

STATE OF NORTH CAROLINA
DURHAM COUNTY

IN THE GENERAL COURT OF JUSTICE
SUPERIOR COURT DIVISION
20 CVS 2559

TOSHIBA GLOBAL COMMERCE
SOLUTIONS INC.,

Plaintiff,

v.

SMART & FINAL STORES LLC,

Defendant.

ORDER ON DESIGNATION

1. **THIS MATTER** is before the Court pursuant to the Determination Order issued on June 23, 2020 by the Honorable Cheri Beasley, Chief Justice of the Supreme Court of North Carolina, directing the undersigned to determine whether this action is properly designated as a mandatory complex business case in accord with N.C.G.S. § 7A-45.4(a) (the “Determination Order”). As explained below, the Court concludes that this action shall not proceed as a mandatory complex business case under section 7A-45.4(a)(5) and that the Court shall defer determination of whether this action may proceed as a mandatory complex business case under section 7A-45.4(a)(9) pending the Court’s receipt of information concerning service.

2. This case involves claims by Plaintiff Toshiba Global Commerce Solutions, Inc. (“Toshiba” or “Plaintiff”), a provider of hardware, software, and repair and maintenance services to retail customers, against Defendant Smart & Final Stores, LLC (“Defendant”), a multistate grocery store chain, arising out of Defendant’s alleged breach and repudiation of a Master Services Maintenance Agreement (the “Agreement”) by which Defendant agreed to pay certain agreed-upon fees in exchange

for Plaintiff's agreement to maintain and repair Defendant's point-of-sale information technology systems and devices.

3. Plaintiff filed the Complaint initiating this action in Durham County Superior Court on May 8, 2020, alleging claims for breach and repudiation of contract, unfair or deceptive trade practice under N.C.G.S. § 75-1.1, and quantum meruit. Plaintiff timely filed a Notice of Designation ("NOD") on the same day, contending that mandatory complex business case designation is proper under N.C.G.S. §§ 7A-45.4(a)(5) and (9).

A. Section 7A-45.4(a)(5)

4. Designation under section 7A-45.4(a)(5) is proper if the action involves a material issue related to "[d]isputes involving the ownership, use, licensing, lease, installation, or performance of intellectual property, including computer software, software applications, information technology and systems, data and data security, pharmaceuticals, biotechnology products, and bioscience technologies." To qualify for mandatory complex business case designation under this section, the material issue must relate to a dispute that is "closely tied to the underlying intellectual property aspects" of the intellectual property at issue. *Cardioentis AG v. IQVIA Ltd.*, 2018 NCBC LEXIS 64, at *6 (N.C. Super. Ct. June 27, 2018).

5. In support of designation under this section, Plaintiff states only that "Plaintiff contracted to furnish Defendant . . . with all services required to maintain and repair its retail point-of-safe [sic] information technology system and devices." (NOD 3.)

6. This Court has repeatedly held that contract disputes are not closely tied to the underlying intellectual property aspects of the intellectual property at issue if those actions may be resolved by the application of contract law principles alone. *See, e.g., State Farm Mut. Auto. Ins. Co. v. Miller*, 2020 NCBC LEXIS 18, at *3 (N.C. Super Ct. Feb. 11, 2020) (deciding that (a)(5) designation was improper where central allegation was “that Defendant retained Plaintiffs’ proprietary or confidential information and equipment in contravention of their written agreements and . . . [t]he primary relief sought [wa]s return of the information and equipment taken and damages arising from possession and use of that information and equipment by Defendant”); *Grifols Therapeutics LLC v. Z Automation Co.*, 2019 NCBC LEXIS 91, at *2–4 (N.C. Super. Ct. July 3, 2019) (concluding (a)(5) designation was improper where claim for breach of purchase agreement for intellectual property only required application of contract law principles); *Grid Therapeutics, LLC v. Song*, 2019 NCBC LEXIS 99, at *2–3 (N.C. Super. Ct. May 31, 2019) (holding that “dispute over the continued viability of a sublicense for the use and commercial exploitation of certain intellectual property” only required “straightforward application of contract law” and was not properly designated under (a)(5)).

