 (3) Private attorney. – An attorney in private practice or employed by a private
21 law firm.
- 22 (4) State. – The State of North Carolina, including State officers, departments,
23 boards, commissions, divisions, bureaus, councils, and units of organization,
24 however designated, of the executive branch of State government and any of
25 its agents.
- 26 (5) State agency. – Every agency, institution, department, bureau, board, or
27 commission of the State of North Carolina authorized by law to retain
28 private counsel.

29 "§ 114-9.4. Procurement.

30 (a) A State agency may not enter into a contingency fee contract with a private attorney
31 unless the Attorney General makes a written determination prior to entering into the contract



1 that contingency fee representation is both cost-effective and in the public interest. Any written
2 determination shall include specific findings for each of the following factors:

- 3 (1) Whether there exist sufficient and appropriate legal and financial resources
4 within the Attorney General's office to handle the matter.
- 5 (2) The time and labor required; the novelty, complexity, and difficulty of the
6 questions involved; and the skill requisite to perform the attorney services
7 properly.
- 8 (3) The geographic area where the attorney services are to be provided.
- 9 (4) The amount of experience desired for the particular kind of attorney services
10 to be provided and the nature of the private attorney's experience with
11 similar issues or cases.

12 (b) If the Attorney General makes the determination described in subsection (a) of this
13 section, the Attorney General shall request proposals from private attorneys to represent the
14 State agency on a contingency fee basis and draft a written request for proposals from private
15 attorneys, unless the Attorney General determines that requesting proposals is not feasible
16 under the circumstances and sets forth the basis for this determination in writing. A request for
17 proposals under this provision is not subject to Article 3 of Chapter 143 of the General Statutes.
18 Until the conclusion of the legal proceeding or other matter for which the services of the private
19 attorney were sought, all proposals received shall be maintained by the Attorney General and
20 shall not be deemed a public record within the meaning of Chapter 132 of the General Statutes.
21 All proposals maintained under this subsection shall be made available to the State Auditor for
22 oversight purposes, upon request.

23 (c) A private attorney who submits a proposal under this section shall simultaneously
24 pay a fee in the amount of fifty dollars (\$50.00). All fees collected under this subsection shall
25 be used for the maintenance of the Attorney General's Web site.

26 **"§ 114-9.5. Contingency Fees.**

27 (a) The Attorney General may not give permission under G.S. 114-2.3 for a State
28 agency to enter into a contingency fee contract that provides for the private attorney to receive
29 an aggregate contingency fee, exclusive of reasonable costs and expenses, in excess of:

- 30 (1) Twenty-five percent (25%) of any damages up to ten million dollars
31 (\$10,000,000); plus
- 32 (2) Twenty percent (20%) of any portion of such damages between ten million
33 dollars (\$10,000,000) and fifteen million dollars (\$15,000,000); plus
- 34 (3) Fifteen percent (15%) of any portion of such damages between fifteen
35 million dollars (\$15,000,000) and twenty million dollars (\$20,000,000); plus
- 36 (4) Ten percent (10%) of any portion of such damages between twenty million
37 dollars (\$20,000,000) and twenty-five million dollars (\$25,000,000); plus
- 38 (5) Five percent (5%) of any portion of such damages exceeding twenty-five
39 million dollars (\$25,000,000).

40 (b) In no event shall the aggregate contingency fee exceed fifty million dollars
41 (\$50,000,000), exclusive of reasonable costs and expenses, and irrespective of the number of
42 lawsuits filed or the number of private attorneys retained to achieve the recovery.

43 (c) A contingency fee shall not be based on penalties or civil fines awarded or any
44 amounts attributable to penalties or civil fines.

45 **"§ 114-9.6. Control.**

46 (a) Decisions regarding disposition of the case are reserved exclusively to the discretion
47 of the State agency in consultation with a government attorney.

48 (b) The Attorney General shall develop a standard addendum to every contract for
49 contingency fee attorney services that shall be used in all cases, describing in detail what is
50 expected of both the contracted private attorney and the State agency, including, without
51 limitation, the requirement listed in subsection (a) of this section.

"§ 114-9.7. Oversight.

