

STATE OF NORTH CAROLINA
COUNTY OF DURHAM

IN THE GENERAL COURT OF JUSTICE
SUPERIOR COURT DIVISION
18 CVS 3589

PRODUCT RECOVERY
MANAGEMENT, INC.,

Plaintiff,

v.

D.D. WILLIAMSON & CO., INC.
and D.D. WILLIAMSON
INGREDIENTS (SHANGHAI)
LTD,

Defendants.

**AMENDED ORDER REGARDING
DESIGNATION**

1. **THIS MATTER** is before the Court on Plaintiff Product Recovery Management, Inc.'s ("PRM") Opposition to Designation ("Opposition"). (Opp'n Defs.' Notice Designation [hereinafter "Opposition"], ECF No. 7.)
2. PRM initiated this action on August 21, 2018, asserting a claim for breach of contract. (*See* Compl. ¶¶ 17–18, ECF No. 3.)
3. On November 20, 2018, Defendants D.D. Williamson & Co. and D.D. Williamson Ingredients (Shanghai) LTD (together "Defendants") filed an Answer and counterclaims, (*see* Answer & Countercls. [hereinafter "Countercls."], ECF No. 5), as well as a Notice of Designation ("NOD") asserting that this action involves a dispute under section 7A-45.4(a)(5) first raised by Defendants' counterclaim. (Notice Designation 3–5 [hereinafter "NOD"], ECF No. 6.)

4. The case was designated by the Chief Justice of the Supreme Court of North Carolina on November 26, 2018, (Designation Order, ECF No. 1), and assigned to the Honorable Gregory P. McGuire on the same day, (Assignment Order, ECF No. 2).

5. PRM filed the Opposition on November 30, 2018, contending that the dispute “does not involve the ownership, use, licensing, lease, installation or performance of intellectual property” as required by section 7A-45.4(a)(5), and even if it did, Defendants’ notice is untimely under section 7A-45.4(d)(3) because the Complaint was the first pleading to raise a basis for designation. (Opposition 1.)

6. Defendants filed their Response to the Opposition on December 17, 2018. (DDW’s Resp. PRM’s Obj. Mandatory Business Ct. Designation [hereinafter “Response”], ECF No. 17.) The matter is now ripe for determination.

7. As a preliminary matter, the Court notes that counterclaims may be the basis for designation to the Business Court. *See Composite Fabrics of Am., LLC v. Edge Structural Composites, Inc.*, 2016 NCBC LEXIS 11, at *9 (N.C. Super. Ct. Feb. 5, 2016). “[W]here a counterclaim is the first pleading to raise a material issue that falls within a category that qualifies for mandatory designation under section 7A-45.4(a) . . . the statutory time requirements for seeking designation are measured by the [counterclaim].” *Id.*

8. Therefore, in order to decide whether this case is properly and timely designated, the Court must determine whether Defendants’ counterclaims state a basis for designation that the Complaint does not. Defendants argue that the NOD is timely in either instance because “[u]pon receiving PRM’s complaint, the parties

decided to engage in mediation in hopes of resolving the dispute and PRM agreed that the time for responding to the complaint would not be tolled until after the mediation.” (Response 1–2.) The time for designation, however, is set independently from the time to answer or respond. *See* N.C. Gen. Stat. § 7A-45.4(d)(3) (signifying that where the complaint is the basis for designation, the time for designation is determined by the filing of the complaint, not the answer or response).

9. Designation under section 7A-45.4(a)(5) is proper if the action involves a material issue related to a “[d]ispute involving the ownership, use, licensing, lease, instillation, or performance of intellectual property, including computer software, software application, information technology and systems, data and data security, pharmaceuticals, biotechnological products, and bioscience technologies.”

10. As alleged in the Complaint, PRM entered into a contract with Defendants to provide a water treatment system for use at a facility in China. (Compl. ¶ 5.) Defendants provided PRM with water samples so that PRM could develop a system to achieve the desired level of water purification. (Compl. ¶ 8.) PRM developed the system, and it was installed at the facility in China. (Compl. ¶ 10.) The system did not produce the desired level of purification. (Compl. ¶ 11.) PRM asked for more water samples, which Defendants provided, and found that the new water samples were substantially different in composition from, and more heavily polluted than, the original samples. (Compl. ¶¶ 12–14.) PRM offered to modify the system, but instead received a letter of termination from Defendants. (Compl. ¶ 16.)

11. The counterclaim states that PRM represented that it could produce a system capable of treating the water when it could not and repeatedly refused to admit its inability to perform after the inadequacy in the system was discovered. (Countercls. 5–6.) Defendants contend that designation is proper because the Answer and Counterclaims show that the dispute involves the use, installation, and performance of PRM’s water treatment technology and that the wastewater treatment system is proprietary intellectual property and a biotechnology product. (Countercls. 7.) Defendants focus their designation ground on their contention that the “counterclaims center around the critical fact omitted from the complaint [i.e., that] the system PRM installed did not work.” (Response 1 (original emphasis omitted).)

12. Contrary to Defendants’ assertion, however, PRM avers in the Complaint that the water treatment system did not perform as intended. (*See* Compl. ¶ 11.) That the water treatment system, a biotechnology product, did not perform as intended, is a material fact stated in the Complaint as a necessary predicate to Plaintiffs’ breach of contract claim. Because Defendants’ counterclaims and grounds for designation under section 7A-45.4(a)(5) are likewise based on the failure of the water treatment system PRM installed, the counterclaims do not provide a basis for designation under section 7A-45.4(a)(5) that is not otherwise present in the Complaint. As a result, section 7A-45.4(d)(3) required that a notice of designation based on those grounds be filed within thirty days of service of the Complaint on

August 21, 2018, (*see* Civil Summons, ECF No. 4). Defendants' November 20, 2018 NOD is therefore untimely.

13. **WHEREFORE**, the Opposition is **ALLOWED**. This proceeding was improperly designated and should proceed on the regular civil docket of the Durham County Superior Court.

IT IS SO ORDERED, this the 21st day of December, 2018.

/s/ Louis A. Bledsoe, III
Louis A. Bledsoe, III
Chief Business Court Judge