7. Here, the NOD and Plaintiff’s Complaint allegations supporting its contract claim make plain that the focus of the parties’ dispute is the fee structure and conditions for termination set forth in the Agreement. Plaintiff alleges that the Agreement included an “Annual Failure Rate (AFR) for each Product category and type[,]” which “reflect[ed] the parties’ agreement on the number of failures for each

type of Product covered by the annual fee paid by” Defendant. (Compl. ¶ 12(d).) Under the Agreement, Defendant was obligated to pay an overcharge fee on top of the annual base price should the actual failure rates of any product category exceed the contractual AFR by more than 10%. (Compl. ¶ 12(f).) Plaintiff alleges that Defendant insisted on a lower AFR term than Plaintiff recommended based on industry experience in order to achieve a lower annual base price. (Compl. ¶¶ 22, 27.) Consequently, Defendant suffered Product failure rates substantially higher than the AFRs in the Agreement, (Compl. ¶ 30), which resulted in Plaintiff charging substantial overage fees of approximately \$1.2 million to Defendant, (Compl. ¶ 33). Defendant contested its obligation to pay the overage fees under the Agreement, (*see* Compl. ¶¶ 35, 40), and, according to Plaintiff, improperly sought to terminate the Agreement, (Compl. ¶¶ 46–47). Critical for (a)(5) designation purposes, Plaintiff alleges that Defendant has not disputed “that many of its . . . Products failed at rates more than 10% above the AFRs[.]” (Compl. ¶ 39(a).)

8. After careful review, the Court concludes that Plaintiff’s allegations do not put the performance of either party’s intellectual property at issue in this action. Rather, the claim on which designation is based—breach of contract and repudiation—is premised on Defendant’s alleged failure to pay for services rendered by Plaintiff under the Agreement, which may be resolved without determination of the intellectual property aspects of either party’s intellectual property and through

application of contract law principles alone. Designation under section 7A-45.4(a)(5) is therefore improper.¹

B. Section 7A-45.4(a)(9)

9. Designation under section 7A-45.4(a)(9) is proper if the action involves a material issue related to:

Contract disputes in which all of the following conditions are met:

- a. At least one plaintiff and at least one defendant is a corporation, partnership, or limited liability company, including any entity authorized to transact business in North Carolina under Chapter 55, 55A, 55B, 57D, or 59 of the General Statutes.
 - b. The complaint asserts a claim for breach of contract or seeks a declaration of rights, status, or other legal relations under a contract.
 - c. The amount in controversy computed in accordance with G.S. 7A-243 is at least one million dollars (\$ 1,000,000).
 - d. All parties consent to the designation.
10. Business Court Rule 2.5 permits conditional designation under section 7A-45.4(a)(9). Under that Rule, a designating party may conditionally file a notice of designation, and designation shall be permitted if the designating party obtains the consent of the other parties to the action within thirty days of service of the pleading upon which designation is premised.

11. Seven weeks have transpired since Plaintiff filed the NOD in this case. Plaintiff has not offered evidence either that Defendant has been served with the

¹ Although Plaintiff appears to base designation solely on its breach of contract and repudiation claim, the Court notes that neither of Plaintiff's other claims—unfair trade practices and quantum meruit—support (a)(5) designation as neither puts at issue the intellectual property aspects of either party's intellectual property.

Complaint or that Defendant consents to this case proceeding as a mandatory complex business case. Because this information is critical in determining whether section (a)(9) designation is available here, the Court shall defer its determination of (a)(9) designation at this time and instead shall order Plaintiff to advise no later than July 15, 2020 whether service has been obtained and, if so, the date of service. In the event Plaintiff does not timely respond to the Court's directive, the Court will assume that service has been obtained on Defendant and that Defendant does not consent to designation of this action as a mandatory complex business case, which will result in the rejection of section (a)(9) designation. *See Pindsight Tech., Inc. v. Driven Brands, Inc.*, 2020 NCBC LEXIS 23, at *9 (N.C. Super. Ct. Feb. 20, 2020) (holding designation under section (a)(9) improper where conditional notice of designation indicated that defendant did not consent).

C. Conclusion

12. Based on the above, the Court concludes that this action shall not proceed as a mandatory complex business case under section 7A-45.4(a)(5).

13. The Court further concludes that it shall defer determination of whether this action may proceed as a mandatory complex business case under section 7A-45.4(a)(9) pending receipt of information from Plaintiff concerning service of the NOD on Defendant. To that end, Plaintiff is hereby ordered to file no later than July 15, 2020 a "statement concerning service" regarding whether Plaintiff has served the NOD on Defendant and, if so, identifying the date of service.

14. Plaintiff is to take notice that in the event Plaintiff fails to timely file the “statement of service” ordered hereunder, the Court will assume that Plaintiff has served the NOD on Defendant and that Defendant does not consent to designation of this action as a mandatory complex business case, which will result in the issuance of an order rejecting designation of this action as a mandatory complex business case under section 7A-45.4(a)(9).

SO ORDERED, this the 30th day of June, 2020.

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