COMMITTEE REPORT

May 21, 2014

**H. 4371**

Introduced by Rep. Finlay

S. Printed 5/21/14--S. [SEC 5/22/14 12:56 PM]

Read the first time April 3, 2014.

**THE COMMITTEE ON JUDICIARY**

To whom was referred a Bill (H. 4371) to amend the Code of Laws of South Carolina, 1976, by adding Section 15‑75‑70 so as to provide that no person in this State, in regard to patent, etc., respectfully

**REPORT:**

That they have duly and carefully considered the same and recommend that the same do pass with amendment:

Amend the bill, as and if amended, by striking it in its entirety and inserting the following:

/ A BILL

TO AMEND TITLE 39, CODE OF LAWS OF SOUTH CAROLINA, 1976, BY ADDING CHAPTER 4, RELATING TO ABUSIVE ASSERTIONS CONCERNING INTELLECTUAL PROPERTY, SO AS TO PROVIDE THAT BAD FAITH ASSERTIONS OF PATENT INFRINGEMENTS ARE PROHIBITED AND CONSTITUTE UNFAIR TRADE PRACTICES, TO DEFINE TERMS, TO PROVIDE FOR A PRIVATE CAUSE OF ACTION IN STATE COURTS BY A RECIPIENT OF A BAD FAITH ASSERTION TO PATENT INFRINGEMENT, TO PROVIDE THAT ENFORCEMENT ACTIONS MAY BE BROUGHT BY THE ATTORNEY GENERAL AND WILLFUL AND KNOWING VIOLATIONS MAY RESULT IN CIVIL PENALTIES OF NOT MORE THAN FIFTY THOUSAND DOLLARS PER VIOLATION, TO PROVIDE FOR THE FACTORS THAT A COURT MAY CONSIDER WHEN MAKING A BAD FAITH DETERMINATION, TO PROVIDE THAT A CLAIM FOR RELIEF UNDER 35 U.S.C. SECTION 271(E)(2) OR 42 U.S.C. SECTION 262 SHALL NOT BE SUBJECT TO THE PROVISIONS OF THIS ARTICLE, AND TO PROVIDE THAT CERTAIN NOTIFICATIONS ARE NOT VIOLATIONS.

Be it enacted by the General Assembly of the State of South Carolina:

SECTION 1. It is the intent of the General Assembly to encourage research, development, and innovation. Doing so provides jobs for South Carolina’s residents and boosts the economy of the State. Patents encourage research, development, and innovation. Holders of patents have legitimate rights to protect and enforce their patents. It is not the intent of the General Assembly to interfere with the good faith enforcement of patents or good faith patent litigation. The assertion of infringement claims made in bad faith is conduct that hurts South Carolina businesses and citizens. Businesses must use funds to respond to these threats of bad faith assertions of patent infringement and those funds are no longer available to invest, to produce new products, to expand, or to hire new workers. This harms the citizens and the economy of South Carolina. Through the provisions of this narrowly focused chapter, the General Assembly, in order to protect South Carolina’s businesses, citizens, and economy, seeks to facilitate the efficient and prompt resolution of the conduct of persons asserting bad faith patent infringement claims and not to interfere with legitimate patent infringement claims.

SECTION 2. Title 39 of the 1976 Code is amended by adding:

“Chapter 4

Abusive Assertions Relating to Intellectual Property

Section 39-4-100. This act shall be known as the ‘Bad Faith Assertion of Patent Infringement Act’.

Section 39-4-110. For purposes of this chapter:

(1) ‘Demand letter’ means a letter, email, or other written communication asserting or claiming, in bad faith, that the recipient has engaged in patent infringement.

(2) ‘Demander’ means a person or entity that sends a demand letter.

(3) ‘Recipient’ means a person in this State who purchases, rents, leases, or otherwise obtains a product or service in the commercial market for its intended purpose, and not for resale in the ordinary course of the recipient’s business, and is, or later becomes, the subject of a patent infringement allegation.

Section 39-4-120. It is an unfair trade practice for a person to send a demand letter alleging patent infringement in bad faith. This offense is a violation of Section 39‑5‑20.

Section 39‑4‑130. Venue under this chapter shall be proper in the circuit court of the county in which a recipient resides, is doing business, or has its principal place of business, or the county in which the alleged patent infringement was or is being committed.

Section 39‑4‑140. A person or entity that sends a demand letter to a recipient, asserting, in bad faith, allegations of patent infringement or threatening litigation to a recipient or a recipient’s customers shall be considered to be transacting business within this State and thereby subject to the jurisdiction of the courts of this State.

