

STATE OF NORTH CAROLINA  
GUILFORD COUNTY

IN THE GENERAL COURT OF JUSTICE  
SUPERIOR COURT DIVISION  
20 CVS 4841

INHOLD, LLC; and NOVALENT,  
LTD.,

Plaintiffs,

v.

PURESHIELD, INC.; JOSEPH  
RAICH; and VIACLEAN  
TECHNOLOGIES, LLC,

Defendants.

**ORDER ON DEFENDANTS'  
MOTION TO SET THE SCOPE  
OF STAY PENDING APPEAL**

1. This Order addresses Defendants' motion to stay all proceedings pending resolution of their interlocutory appeal. (ECF No. 83.) The motion has been fully briefed, and the Court elects to decide it without a hearing. *See* Business Court Rule ("BCR") 7.4.

2. In its original form, this was a trade-secret case. Plaintiffs Inhold, LLC and Novalent, Ltd. are related companies that make and sell antimicrobial protectant products. They initially alleged that a disgruntled insider, Joseph Raich, stole their trade secrets and other confidential information, concealed his conduct, and began making identical competing products. Plaintiffs sued Raich, PureShield, Inc., and ViaClean Technologies, LLC ("Defendants") for breach of fiduciary duty, misappropriation of trade secrets, and other wrongs.<sup>1</sup> (ECF No. 16.)

3. After the case was filed, a new dispute arose over a patent license agreement between PureShield and Inhold. According to PureShield, the agreement gives it the

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<sup>1</sup> For more detail, see *Inhold, LLC v. PureShield, Inc.*, 2020 NCBC LEXIS 107 (N.C. Super. Ct. Sept. 22, 2020).

right to enforce four patents issued to Inhold and six others issued to Novalent. Plaintiffs contend that Novalent is not a licensor and that, in any event, the agreement has expired, leaving PureShield with no rights to any of the patents. The dispute came to a head when PureShield sued one of Novalent's customers for infringement of all ten patents in federal court in Texas.

4. In October 2020, Plaintiffs sought leave to amend their complaint to include claims based on the license dispute—a request for a declaration of the parties' rights along with claims for defamation, tortious interference with contract, and more. (ECF No. 48.) At first, Defendants did not say whether they would oppose the motion to amend and asked for “additional time” before taking a position. (ECF No. 48 ¶ 10.) After mulling things over, Defendants announced their opposition and then filed their own declaratory-judgment action based on the license dispute in the United States District Court for the Middle District of North Carolina.<sup>2</sup>

5. In opposing the amendment, Defendants argued chiefly that the proposed claims arose under federal patent law and were therefore subject to exclusive federal jurisdiction. At the hearing, however, counsel for Defendants conceded that the Court could grant relief to Plaintiffs based on state-law theories without reaching any issue of patent law. This meant that no issues of patent law were “necessarily raised” and, thus, that the claims were not subject to exclusive federal jurisdiction. *Gunn v. Minton*, 568 U.S. 251, 258 (2013); *see also NeuroRepair, Inc. v. Nath L. Grp.*, 781 F.3d 1340, 1344–45 (Fed. Cir. 2015).

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<sup>2</sup> *See PureShield, Inc. v. Inhold, LLC*, No. 1:20-cv-1025 (M.D.N.C.).

6. Defendants' other arguments had similar defects. They invoked the common-sense rule, followed by federal courts, that "where two parallel suits are pending in state and federal court, the first suit should have priority." *VRCompliance LLC v. HomeAway, Inc.*, 715 F.3d 570, 574 (4th Cir. 2013) (citation and quotation marks omitted). On that basis, Defendants argued that the license dispute should be litigated in one of the two pending federal actions. By the time of the hearing, though, the supposedly first-filed suit—the infringement action in Texas—had been stayed at Defendants' request. The other federal suit—Defendants' declaratory-judgment action—postdated the motion to amend and was not the first-filed suit. Defendants did not argue otherwise, and our appellate courts have frowned on the use of a declaratory-judgment action as "a strategic maneuver to achieve a preferable forum." *Coca-Cola Bottling Co. Consol. v. Durham Coca-Cola Bottling Co.*, 141 N.C. App. 569, 579 (2000); *see also Adidas Am., Inc. v. Payless ShoeSource, Inc.*, No. CV 01-1655, 2003 U.S. Dist. LEXIS 25486, at \*3–6 (D. Or. Sept. 15, 2003) (rejecting defendant's strategic filing of declaratory-judgment action as reason to deny plaintiffs' motion to amend).

7. For these and other reasons, the Court granted Plaintiffs' motion to amend, with one exception not relevant here. *See generally Inhold, LLC v. PureShield, Inc.*, 2021 NCBC LEXIS 2 (N.C. Super. Ct. Jan. 8, 2021). Defendants appealed. (ECF No. 81.) The parties now dispute whether and to what extent the Court must stay the case pending resolution of the appeal.