(a) Until the conclusion of the legal proceeding or other matter for which the services of the private attorney have been retained, the executed contingency fee contract and the Attorney General's written determination pursuant to G.S. 114-9.4 shall not be deemed a public record within the meaning of Chapter 132 of the General Statutes. All records maintained under this subsection shall be made available to the State Auditor for oversight purposes, upon request.

(b) The amount of any payment of contingency fees pursuant to a contingency fee contract subject to this Article shall be posted on the Attorney General's Web site within 15 days after the payment of those contingency fees to the private attorney and shall remain posted on the Web site for at least 365 days thereafter.

(c) Any private attorney under contract to provide services to a State agency on a contingency fee basis shall maintain all records related to the contract in accordance with the Revised North Carolina Rules of Professional Conduct.

(d) By February 1 of each year, the Attorney General shall submit a report to the President Pro Tempore of the Senate and the Speaker of the House of Representatives describing the use of contingency fee contracts with private attorneys in the preceding calendar year. To the fullest extent possible without waiving the evidentiary privileges of the State in any pending matters, the report shall:

(1) Identify each new contingency fee contract entered into during the year and each previously executed contingency fee contract that remains current during any part of the year.

(2) Include the name of the private attorney with whom the department has contracted in each instance, including the name of the attorney's law firm.

(3) Describe the nature and status of the legal matter that is the subject of each contract.

(4) Provide the name of the parties to each legal matter.

(5) Disclose the amount of recovery.

(6) Disclose the amount of any contingency fee paid.

(7) Include copies of any written determinations made under G.S. 114-9.4.

"§ 114-9.8. No expansion of authority.

Nothing in this Article shall be construed to expand the authority of any State agency or officer or employee of this State to enter into contracts for legal representation where no authority previously existed."

SECTION 2. G.S. 114-2.3 reads as rewritten:

"§ 114-2.3. Use of private counsel limited.

(a) Every agency, institution, department, bureau, board, or commission of the State, authorized by law to retain private counsel, shall obtain written permission from the Attorney General prior to employing private counsel. This section does not apply to counties, cities, towns, other municipal corporations or political subdivisions of the State, or any agencies of these municipal corporations or political subdivisions, or to county or city boards of education.

(b) Article 2A of this Chapter applies to any contract to retain private counsel authorized by the Attorney General under this section."

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

"Article 8.

"Abusive Patent Assertions.

"§ 75-136. Title.

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

"§ 75-137. Purpose.

(a) The General Assembly finds the following:

- 1 (1) North Carolina is home to a growing high-technology, knowledge-based
2 economy. With its top-tier research universities and active technology
3 sector, North Carolina is poised to continue its growth. To continue growing,
4 North Carolina must attract new, small, and mid-sized technology
5 companies. Doing so will help provide jobs for North Carolina's residents
6 and boost North Carolina's economy. North Carolina also is home to
7 companies in retail, manufacturing, and other industries, many of whom are
8 customers of technology companies. Those other businesses are more likely
9 to succeed if not inhibited by abusive and bad-faith demands and litigation.
- 10 (2) Patents encourage research, development, and innovation. Patent holders
11 have legitimate rights to enforce their patents.
- 12 (3) The General Assembly does not wish to interfere with good-faith patent
13 litigation or the good-faith enforcement of patents. The General Assembly
14 also recognizes that North Carolina is preempted from passing any law that
15 conflicts with federal patent law.
- 16 (4) Patent litigation can be technical, complex, and expensive. The expense of
17 patent litigation, which may cost millions of dollars, can be a significant
18 burden on companies. North Carolina wishes to help its businesses avoid
19 these costs by encouraging the most efficient resolution of patent
20 infringement claims without conflicting with federal law.
- 21 (5) In order for North Carolina companies to be able to respond promptly and
22 efficiently to patent infringement assertions against them, it is necessary that
23 they receive specific information regarding how their product, service, or
24 technology may have infringed the patent at issue. Receiving this
25 information at an early stage will facilitate the resolution of claims and
26 lessen the burden of potential litigation on North Carolina companies.
- 27 (6) Abusive patent litigation, and especially the assertion of bad-faith
28 infringement claims, can harm North Carolina companies. A business that
29 receives a letter asserting such claims faces the threat of expensive and
30 protracted litigation and may feel that it has no choice but to settle and to
31 pay a licensing fee even if the claim is meritless. This is especially so for
32 small- and medium-sized companies and nonprofits that lack the resources to
33 investigate and defend themselves against infringement claims.
- 34 (7) Not only do bad-faith patent infringement claims impose a significant
35 burden on individual North Carolina businesses, they also undermine North
36 Carolina's efforts to attract and nurture technology and other companies.
37 Funds used to avoid the threat of bad-faith litigation are no longer available
38 to invest, produce new products, expand, or hire new workers, thereby
39 harming North Carolina's economy.
- 40 (8) North Carolina has a strong interest in patent matters involving its citizens
41 and its businesses, including protecting its citizens and businesses against
42 abusive patent assertions and ensuring North Carolina companies are not
43 subjected to abusive patent assertion by entities acting in bad faith.
- 44 (9) In lawsuits involving abusive patent assertions, an accused infringer
45 prevailing on the merits may be awarded costs and, less frequently, fees.
46 These awards do not serve as a deterrent to abusive patent assertion entities
47 who have limited liability, as these companies may hold no cash or other
48 assets. North Carolina has a strong interest in making sure that prevailing
49 North Carolina companies sued by abusive patent assertions entities can
50 recover what is awarded to them.

