

GENERAL ASSEMBLY OF NORTH CAROLINA

SESSION 1989

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SENATE BILL 752*
Second Edition Engrossed 5/10/89

Short Title: Invention Development Services.

(Public)

Sponsors: Senator Daniel.

Referred to: Manufacturing & Labor.

April 4, 1989

1 A BILL TO BE ENTITLED
2 AN ACT DEALING WITH INVENTION DEVELOPMENT SERVICES.

3 The General Assembly of North Carolina enacts:

4 Section 1. Chapter 66 of the General Statutes is amended by adding a new
5 Article to read:

6 **“ARTICLE 27.**

7 **“INVENTION DEVELOPMENT SERVICES.**

8 **“§ 66-189. Definitions.**

9 As used in this Article, the following terms shall have the meanings given:

- 10 (1) ‘Contract’ or ‘contract for invention development services’ means a
11 contract by which an invention developer undertakes invention
12 development services for a customer for a stated payment or
13 consideration, whether or not the payment or consideration has yet
14 been made.
- 15 (2) ‘Customer’ means any natural person who is solicited by, inquires
16 about, seeks the services of, or enters into a contract with an invention
17 developer for invention development services.
- 18 (3) ‘Invention development services’ means any act done by or for an
19 invention developer for the procurement or attempted procurement by
20 the invention developer of a licensee or buyer of an intellectual
21 property right in an invention. The term includes the evaluation,
22 perfecting, marketing, brokering, or promoting of an invention, a
23 patent search, and preparation or prosecution of a patent application by

1 a person not registered to practice before the United States Patent and
2 Trademark Office.

3 (4) 'Invention' means any discovery, process, machine, design,
4 formulation, composition of matter, product, concept, or idea, or any
5 combination of these.

6 (5) 'Invention developer' is an individual, firm, partnership, or
7 corporation, or an agent, employee, officer, partner, or independent
8 contractor of one of those entities, that offers to perform or performs
9 invention development services for a customer and that is not:

10 a. A department or agency of the federal, State, or local
11 government;

12 b. A charitable, scientific, educational, religious, or other
13 organization qualified under G.S. 105-130.9 or described in
14 Section 170(b)(1)(A) of the Internal Revenue Code of 1986, as
15 amended;

16 c. An attorney acting within the scope of the attorney's
17 professional license;

18 d. A person registered before the United States Patent and
19 Trademark Office acting within the scope of that person's
20 professional license; or

21 e. A person, firm, corporation, association, or other entity that
22 does not charge a fee, including reimbursement for expenditures
23 made or costs incurred by the entity, for invention development
24 services other than payment made from a portion of the income
25 received by a customer by virtue of the acts performed by the
26 entity.

27 (6) 'Business day' means any day other than a Saturday, Sunday, or
28 holiday as celebrated by the State of North Carolina.

29 **"§ 66-190. Disclosures made prior to contract.**

30 In either the first written communication from the invention developer to a specific
31 customer, or at the first personal meeting between the invention developer and a
32 customer whichever may first occur, the invention developer shall make a written
33 disclosure to the customer of the information required in this section which includes:

34 (1) The median fee charged to all of the invention developer's customers
35 who have signed contracts with the developer in the preceding six
36 months, excluding customers who have signed in the preceding 30
37 days;

38 (2) A single statement setting forth (i) the total number of customers who
39 have contracted with the invention developer, except that the number
40 need not reflect those customers who have contracted within the
41 preceding 30 days, and (ii) the number of customers who have
42 received, by virtue of the invention developer's performance of
43 invention development services, an amount of money in excess of the

1 amount of money paid by those customers to the invention developer
2 pursuant to a contract for invention development services.

- 3 (3) The following statement: 'Unless the invention developer is a lawyer
4 or person registered before the United States Patent and Trademark
5 Office, he is NOT permitted to give you legal advice concerning
6 patent, copyright, trademark law, or the law of unfair competition or to
7 advise you of whether your idea or invention may be patentable or
8 may be protected under the patent, copyright, or trademark laws of the
9 United States, or any other law. No patent, copyright, or trademark
10 protection will be acquired for you by the invention developer. Your
11 failure to inquire into the law governing patent, trademark, or
12 copyright matters may jeopardize your rights in your idea or invention,
13 both in the United States and in foreign countries. Your failure to
14 identify and investigate existing patents, trademarks, or registered
15 copyrights may place you in jeopardy of infringing the copyrights,
16 patent, or trademark rights of other persons if you proceed to make,
17 use, distribute, or sell your idea or invention.'