8. By statute, an appeal “stays all further proceedings in the court below upon the judgment appealed from, or upon the matter embraced therein . . . but the court below may proceed upon any other matter included in the action and not affected by the judgment appealed from.” N.C.G.S. § 1-294. When, as here, the appeal is interlocutory, the trial court retains authority to determine “whether the interlocutory order being challenged is eligible for immediate review,” and if it is not, “such appeal does not deprive the trial court of jurisdiction and thus the court may properly proceed with the case.” *SED Holdings, LLC v. 3 Star Props., LLC*, 250 N.C. App. 215, 220 (2016) (citation and quotation marks omitted). This rule “serves to prevent litigants from delaying ‘the administration of justice by bringing cases to an appellate court piecemeal through the medium of successive appeals from intermediate orders.’” *Id.* (alteration omitted) (quoting *Veazey v. City of Durham*, 231 N.C. 357, 363 (1950)).

9. Defendants contend that the order allowing the motion to amend is immediately appealable because it affects a substantial right—namely, the potential for inconsistent results in this action and the later-filed action in the Middle District of North Carolina.<sup>3</sup> See N.C.G.S. § 1-277(a) (authorizing appeals of orders affecting a substantial right). They further contend that section 1-294 mandates an automatic stay and that the stay must extend to the entire case—not only as to the license-

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<sup>3</sup> Defendants do not argue that the order is immediately appealable because it was tantamount to a denial of a motion to dismiss for lack of subject matter jurisdiction. Ordinarily, “a trial court order’s refusal to dismiss a complaint for lack of subject matter jurisdiction is not subject to appellate review on an interlocutory-basis as a matter of right.” *Jessee v. Jessee*, 212 N.C. App. 426, 431 (2011) (citation omitted).

dispute claims at issue in the appeal but also as to the original trade-secret claims. Alternatively, Defendants ask the Court to enter a discretionary stay. (*See* Br. in Supp. 1, 5–7, ECF No. 84.)

10. Plaintiffs oppose a stay of any scope on the ground that Defendants’ appeal was not properly taken. If section 1-294 requires a stay, however, Plaintiffs insist that it should encompass only the claims involving the license dispute because the appeal will not affect the original trade-secret claims. (*See* Opp’n 6–15, ECF No. 88.) Plaintiffs note their intent to move to dismiss the appeal once it is docketed with the Supreme Court. (*See* Opp’n 2 n.1.)

11. The Court concludes that a limited stay is appropriate. “A trial court’s refusal to abate an action based upon the prior pending action doctrine is . . . immediately appealable.” *Jessee*, 212 N.C. App. at 431 (citation omitted). Although Defendants did not expressly assert that doctrine as a basis for opposing the motion to amend, they did assert the analogous first to file rule followed by federal courts. Given the similarity of the doctrines, there is a colorable basis for immediate appellate review. It would be imprudent for this Court to take action that could prejudice the Supreme Court’s ability to decide its jurisdiction in the first instance and, if appropriate, the merits of the appeal. For that reason, the Court stays the claims involving the license dispute pending appeal.

12. In its discretion, though, the Court declines to stay the original trade-secret claims. It is undisputed that those claims were not introduced by the amendment and are not the subject of the appeal. As such, they fall within the category of “any

other matter included in the action and not affected by the judgment appealed from” that “the court below may proceed upon.” N.C.G.S. § 1-294.

13. Nor have Defendants offered any persuasive reason for a discretionary stay. For one thing, a blanket stay would reward their gamesmanship. Any risk of inconsistent litigation exists because Defendants manufactured it. They have turned the first to file rule on its head, arguing that this case (the first-filed) must be abated in favor of their own strategic declaratory-judgment action in another forum (the second-filed). Although Defendants have every right to press that position on appeal, it would be deeply unfair to shield them from discovery on claims that are not at issue on appeal or implicated in the second-filed action.

14. Likewise, jurisdictional concerns do not merit a blanket stay. Defendants apparently intend to argue on appeal, as they did here, that federal courts alone have jurisdiction to decide the license dispute. It is not clear whether Defendants intend to retract their concession that it would be possible to decide Plaintiffs’ claims without reaching an issue of patent law. In any event, if the Supreme Court concludes for any reason that jurisdiction over the license dispute is lacking, that will not affect the Court’s jurisdiction to decide the original trade-secret claims.

15. Judicial economy also weighs against staying the original trade-secret claims, which have been pending since May of last year. The parties must conduct discovery on these claims regardless of the outcome of the appeal. A stay would delay the inevitable for no obvious benefit and to the detriment of Plaintiffs, especially now that they have made a complete disclosure of their alleged trade secrets to

Defendants. (See ECF No. 79.) Proceeding with discovery, on the other hand, would measurably advance the case. If the Supreme Court agrees with Defendants and excludes the license-dispute claims, the case may be trial ready upon resolution of the appeal. If the Supreme Court agrees with Plaintiffs and restores the license-dispute claims, it would be simple enough to design a schedule for targeted, streamlined discovery on the new claims. The Business Court Rules are designed to allow flexibility, including phased discovery when appropriate. See BCR 10.3(b).