Section 39‑4‑150. (A) The Attorney General has the same authority under this chapter to make rules, conduct civil investigations, enter into assurances of discontinuance, and bring civil actions, which include actions for injunctive relief or civil penalties, as provided under Chapter 5, Title 39.

(B) For purposes of this chapter, if a court finds that a demander willfully violated the provisions of this chapter, and the demander committing the violation knew or should have known that its conduct was a violation of this chapter, the Attorney General, upon motion to the court, may recover on behalf of the State a civil penalty not to exceed fifty thousand dollars for each violation.

(C) This chapter shall not be construed to limit the rights and remedies available to the State or to any person under any other law and shall not alter or restrict the Attorney General’s authority with regard to conduct involving assertions of patent infringement.

Section 39‑4‑160. (A) A recipient that is aggrieved by a violation of Section 39‑4‑120 may assert a cause of action under the provisions of Section 39‑5‑140 in the circuit court where venue is proper. A court may award remedies provided in Chapter 5, Title 39 to an aggrieved recipient that prevails in an action brought pursuant to this chapter.

(B) A recipient may assert a violation of this chapter as a defense in any litigation alleging patent infringement and, if a court finds that a demander has made a bad faith assertion of patent infringement, the court may award remedies to the recipient as if the recipient had brought an action pursuant to subsection (A).

(C) Upon motion by a recipient and a finding by the court that a recipient has established a reasonable likelihood that a demander has made a bad faith assertion of patent infringement in violation of this chapter, the court may require the demander to post a bond in an amount equal to an amount reasonably likely to be recovered pursuant to subsection (A), conditioned upon payment of any amounts finally determined to be due to the recipient. A hearing shall be held if either party so requests. A bond ordered pursuant to this chapter shall not exceed two hundred fifty thousand dollars. The court may waive the bond requirement if it finds the demander has available assets equal to the amount of the proposed bond or for other good cause shown.

Section 39‑4‑170. (A) A court shall consider the following factors as evidence that a demander has made a bad faith assertion of patent infringement:

(1) the demand letter does not contain the following information:

(a) the patent number;

(b) the name and address of the patent owner or owners and assignee or assignees, if any; and

(c) factual allegations concerning the specific areas in which the recipient’s products, services, and technology infringe the patent or are covered by the claims in the patent;

(2) the demand letter lacks the information described in item (1), the recipient requests the information, and the demander fails to provide the information within a reasonable period of time;

(3) the demand letter demands payment of a license fee or response from a recipient within an unreasonably short period of time;

(4) the demander offers to license the patent for an amount that is not based on a reasonable estimate of the value of the license;

(5) the claim or assertion of patent infringement is deceptive;

(6) the demander or its subsidiaries or affiliates have previously filed or threatened to file one or more lawsuits based on the same or similar claim of patent infringement and:

(a) those threats or lawsuits lacked the information described in item (1); or

(b) the demander attempted to enforce the claim of patent infringement in litigation and a court found the claim to be meritless; and

(7) any other factor the court finds relevant.

(B) A court shall consider the following factors as evidence that a demander has not made a bad faith assertion of patent infringement:

(1) the demand letter contains the information described in subsection (A)(1);

(2) where the demand letter lacks the information described in subsection (A)(1) and the recipient requests the information, the demander provides the information within a reasonable period of time;

(3) the demander engages in a good faith effort to establish that the recipient has infringed the patent and to negotiate an appropriate remedy;

(4) the demander makes or has made a substantial investment in the use of the patent or in the production or sale of a product or item covered by the patent. ‘Use of the patent’ means actual practice of the patent and does not include licensing without actual practice;

(5) the demander is:

(a) the inventor or joint inventor of the patent or, in the case of a patent filed by and awarded to an assignee of the original inventor or joint inventor, is the original assignee; or

(b) an institution of higher education or a technology transfer organization owned or affiliated with an institution of higher education;

(6) the demander has:

(a) demonstrated good faith business practices in previous efforts to enforce the patent, or a substantially similar patent; or

(b) successfully enforced the patent, or a substantially similar patent, through litigation; and

(7) any other factor the court finds relevant.

