COMMITTEE REPORT

January 27, 2016

**H. 3682**

Introduced by Reps. Finlay, Bannister, Newton, Cole, Delleney, Weeks, Whipper, Robinson‑Simpson and Bingham

S. Printed 1/27/16--S.

Read the first time April 29, 2015.

**THE COMMITTEE ON JUDICIARY**

To whom was referred a Bill (H. 3682) to amend the Code of Laws of South Carolina, 1976, by adding Chapter 4 to Title 39 so as to enact the “Bad Faith Assertion of Patent Infringement Act”, 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 page 2, lines 18‑28, and inserting the following:

/ Section 39‑4‑101. For purposes of this chapter:

(1) ‘Affiliate’ means a business establishment, a business, or other legal entity that wholly or substantially owns, is wholly or substantially owned by, or is under common ownership with another entity.

(2) ‘Affiliated person’ means a person under common ownership or control of an intended recipient.

(3) ‘Intended recipient’ means a person who purchases, rents, leases, or otherwise obtains a product or service in the commercial market that is not for resale in the ordinary business and that is, or later becomes, the subject of a patent infringement allegation.

(4) ‘Manufacturer’ means a person, a business establishment, a business, or other legal entity engaged in a business to design, formulate, produce, create, make, construct, assemble, or rebuild products or goods, or components thereof.

(5) ‘Person’ means any natural person, partnership, corporation, company, trust, business entity or association, and any agent, employee, partner, officer, director, member, associate, or trustee thereof. /

Further amend the bill, as and if amended, by striking page 4, lines 12‑24, and inserting the following:

/ (C) The provisions of this chapter shall not apply to any written or electronic communication sent by:

(1) any owner of a patent who is using the patent in connection with substantial research, development, production, manufacturing, processing or delivery of products or materials;

(2) a manufacturer or its affiliate;

(3) any institution of higher education as that term is defined in section 101 of the Higher Education Act of 1963 (20 U.S.C. 1001);

(4) any technology transfer organization whose primary purpose is to facilitate the commercialization of technology developed by an institution of higher education; or

(5) any person or business entity seeking a claim for relief arising under 35 U.S.C. Section 271(e)(2). /

Further amend the bill, as and if amended, by striking page 5, line 33, and inserting the following:

/ SECTION 2. This act takes effect July 1, 2016. /

Renumber sections to conform.

Amend title to conform.

CHAUNCEY K. GREGORY for Committee.

**STATEMENT OF ESTIMATED FISCAL IMPACT**

**Fiscal Impact Summary**

There would be no impact on federal or other funds. The fiscal impact to the general fund would be between $90,000- $150,000 for staffing.

**Explanation of Fiscal Impact**

**State Expenditure**

This bill makes bad faith assertions of patent infringement an unlawful trade practice. This bill creates a new private cause of action and a new governmental cause of action that is enforced by the Attorney General. The expenditure impact to the Attorney General would be between $90,000 - $150,000 to hire a new civil attorney and a paralegal position. There is no data to determine the additional number of hearings or trials which may be initiated in Common Pleas court as a result of the proposed bill. It is anticipated that any impact to the general fund would be absorbed by the Judicial Department. It is also anticipated that the passage of this bill could impact Circuit Court dockets due to additional hearings and trials conducted by the Common Pleas court. There would be no impact on federal or other funds.

Frank A. Rainwater, Executive Director

Revenue and Fiscal Affairs Office

**A** **BILL**

TO AMEND THE CODE OF LAWS OF SOUTH CAROLINA, 1976, BY ADDING CHAPTER 4 TO TITLE 39 SO AS TO ENACT THE “BAD FAITH ASSERTION OF PATENT INFRINGEMENT ACT”, TO PROVIDE THAT BAD FAITH ASSERTIONS OF PATENT INFRINGEMENTS ARE PROHIBITED, 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 WILFUL AND KNOWING VIOLATIONS MAY RESULT IN CIVIL PENALTIES OF NOT MORE THAN FIFTY THOUSAND DOLLARS FOR EACH VIOLATION, TO PROVIDE FOR THE FACTORS THAT A COURT MAY CONSIDER WHEN MAKING A BAD FAITH DETERMINATION, AND TO PROVIDE EXCEPTIONS.

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’s 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 39‑4‑101. For purposes of this chapter:

(1) ‘Affiliated person’ means a person under common ownership or control of an intended recipient.