1 **(b)** The General Assembly seeks, by this narrowly tailored act, to strike a balance
2 between (i) the interests of efficient and prompt resolution of patent infringement claims,
3 protection of North Carolina businesses from abusive and bad-faith assertions of patent
4 infringement, and building of North Carolina's economy and (ii) the intentions to respect
5 federal law and be careful to not interfere with legitimate patent enforcement actions. Except as
6 specifically set forth in this act regarding bad-faith patent assertions, nothing in this act is
7 intended to alter current law concerning personal liability of principals in business entities.

8 **"§ 75-138. Definitions.**

9 The following definitions apply in this Article:

- 10 **(1)** Affiliate. – A business establishment, business, or other legal entity that
11 wholly or substantially owns, is wholly or substantially owned by, or is
12 under common ownership with another entity.
- 13 **(2)** Demand. – A letter, e-mail, or other communication asserting or claiming
14 that a target has engaged in patent infringement or should obtain a license to
15 a patent.
- 16 **(3)** Institution of higher education. – Defined in 20 U.S.C. § 1001(a).
- 17 **(4)** Interested party. – A person, other than the party alleging infringement, that
18 (i) is an assignee of the patent or patents at issue; (ii) has a right, including a
19 contingent right, to enforce or sublicense the patent or patents at issue; or
20 (iii) has a direct financial interest in the patent or patents at issue, including
21 the right to any part of an award of damages or any part of licensing revenue.
22 A "direct financial interest" does not include either of the following:
- 23 **a.** An attorney or law firm providing legal representation in the civil
24 action alleging patent infringement if the sole basis for the financial
25 interest of the attorney or law firm in the patent or patents at issue
26 arises from the attorney or law firm's receipt of compensation
27 reasonably related to the provision of the legal representation.
- 28 **b.** A person whose sole financial interest in the patent or patents at issue
29 is ownership of an equity interest in the party alleging infringement,
30 unless such person also has the right or ability to influence, direct, or
31 control the civil action.
- 32 **(5)** Operating entity. – A person primarily engaged in, when evaluated with its
33 affiliates over the preceding 24-month period and when disregarding the
34 selling and licensing of patents, one or more of the following activities:
- 35 **a.** Research and technical or experimental work to create, test, qualify,
36 modify, or validate technologies or processes for commercialization
37 of goods or services;
- 38 **b.** Manufacturing; or
- 39 **c.** The provision of goods or commercial services.
- 40 **(6)** Target. – A North Carolina person that meets one or more of the following:
- 41 **a.** The person has received a demand or is the subject of an assertion or
42 allegation of patent infringement.
- 43 **b.** The person has been threatened with litigation or is the defendant of
44 a filed lawsuit alleging patent infringement.
- 45 **c.** The person has customers who have received a demand asserting that
46 the person's product, service, or technology has infringed a patent.