16. In the meantime, it will not be inordinately difficult to manage discovery, as Defendants contend. Discovery will proceed as if the second amended complaint had never been filed. The usual rules apply: the “[p]arties may obtain discovery regarding any matter, not privileged, which is relevant to the subject matter involved” in the original trade-secret claims. N.C. R. Civ. P. 26(b)(1). Perhaps some discovery that is relevant to the original claims may also be relevant to the new claims on appeal, but that wouldn’t be a reason to disallow it. See, e.g., *Songwooyarn Trading Co. v. Sox Eleven, Inc.*, 219 N.C. App. 213, 217 (2012) (affirming decision to permit discovery and subpoenas on matters not affected by interlocutory appeal); *Window World of Baton Rouge, LLC v. Window World, Inc.*, 2020 NCBC LEXIS 7, at \*7 (N.C. Super. Ct. Jan. 15, 2020) (resolving motion to compel discovery because the motion “does not in any way impact the . . . [appealed order] or the matters embraced therein”); cf. *Greely Publ’g Co. v. Hergert*, No. 05-cv-00980, 2005 U.S. Dist. LEXIS 58789, at \*4–5 (D. Colo. Oct. 31, 2005) (“If the discovery is relevant to a claim [that is not stayed] . . . ,

then nothing is to be gained by delaying that discovery just because it may also be relevant to claims for which Defendant . . . seeks a stay.”).

17. If good-faith discovery disputes arise, the parties may assert them. But the Court is confident that each side has counsel who are sophisticated, professional, and competent enough to conduct discovery without engaging in frivolous disputes on a “one-by-one basis.”<sup>4</sup> After all, the Rules of Civil Procedure do not countenance that sort of behavior. *See, e.g.*, N.C. R. Civ. P. 26(g) (authorizing sanctions when a party or its attorney objects to discovery requests without a proper legal basis and “for any improper purpose, such as to harass or cause unnecessary delay or needless increase in the cost of litigation”); N.C. R. Civ. P. 37(a)(4) (mandating an award of costs when discovery disputes are raised without substantial justification).

18. As the Court has admonished once already, “[c]ourtesy and cooperation among counsel advances, rather than hinders, zealous representation.” BCR 10.1. “This is a rule not a suggestion. Take it to heart.” (ECF No. 72.)

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<sup>4</sup> *See, e.g.*, Br. in Supp. 6 (“The parties have, for instance, limits on depositions and written discovery. Without a full stay, the parties will have to determine on a one-by-one basis whether any given discovery request, or even any given deposition question, is part of the statutory stay under 1-294. This will significantly increase the parties’ costs and invariably lead to numerous disputes that waste the resources of the parties’ [sic] and the Court.”); Reply Br. 2, ECF No. 89 (“Staying all proceedings pending resolution of the appeal will . . . avert prolonged disputes regarding the proper scope of fact and expert discovery while the appeal is pending.”); Reply Br. 10 (contending that not staying the entire case “would force the parties to engage in extensive discovery, spanning hundreds of written discovery requests, large volumes of document productions, numerous fact depositions, third-party discovery, expert reports, and expert depositions—all despite a pending appeal that could significantly affect the scope of the entire case. Without a full stay, the parties will have to determine on a one-by-one basis whether any given discovery request, or even any given deposition question, is part of the statutory stay under 1-294.” (emphasis omitted)).



19. Accordingly, in its discretion, the Court **ORDERS** as follows:
- a. Pending the Supreme Court's resolution of Defendants' interlocutory appeal, this case is **STAYED** with respect to any matter solely relevant to (i) paragraphs 191(j)–(o) in Plaintiffs' fourth claim for relief; (ii) paragraph 207 in Plaintiffs' fifth claim for relief; (iii) Plaintiffs' seventh, eighth, and ninth claims for relief; and (iv) Defendants' counterclaims, including Plaintiffs' deadline to reply to the counterclaims.
  - b. The Court **DENIES** Defendants' motion in all other respects. This case, including discovery, shall proceed with respect to all other claims and allegations except as provided above.
  - c. The parties had previously agreed that initial discovery responses would be due by February 22, 2021. (*See* Br. in Supp. 3; *see also* ECF No. 74 § 2(j).) The Court suspended that deadline pending resolution of this motion. (ECF No. 85 ¶ 4(c).) Having now resolved the motion, the Court directs the parties to serve their initial discovery responses no later than March 30, 2021.
  - d. Upon the Supreme Court's resolution of Defendants' interlocutory appeal, the parties shall confer within fifteen days of the issuance of the mandate about the case-management issues that apply to further proceedings. The parties shall file a report with the Court within ten

days of that meeting that proposes a case-management schedule for further proceedings.

**SO ORDERED**, this the 23rd day of March, 2021.

/s/ Adam M. Conrad  
Adam M. Conrad  
Special Superior Court Judge  
for Complex Business Cases