(2) ‘Intended recipient’ means a person who purchases, rents, leases, or otherwise obtains a product or service in the commercial market that is not for resale in the ordinary business and that is, or later becomes, the subject of a patent infringement allegation.

(3) ‘Person’ means any natural person, partnership, corporation, company, trust, business entity or association, and any agent, employee, partner, officer, director, member, associate, or trustee thereof.

Section 39‑4‑120. (A) It is a violation of this chapter for a person, in connection with the assertion of a United States patent, to send, or cause any person to send, any written or electronic communication that states that the intended recipient or any affiliated person is infringing or has infringed a patent and bears liability or owes compensation to another person, if:

(1) the communication falsely threatens litigation if compensation is not paid or the infringement issue is not otherwise resolved and there is a consistent pattern of such threats having been issued and no litigation having been filed;

(2) the communication falsely states that litigation has been filed against the intended recipient or any affiliated person; or

(3) the assertions contained in the communication lack a reasonable basis in fact or law because:

(a) the person asserting the patent is not a person, or does not represent a person, with the current right to license the patent to, or to enforce the patent against, the intended recipient or any affiliated person;

(b) the communication seeks compensation for a patent that has been held to be invalid or unenforceable in a final, unappealable or unappealed judicial or administrative decision;

(c) the communication seeks compensation on account of activities undertaken after the patent has expired;

(d) the content of the communication fails to include such information necessary to inform an intended recipient or any affiliated person about the patent assertion by failing to include any one of the following:

(i) the identity of the person asserting a right to license the patent to, or enforce the patent against, the intended recipient or any affiliated person;

(ii) the patent number issued by the United States Patent and Trademark Office alleged to have been infringed; or

(iii) the factual allegations concerning the specific areas in which the intended recipient or affiliated person’s products, services, or technology infringed the patent or are covered by the claims in the patent;

(e) the communication lacks the information described in subitem (d), the intended recipient requests the information, and the person fails to provide the information within a reasonable period of time;

(f) before sending the communication, the person failed to conduct an analysis comparing the claims in the patent to the intended recipient’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;

(g) the person in the communication demands payment of a license fee or response within an unreasonably short period of time;

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

(i) the communication’s claim or assertion relies on an interpretation of the patent that was disclaimed during prosecution and the person making the claim or assertion knows or should have known about the disclaimer, or would have known about the disclaimer if the person reviewed the patent’s prosecution history.

(B) Nothing in this section shall be construed to be a violation of this chapter for any person who owns or has the right to license or enforce a patent to:

(1) advise others of that ownership or right of license or enforcement;

(2) communicate to others that a patent is available for license or sale;

(3) notify another of the infringement of the patent; or

(4) seek compensation on account of past or present infringement, or for a license to the patent, provided that the person is not acting in bad faith.

(C) The provisions of this chapter shall not apply to any written or electronic communication sent by:

(1) any owner of a patent who is using the patent in connection with substantial research, development, production, manufacturing, processing or delivery of products or materials;

(2) any institution of higher education as that term is defined in section 101 of the Higher Education Act of 1963 (20 U.S.C. 1001);

(3) any technology transfer organization whose primary purpose is to facilitate the commercialization of technology developed by an institution of higher education; or

(4) any person or business entity seeking a claim for relief arising under 35 U.S.C. Section 271(e)(2).

Section 39‑4‑130. (A) The Attorney General has the same authority under this chapter as provided in Chapter 5, Title 39, to make rules, conduct civil investigations, enter into assurances of discontinuance, and bring civil actions, which include actions for injunctive relief or civil penalties.

(B) For purposes of this chapter, if a court finds that a person wilfully violated the provisions of this chapter, and the person 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) Upon motion by the Attorney General and a finding by the court that the Attorney General has established a reasonable likelihood that a person has violated Section 39‑4‑120, the court may require the person 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 Attorney General. A hearing must 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 person has available assets equal to the amount of the proposed bond or for other good cause shown.

(D) 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 39‑4‑140. (A) An intended 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 intended recipient that prevails in an action brought pursuant to this chapter.

(B) An intended recipient may assert a violation of this chapter as a defense in any litigation alleging patent infringement and, if a court finds that a person 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 an intended recipient and a finding by the court that an intended recipient has established a reasonable likelihood that a person has violated Section 39‑4‑120, the court may require the person 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 must 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 person has available assets equal to the amount of the proposed bond or for other good cause shown.”

SECTION 2. This act takes effect July 1, 2015.

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