18 **"§ 66-191. Standard provisions for cover notice.**

19 (a) A contract for invention development services must have a conspicuous and
20 legible cover sheet attached. The cover sheet must set forth:

- 21 (1) The name, home address, office address, and local address of the
22 invention developer; and
23 (2) The following notice printed in bold-faced type of not less than 10-
24 point size:

25 THIS CONTRACT BETWEEN YOU AND AN INVENTION
26 DEVELOPER IS REGULATED BY THE STATE OF NORTH
27 CAROLINA. YOU ARE NOT PERMITTED OR REQUIRED TO
28 MAKE ANY PAYMENTS UNDER THIS CONTRACT UNTIL
29 FOUR WORKING DAYS AFTER YOU SIGN THIS CONTRACT
30 AND RECEIVE A COMPLETED COPY OF IT.

31 YOU CAN TERMINATE THIS CONTRACT AT ANY TIME
32 BEFORE YOU MAKE PAYMENT. YOU TERMINATE THIS
33 CONTRACT SIMPLY BY NOT SUBMITTING PAYMENT.

34 IF YOU ASSIGN EVEN A PARTIAL INTEREST IN THE
35 INVENTION TO THE INVENTION DEVELOPER, THE
36 INVENTION DEVELOPER MAY HAVE THE RIGHT TO SELL
37 OR DISPOSE OF THE INVENTION WITHOUT YOUR CONSENT
38 AND MAY NOT HAVE TO SHARE THE PROFITS WITH YOU.

39 THE TOTAL NUMBER OF CUSTOMERS WHO HAVE
40 CONTRACTED WITH THE INVENTION DEVELOPER SINCE
41 (year) IS (number). THE TOTAL NUMBER OF
42 CUSTOMERS KNOWN BY THIS INVENTION DEVELOPER TO
43 HAVE RECEIVED BY VIRTUE OF THIS INVENTION
44 DEVELOPER'S PERFORMANCE, AN AMOUNT OF MONEY IN

1 EXCESS OF THE AMOUNT PAID BY THE CUSTOMER TO THIS
2 INVENTION DEVELOPER IS (number)_____.

3 YOU ARE ENCOURAGED TO CONSULT WITH A
4 QUALIFIED ATTORNEY BEFORE SIGNING THIS CONTRACT.
5 BY PROCEEDING WITHOUT THE ADVICE OF A QUALIFIED
6 ATTORNEY YOU COULD LOSE ANY RIGHTS YOU MIGHT
7 HAVE IN YOUR IDEA OR INVENTION.

8 (b) The invention developer shall complete the cover sheet with the proper
9 information to be provided in the blanks. In the first blank the invention developer shall
10 enter the year that the invention developer began business, or January 1, 1990,
11 whichever is earlier. The numbers entered in the last two blanks need not include those
12 who have contracted with the invention developer during the 30 days immediately
13 preceding the date of the contract. If the number to be inserted in the third blank is zero,
14 it must be so stated.

15 (c) The cover notice may not contain anything in addition to the information
16 required by subsection (a) of this section.

17 **"§ 66-192. Contracting requirements.**

18 (a) Each contract for invention development services by which an invention
19 developer undertakes invention development services for a customer is subject to this
20 act. The contract must be in writing and the invention developer shall give a copy of the
21 contract to the customer at the time the customer signs the contract.

22 (b) If it is the invention developer's normal practice to seek more than one
23 contract in connection with an invention, or if the invention developer normally seeks to
24 perform services in connection with an invention in more than one phase with the
25 performance of each phase covered in one or more subsequent contracts, the invention
26 developer shall give to the customer at the time the customer signs the first contract:

27 (1) A written statement describing that practice; and

28 (2) A written summary of the developer's normal terms, if any, of
29 subsequent contracts, including the approximate amount of the
30 developer's normal fees or other consideration, if any, that may be
31 required from the customer.

32 (c) For the purposes of this section, delivery of a promissory note, check, bill of
33 exchange, or negotiable instrument of any kind to the invention developer or to a third
34 party for the benefit of the invention developer irrespective of the date or dates
35 appearing in that instrument is payment.

36 (d) Notwithstanding any contractual provisions of the contrary, payment for
37 invention development services may not be required, made, or received before the
38 fourth business day after the day on which the customer receives a copy of the contract
39 for invention development services signed by the invention developer and the customer.

40 (e) Until the payment for invention development services is made, the parties
41 during the contract for invention development services have the option to terminate the
42 contract. The customer may exercise the option by refraining from making payment to
43 the invention developer. The invention developer may exercise the option to terminate

1 by giving to the customer written notice of its exercise of the option. The written notice
2 becomes effective on receipt by the customer.

3 **"§ 66-193. Mandatory contract terms.**

4 (a) A contract for invention development services shall set forth the information
5 required in this section in at least 10-point type or equivalent size if handwritten.

6 (b) The contract shall describe fully and in detail the acts or services that the
7 invention developer contracts to perform for the customer.

