THE NATIONAL LAW REVIEW

Patently False: The Delaware Chancery Court Dissolves Limited Liability Company Founded on False Claims of Patent Ownership

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- Corporate & Business Organizations
- Intellectual Property
- Litigation / Trial Practice

- 2nd Circuit (incl. bankruptcy)

Wednesday, January 9, 2019

In *Decco U.S. Post-Harvest, Inc., v. MirTech, Inc.,* the Delaware Chancery Court issued a Memorandum Opinion dissolving a limited liability company based on evidence presented at trial. Decco U.S. Post-Harvest, Inc. ("Decco" or "Plaintiff"), whose business primarily involved the post-harvest treatment and packaging of produce, and MirTech, Inc. ("MirTech" or "Defendant") formed the joint venture entity Essentiv LLC (the "Company") for the purpose of commercializing products based on 1-Methylcyclopropene ("1-MCP"), a gas used to delay the ripening of fruit and other produce. In forming the Company, Defendant assured Plaintiff that Defendant owned intellectual property in 1-MCP technology. The Court found that Plaintiff proved that Defendant did not, in fact, own such intellectual property and ruled that the Company must dissolve.

1-MCP was patented in 1996. After Nazir Mir ("Mir"), of MirTech, started experimenting with 1-MCP technologies, the Defendant entered into a consulting agreement with AgroFresh Inc. ("AgroFresh"). Under that agreement, the parties agreed to joint ownership of "any and all inventions conceived or reduced to practice jointly by the [p]arties." Subsequent agreements between Defendant and AgroFresh granted AgroFresh sole ownership over joint inventions. During this business relationship, Mir developed a technology called "RipeLock," as well as several patents the Court refers to as the "RipeLock Patents."

In 2014, Plaintiff and Defendant began discussions relating to a potential joint venture for the development of technology related to 1-MCP and RipeLock Patents. A letter of intent that was issued based on these discussions listed "three overarching tasks for the joint venture: (i) secure the legal rights of the listed patents; (ii) coordinate research, regulatory approvals, and other pre-commercial activity; and (iii) commercialize the developed technology." To commercialize such technology, Defendant asserted that it would license the use of its patents to the joint venture. The Company was formed in April of 2016. The Company was a manager-managed LLC, with Plaintiff and Defendant as the only members/managers. The Company's LLC agreement required the consent of both Plaintiff and Defendant to take actions requiring manager approval. The agreement also identified the Company's purpose as being to research, develop, manufacture, and market 1-MCP products. It did not, however, limit the Company to activities related to 1-MCP products. Per the agreement, Plaintiff had a right of first refusal over any non-1-MCP product business. Defendant was obligated to develop and license exclusively to the Company the RipeLock patents. The defendant, in the agreement, represented that it owned intellectual property rights in the relevant technology, that no other person had any "right, title or interest" in it, and that it owned the technology "free and clear of all claims, mortgages, leases, loans, and encumbrances."

The Company began selling a product utilizing 1-MCP technology called TruPick. AgroFresh quickly filed suit against Plaintiff, Defendant, and the Company alleging that TruPick amounted to an infringement of its intellectual property rights in the RipeLock Patents. The Court, ruling in favor of AgroFresh, found that the technology underlying TruPick belonged to AgroFresh. The Company stopped selling TruPick immediately. Ultimately, Mir and AgroFresh entered into a settlement agreement which called for an entry of a final judgment by consent. According to this judgment, Mir and MirTech agreed to disclose and assign to AgroFresh "all inventions, discoveries, or improvements" relating to 1-MCP. The Judgement included a finding that the RipeLock Patents belonged to AgroFresh. Shortly thereafter, Francois Girin ("Girin"), of Plaintiff, contacted defendant suggesting that the Company dissolve. Defendant refused, and Plaintiff brought this action.

Plaintiff sought an order to dissolve the Company and appoint Girin as the receiver to wind-up the Company. MirTech answered and asserted a counterclaim, but the Court granted a motion by Plaintiff to strike the counterclaim prior to trial.

In deciding this case, the Court relied on Section 18-802 of the Delaware Limited Liability Company Act ("DLLCA"). § 18-802 allows the Court to dissolve a limited liability company where it is not, or is no longer "reasonably practicable to carry on the business in conformity with a limited liability company agreement." In considering the dissolution under § 18-802, the Court looked to the Company's LLC agreement. The Court broke the purpose of the Company's business, as laid out in the LLC agreement, into two categories: (1) the 1-MCP business; and (2) the Non-1-MCP business. Ultimately, the court found that the Company could not carry on business in either category.

The Court found that the LLC agreement defined 1-MCP business as business relating to 1-MCP products. The only product the Company ever developed, manufactured, or sold was TruPick. The Plaintiff pointed out that, pursuant to the judgment in the MirTech-AgroFresh litigation, the Company could no longer market TruPick. Defendant argued that the Company could still rely on Defendant's "know-how" and "trade secrets" to conduct 1-MCP business. The Court rejected this argument, citing the previous judgment as having assigned all MirTech "know-how" relating to 1-MCP to AgroFresh. Mir admitted at trial that his proposed 1-MCP business required measuring 1-MCP and that he could not think of a way to measure 1-MCP without relying on "know-how" that had been assigned to AgroFresh. As such, the Court found that there was no practicable way in which the Company could continue any 1-MCP business.

While the LLC agreement did contemplate the Company's engaging in potential non-1-MCP business, the Court pointed out that any venture in that capacity was subject to a right of first refusal by Plaintiff. Seeing as how Girin testified that he no longer trusted Mir, the Court found that no new non-1-MCP venture would survive Plaintiff's right of first refusal. Defendant argued that a non-1-MCP business already existed, and therefore survived Plaintiff's right of first refusal, relating to "in-transit ripening" and "nano-absorbent films," neither of which was purportedly 1-MCP technologies. The only support that Defendant provided for these assertions was testimony from Mir about conversations with low-level employees of Plaintiff regarding these technologies. Mir also conceded that nothing was ever signed or even definitively agreed to with respect to any non-1-MCP business or technology. Despite Defendant's assertions otherwise, the Court found that there was no practicable way in which the Company could continue on by engaging in any non-1-MCP business. Consequently, the Court dissolved the Company and appointed Girin as the receiver.

Tom Sperber contributed to this post.