

GENERAL ASSEMBLY OF NORTH CAROLINA  
SESSION 2013

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SENATE BILL 648  
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Judiciary I Committee Substitute Adopted 6/11/14  
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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



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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.