Section 39‑4‑180. A demand letter or assertion of patent infringement that includes a claim for relief arising under 35 U.S.C. Section 271(e)(2) or 42 U.S.C. Section 262 shall not be subject to the provisions of this chapter. In addition, it is not an unfair trade practice or a violation of the provisions of this chapter for a person or entity that owns or has the right to license or enforce a patent to notify another person or entity of that ownership or right of license or enforcement, to notify another person or entity that the patent is available for license or sale, to notify another person or entity of the infringement of that patent pursuant to the provisions of Title 35 of the United States Code, or to seek compensation on account of a past or present patent infringement, or for a license to the patent, upon demonstration to the recipient of the notification of the basis for its reasonable belief that the person or entity from whom compensation is sought may owe this compensation, or that the person or entity may need or want such a license to use the patent.”

SECTION 3. If any section, subsection, paragraph, subparagraph, sentence, clause, phrase, or word of this act is for any reason held to be unconstitutional or invalid, such holding shall not affect the constitutionality or validity of the remaining portions of this act, the General Assembly hereby declaring that it would have passed this act, and each and every section, subsection, paragraph, subparagraph, sentence, clause, phrase, and word thereof, irrespective of the fact that any one or more other sections, subsections, paragraphs, subparagraphs, sentences, clauses, phrases, or words hereof may be declared to be unconstitutional, invalid, or otherwise ineffective.

SECTION 4. This act takes effect on July 1, 2014. /

Renumber sections to conform.

Amend title to conform.

Majority favorable. Minority unfavorable.

CHAUNCEY K. GREGORY GERALD MALLOY

For Majority. For Minority.

**STATEMENT OF ESTIMATED FISCAL IMPACT**

ESTIMATED FISCAL IMPACT ON GENERAL FUND EXPENDITURES:

SEE BELOW

ESTIMATED FISCAL IMPACT ON FEDERAL & OTHER FUND EXPENDITURES:

$0 (No additional expenditures or savings are expected)

**EXPLANATION OF IMPACT:**

Office of the Attorney General

The office reports that this bill will have an impact on the General Fund of the State of approximately $48,000 annually. This cost is broken down to $45,500 in personal service/fringe benefits and there would be the remaining $2,500 in operating cost. The personal service cost is for 0.5 of a State FTE and this position is for an Attorney III with half the annual work load dedicated to the duties assigned with this bill.

*Approved By:*

Brenda Hart

Office of State Budget

**A** **BILL**

TO AMEND THE CODE OF LAWS OF SOUTH CAROLINA, 1976, BY ADDING SECTION 15‑75‑70 SO AS TO PROVIDE THAT NO PERSON IN THIS STATE, IN REGARD TO PATENT OWNERSHIP AND POTENTIAL PATENT INFRINGEMENT, MAY INTENTIONALLY INTERFERE WITH THE EXISTING CONTRACTUAL RELATIONS OF ANOTHER PERSON OR INTENTIONALLY INTERFERE WITH THE PROSPECTIVE CONTRACTUAL RELATIONS OF ANOTHER PERSON, TO PROVIDE THAT A PERSON AGGRIEVED BY ANOTHER PERSON’S INTENTIONAL INTERFERENCE WITH HIS EXISTING CONTRACTUAL RELATIONS OR WITH HIS PROSPECTIVE CONTRACTUAL RELATIONS HAS A CAUSE OF ACTION IN BOTH INSTANCES AGAINST THAT PERSON, AND TO PROVIDE FOR THE ELEMENTS OF EACH CAUSE OF ACTION AND THE DAMAGES WHICH MAY ENSUE.

Be it enacted by the General Assembly of the State of South Carolina:

SECTION 1. Chapter 75, Title 15 of the 1976 Code is amended by adding:

“Section 15‑75‑70. (A) No person in this State, in regard to patent ownership and potential patent infringement, may intentionally interfere with the existing contractual relations of another person or intentionally interfere with the prospective contractual relations of another person. A person aggrieved by another person’s intentional interference with his existing contractual relations or with his prospective contractual relations has a cause of action in both instances against that person and is entitled to compensatory damages and injunctive relief, and additionally punitive damages as provided by law.

(B) To successfully maintain a cause of action for intentional interference with existing contractual relations, it must be established that:

(1) a contract existed that was subject to interference;

(2) the act of interference was wilful and intentional;

(3) the act itself was the person’s disingenuous claim of ownership of intellectual property;

(4) the intentional act was the proximate cause of the injured party’s damage; and

(5) actual damage or loss occurred.

(C) To successfully maintain a cause of action for intentional interference with prospective contractual relations, which is a separate cause of action from that specified in subsection (B), it must be established that:

(1) a valid expectancy of a business relationship existed;

(2) the person committing the act of interference intentionally prevented a business relationship from occurring with the purpose of harming the injured party; and

(3) the act itself was the person’s disingenuous claim of ownership of intellectual property.”