47 **"§ 75-139. Abusive patent assertions.**

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

- 51 **(1)** The demand does not contain all of the following information:

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

- 1 (2) Where the demand lacks the information described in subdivision (1) of
2 subsection (a) of this section and the target requests the information, the
3 person provides the information within a reasonable period of time.
- 4 (3) The person engages in a good-faith effort to establish that the target has
5 infringed the patent and to negotiate an appropriate remedy.
- 6 (4) The person makes a substantial investment in the use of the patent or in the
7 production or sale of a product or item that the person reasonably believes is
8 covered by the patent. "Use of the patent" in the preceding sentence means
9 actual practice of the patent and does not include licensing without actual
10 practice.
- 11 (5) The person is either (i) the inventor or joint inventor of the patent or, in the
12 case of a patent filed by and awarded to an assignee of the original inventor
13 or joint inventor, is the original assignee or (ii) an institution of higher
14 education or a technology transfer organization owned or affiliated with an
15 institution of higher education.
- 16 (6) The person has demonstrated good-faith business practices in previous
17 efforts to enforce the patent, or a substantially similar patent, or has
18 successfully enforced the patent, or a substantially similar patent, through
19 litigation.
- 20 (7) Any other factor the court finds relevant.
- 21 (c) This Article does not apply to any of the following:
- 22 (1) A demand letter or assertion of patent infringement arising under any of the
23 following:
- 24 a. 7 U.S.C. § 136 et seq.
- 25 b. 7 U.S.C. § 2321 et seq.
- 26 c. 21 U.S.C. § 301 et seq.
- 27 d. 35 U.S.C. § 161 et seq.
- 28 e. 35 U.S.C. § 271(e)(2).
- 29 f. 42 U.S.C. § 262.
- 30 (2) A demand letter or assertion of patent infringement by or on behalf of (i) an
31 institution of higher education incorporated under the laws of and with its
32 principal offices in North Carolina or (ii) a technology transfer organization
33 owned by or affiliated with the institution of higher education.
- 34 (3) A demand letter or assertion of patent infringement by or on behalf of a
35 nonprofit research organization recognized as exempt from federal income
36 tax under 26 U.S.C. § 501(c)(3) incorporated under the laws of and with its
37 principal offices in North Carolina, or a technology transfer organization
38 owned by or affiliated with the organization.
- 39 (4) A demand letter or assertion of patent infringement made by an operating
40 entity or its affiliate.
- 41 (d) Subject to the provisions of subsections (a) and (b) of this section, and provided the
42 activities are not carried out in bad faith, nothing in this section shall be construed to deem it an
43 unlawful practice for any person who owns or has the right to license or enforce a patent to do
44 any of the following:
- 45 (1) Advise others of that ownership or right of license or enforcement.
- 46 (2) Communicate to others that the patent is available for license or sale.
- 47 (3) Notify another of the infringement of the patent.
- 48 (4) Seek compensation on account of past or present infringement or for a
49 license to the patent.

50 "§ 75-140. Bond.

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

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

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

16 **"§ 75-141. Enforcement; remedies; damages.**

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

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

25 (1) Equitable relief.

26 (2) Damages.

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

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

30 (c) A court may award to a defendant who prevails in an action brought pursuant to this
31 section costs and fees, including reasonable attorneys' fees, if the court finds the action was not
32 well-grounded in fact and warranted by existing law or was interposed for any improper
33 purpose, such as to harass or to cause unnecessary delay or needless increase in the cost of
34 litigation.

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

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

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

50 (g) This Article shall not be construed to limit rights and remedies available to the State
51 of North Carolina or to any person under any other law and shall not alter or restrict the

1 Attorney General's authority under this Article with regard to conduct involving assertions of
2 patent infringement."

3 **SECTION 2.1.(b)** Section 2.1 of this act is effective when it becomes law and
4 applies to causes of actions commenced on or after that date and demands made on or after that
5 date.

6 **SECTION 3.** Except as otherwise provided, this act is effective when it becomes
7 law and applies to any contract to retain private counsel authorized by the Attorney General
8 and entered into on or after that date.