8 (c) The contract shall include the terms and conditions of payment and contract
9 termination rights required by G.S. 66-192(e).

10 (d) The contract shall state whether the invention developer contracts to construct
11 one or more prototypes, models, or devices embodying the customer's invention, the
12 number of such prototypes to be constructed, and whether the invention developer
13 contracts to sell or distribute such prototypes, models, or devices.

14 (e) If an oral or written estimate of projected customer sales, profits, earnings
15 and/or royalties is made by the invention developer, the contract shall state the estimate
16 and the data upon which it is based.

17 (f) The contract shall state the expected date of completion of the invention
18 development services.

19 (g) The contract shall explain that the invention developer is required to maintain
20 all records and correspondence relating to performance of the invention development
21 services for that customer for a period not less than three years after expiration of the
22 term of the contract for invention development services. Further, such records and
23 correspondence will be made available to the customer or his representative for review
24 and copying at the customer's expense on the invention developer's premises during
25 normal business hours upon seven days' written notice, the time period to begin from
26 the date the notice is placed in the United States mail properly addressed and first class
27 postage prepaid.

28 (h) The contract shall state the name of the person or firm contracting to perform
29 the invention development services, all names under which said person or firm is doing
30 or has done business as an invention developer for the previous 10 years, the names of
31 all parent and subsidiary companies to the firm, and the names of all companies that
32 have a contractual obligation to the firm to perform invention development services.

33 (i) The contract shall state the invention developer's principal business address
34 and the name and address of its agent in this State who is authorized to receive service
35 of process in North Carolina.

36 **"§ 66-194. Financial Requirements.**

37 (a) Except as provided by subsection (c) of this section, each invention developer
38 doing business in this State as defined by the North Carolina General Statutes shall
39 maintain a bond issued by a surety company authorized to do business in this State. The
40 principal sum of the bond must be at least five percent (5%) of the invention developer's
41 gross income from the invention development business in this State during the invention
42 developer's last fiscal year or twenty-five thousand dollars (\$25,000), whichever is
43 greater. The invention developer shall file a copy of the bond with the Secretary of
44 State before the day on which the invention developer begins business in this State. The

1 invention developer shall have 90 days after the end of each fiscal year within which to
2 change the bond as may be necessary to conform to the requirement of this subdivision.

3 (b) The bond required by subsection (a) of this section must be in favor of the
4 State of North Carolina for the benefit of any person who, after entering into a contract
5 for invention development services with an invention developer is damaged by fraud,
6 dishonesty, or failure to provide the services of the invention developer in performance
7 of the contract. Any person claiming against the bond may maintain an action at law
8 against the invention developer and surety. The aggregate liability of the surety to all
9 persons for all breaches of conditions of the bond required by the subsection is limited
10 to the amount of the bond.

11 (c) Instead of furnishing the bond required by subsection (a) of this section, the
12 invention developer may deposit with the Secretary of State a cash deposit equal to the
13 amount of the bond required by this section. The cash deposit may be satisfied by:

14 (1) Certificates of deposit payable to the Secretary of State issued by
15 banks doing business in this State and insured by the Federal Deposit
16 Insurance Corporation;

17 (2) Investment certificates of share accounts assigned to the Secretary of
18 State and issued by a savings and loan association doing business in
19 this State, and insured by the Federal Savings and Loan Insurance
20 Corporation;

21 (3) Bearer bonds issued by the United States government or by this State;
22 or

23 (4) Cash deposit with the Secretary of State.

24 **"§ 66-195. Remedies.**

25 (a) Any contract for invention development services that does not substantially
26 comply with this Article is voidable at the option of the customer. A contract for
27 invention development services entered into in reliance on any false, fraudulent, or
28 misleading information, representation, notice, or advertisement of the invention
29 developer is voidable at the option of the customer. Any waiver by the customer of any
30 provision of this act shall be deemed contrary to public policy and shall be void and
31 unenforceable.

32 (b) Any customer or person who has been injured by a violation of this Article by
33 an invention developer, by a false or fraudulent statement, representation, or omission
34 of material fact by an invention developer, or by failure of an invention developer to
35 make all disclosures required by this Article may recover in a civil action against the
36 invention developer:

37 (1) Court costs;

38 (2) Attorneys fees; and

39 (3) The amount of actual damages, if any, sustained by the customer,
40 which damages may be increased to an amount not to exceed three
41 times the damages sustained.

42 **"§ 66-196. Enforcement.**

1 The Attorney General shall enforce this Article and may recover a civil penalty not
2 to exceed twenty-five thousand dollars (\$25,000) for each violation of this Article and
3 may seek equitable relief to restrain the violation of this Article."

4 Sec. 2. This act shall become effective January 1, 1990.