SECTION 2. Article 1, Chapter 5, Title 39 of the 1976 Code is amended by adding:

“Section 39‑5‑190. (A) For purposes of this section:

(1) ‘Demand letter’ means a letter, email, or other communication asserting or claiming that the target has engaged in patent infringement.

(2) ‘Target’ means a South Carolina person or entity:

(a) who has received a demand letter or against whom an assertion or allegation of patent infringement has been made;

(b) who has been threatened with litigation or against whom a lawsuit has been filed alleging patent infringement; or

(c) whose customers have received a demand letter asserting that the person’s product, service, or technology has infringed a patent.

(B) It is an unlawful trade practice for a person or entity to make a bad faith assertion of patent infringement. This offense is a violation of Section 39‑5‑20.

(C) A court may consider the following factors as evidence that a person has made a bad faith assertion of patent infringement:

(1) the demand letter does not contain the following information:

(a) the patent number;

(b) the name and address of the patent owner or owners and assignee or assignees, if any; and

(c) factual allegations concerning the specific areas in which the target’s products, services, and technology infringe the patent or are covered by the claims in the patent;

(2) prior to sending the demand letter, the person fails to conduct an analysis comparing the claims in the patent to the target’s products, services, and technology, or the analysis was done but does not identify specific areas in which the products, services, and technology are covered by the claims in the patent;

(3) the demand letter lacks the information described in item (1), the target requests the information, and the person fails to provide the information within a reasonable period of time;

(4) the demand letter demands payment of a license fee or response within an unreasonably short period of time;

(5) the person offers to license the patent for an amount that is not based on a reasonable estimate of the value of the license;

(6) the claim or assertion of patent infringement is meritless, and the person knew, or should have known, that the claim or assertion is meritless;

(7) the claim or assertion of patent infringement is deceptive;

(8) the person or its subsidiaries or affiliates have previously filed or threatened to file one or more lawsuits based on the same or similar claim of patent infringement and:

(a) those threats or lawsuits lacked the information described in item (1); or

(b) the person attempted to enforce the claim of patent infringement in litigation and a court found the claim to be meritless; and

(9) any other factor the court finds relevant.

(D) A court may consider the following factors as evidence that a person has not made a bad faith assertion of patent infringement:

(1) the demand letter contains the information described in subsection (C)(1);

(2) where the demand letter lacks the information described in subsection (C)(1) and the target requests the information, the person provides the information within a reasonable period of time;

(3) the person engages in a good faith effort to establish that the target has infringed the patent and to negotiate an appropriate remedy;

(4) the person makes a substantial investment in the use of the patent or in the production or sale of a product or item covered by the patent;

(5) the person is:

(a) the inventor or joint inventor of the patent or, in the case of a patent filed by and awarded to an assignee of the original inventor or joint inventor, is the original assignee; or

(b) an institution of higher education or a technology transfer organization owned or affiliated with an institution of higher education;

(6) the person has:

(a) demonstrated good faith business practices in previous efforts to enforce the patent, or a substantially similar patent; or

(b) successfully enforced the patent, or a substantially similar patent, through litigation; and

(7) any other factor the court finds relevant.

(E) Upon motion by a target and a finding by the court that a target has established a reasonable likelihood that a person has made a bad faith assertion of patent infringement in violation of this section, the court shall require the person to post a bond in an amount equal to amounts reasonably likely to be recovered pursuant to Section 39‑5‑140, conditioned upon payment of any amounts finally determined to be due to the target. A hearing shall be held if either party so requests. A bond ordered pursuant to this section shall not exceed two hundred fifty thousand dollars. The court may waive the bond requirement if it finds the person has available assets equal to the amount of the proposed bond or for other good cause shown.

(F)(1) The Attorney General has the same authority to act on a violation of this section as is provided in this chapter.

(2) This section shall not be construed to limit rights and remedies available to the State or to any person under any other law and shall not alter or restrict the Attorney General’s authority with regard to conduct involving assertions of patent infringement.

(G) A target of conduct involving assertions of patent infringement, or a person aggrieved by a violation of this chapter may bring an action for relief. A court may award remedies to a target who prevails in an action brought pursuant to this chapter.

(H) A demand letter or assertion of patent infringement that includes a claim for relief arising under 35 U.S.C. Section 271(e)(2) or 42 U.S.C. Section 262 shall not be subject to the provisions of this chapter.”

SECTION 3. This act takes effect upon approval by the Governor.

‑‑‑‑XX‑‑‑‑