

Safeguarding Business

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MORE INFORMATION

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PRACTICE AREAS

Intellectual Property

Anti-Patent Troll Legislation Gains Traction in North Carolina

Just over a week into the new session of the North Carolina General Assembly, legislation aimed at the abusive assertion of patent infringement claims by “patent trolls” may be gaining traction, with a bill headed to the House of Representatives for a floor vote later this week.

Background

Much attention has focused lately on the negative effects that “patent trolls” have on the American economy and innovation. Basically, the term “patent troll” is usually used to refer to an entity which does not itself do research, develop technology or products related to its patents, or perform any technology transfer function. Instead, patent trolls acquire patents solely for the purpose of obtaining licensing fees from alleged infringers, often asserting vague infringement claims against large numbers of potential targets with little or no support. Patent trolls have been criticized for employing highly aggressive litigation strategies that make it difficult for targets to defend against unfounded infringement demands and that ultimately can make the payment of licensing fees seem more palatable than the substantial cost and uncertainty associated with litigation.

According to a June 2013 White House study entitled *Patent Assertion and U.S. Innovation*, suits by patent trolls tripled in 2011 and 2012, rising to 62 percent of all patent infringement suits filed in the United States. In just 2012, patent trolls threatened an estimated 100,000 companies with patent infringement. The White House study reported that patent troll suits tend to be heavily concentrated in the area of information technology and communications. Research cited by the White House found that over 80% of patent troll suits involve a software patent. Financial services have been a frequent target, as well. One study cited by the White House found that patent trolls received \$29 billion from defendants and licensees in 2011, an increase of 400% over 2005, with less than 25% of those funds flowing back into innovation.

While an anti-patent troll bill has been passed by the U.S. House of Representatives, legislation to curb abusive practices by patent trolls appear to have stalled in the U.S. Senate, with Judiciary Committee Chairman Patrick Leahy recently removing the bill from the committee’s agenda. While Sen. Leahy left open the possibility that the issue could be considered later this year, the prospects for meaningful Congressional action on patent troll abuses currently seem uncertain, at best.

Anti-Troll Legislation Under Consideration in North Carolina

Here in North Carolina, both the Senate and House of Representatives are at work on legislation designed to protect North Carolina businesses against bad-faith assertions of patent infringement claims. House Bill 1032, entitled the *Abusive Patent Assertions Act*, was introduced on May 15, 2014. It would amend the North Carolina Unfair and Deceptive Trade Practices Act by making it unlawful for a person to make a bad-faith assertion of patent infringement.

Under H.B. 1032, the circumstances under which a person's assertion of patent infringement could be found to have been made in bad faith include:

- the infringement demand does not contain the patent number, the name and address of the patent owner, and factual allegations concerning the specific areas in which the target's products, services and technology infringe the patent;
- if the demand lacks the above information and the target requests it, the person fails to provide the information to the target within a reasonable time;
- prior to sending the infringement demand, the person fails to conduct an analysis comparing the claims in the patent to the target's product, services or technology or, if the analysis was performed, it fails to identify specific areas in which the target's product, services or technology are covered by the patent's claims;
- the assertion of patent infringement is meritless and the person knows or should know that it is meritless;
- the assertion of patent infringement is based upon an interpretation of the patent that was disclaimed during prosecution, and the person knows or should have known about the disclaimer;
- the transmittal of substantially the same infringement assertion to multiple targets with assertions against a wide variety of products and systems without reflecting those differences in a reasonable manner in the demands; and
- the person is aware of, but does not disclose, any final or preliminary finding of invalidity or non-patentability involving the patent.

Circumstances that could show that an assertion of patent infringement is *not* in bad faith include:

- the person makes a substantial investment in the use of the patent or in the production or sale of a product or item that the person reasonably believes is covered by the patent;
- the person is an inventor or the original assignee to which the patent was awarded; and
- the person has successfully enforced the patent, or a substantially similar patent, through litigation.

H.B. 1032 would exempt from its provisions patent infringement notices required under certain specified federal laws. It also would not apply to an infringement demand made by or on behalf of a North Carolina institution of higher education, a North Carolina-based nonprofit research organization, or one of their affiliated technology transfer offices. It also would not apply to any infringement demand made by an operating entity or its affiliate, thereby restricting the law's coverage to non-practicing entities.

H.B. 1032 would authorize a target of a bad-faith assertion of patent infringement to bring a civil action in North Carolina Superior Court against the person making the bad-faith infringement claim. If successful, the target could

recover from the person making the bad-faith assertion of infringement compensatory damages, as well as costs and fees (including reasonable attorneys' fees). The target also could recover exemplary damages of \$50,000 or three times the total of its damages, costs and fees, whichever is greater. Injunctive relief also would be available.

The proposed legislation also would provide for interim relief. Upon a showing by the target of a reasonable likelihood that an assertion of infringement is in bad faith, the proposed law directs the Superior Court to require the person making the assertion to post a bond, up to \$500,000, equal to a good-faith estimate of the target's fees and costs to litigate the infringement claim, together with other amounts reasonably likely to be recovered by the target.

H.B. 1032 was approved by the House Commerce Committee on May 21, 2014 and the House Judiciary Committee on May 27, 2014. The measure could come up for a vote on the House floor later this week. A substantially similar measure is expected to be considered by a Senate Judiciary Committee next week.

Supporters of the proposed legislation include the North Carolina Chamber of Commerce, the North Carolina Retail Merchants Association, the North Carolina Restaurants and Lodging Association, the North Carolina Technology Association, and the North Carolina Bankers Association. Among the companies who have expressed support for the legislation are Red Hat, SAS Institute, Krispy Kreme, Epic Games, and Google.

We will continue to follow this issue and will provide updates as developments occur.