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Del. Court Restores Startup's CEO, CTO Jobs After Purge

By **Leslie A. Pappas**

Law360 (May 27, 2022, 10:26 PM EDT) -- A Delaware Chancery Court judge on Friday ordered shareholders of startup Parity Technologies Inc. to reinstate the company's dueling chief executive and chief technology officers after they both pushed each other out in a leadership shake-up earlier this month.

Vice Chancellor Paul A. Fioravanti Jr. said Parity CEO Elizabeth O'Sullivan and Chief Technology Officer Jiahao Chen should both return to work pending resolution of a lawsuit that O'Sullivan filed against Chen and several other company shareholders in Delaware's Court of Chancery late Tuesday.

"There will be no action taken to amend the bylaws, change the board or management of the company absent an order of this court," the vice chancellor said in a bench ruling Tuesday, granting O'Sullivan's motion for a status quo order and a motion to expedite the case.

The vice chancellor's ruling restores the leadership structure of the Brooklyn, New York-based company to what it was earlier this month before a group of founders and shareholders purportedly fired O'Sullivan, and she, in response, purportedly fired Chen.

Parity, a startup with only a handful of employees, is a compliance and governance platform that can identify and reduce risks in artificial intelligence models in health care, finance and human resources, according to its website.

In a complaint filed under seal late Tuesday, O'Sullivan sued Chen, director of data science Michael McKenna, Parity co-founder Rumman Chowdhury, Parity shareholder The Propell Group, and Propell founder and Parity board member Anders Lier, seeking a court declaration that O'Sullivan was still a board member and CEO of the company.

The suit seeks a court finding that her "purported removal" as CEO and board member of Parity Technologies Inc. was "invalid and void," and that she continues to serve as CEO and sole member of the board, according to a supplemental information sheet attached to the complaint. O'Sullivan is also asking for a court declaration that she validly terminated Chen on May 17, 2022, and that when he was fired, he also lost all ability to vote for any Parity shares.

The problems started in March after a potential large corporate investor triggered discussions among the parties about a reorganization of the company shares that would have reduced O'Sullivan's voting power, and she asked for an employment contract.

The reorganization would have diluted O'Sullivan's voting interest from 46.5% to 24% and would have increased Chen's from 6% to 24.6%, the vice chancellor recounted from the court filings.

"The parties say O'Sullivan wouldn't put the reorganization into effect, and she thought she was being squeezed out," Vice Chancellor Fioravanti said in his bench ruling Friday.

O'Sullivan alleges that on May 16, 2022, Chowdhury's company Rumman Chowdhury LLC, The Propell Group and shareholder Parity Inc. told O'Sullivan in an email that she had been put on administrative leave and would no longer have access to Parity communications, systems and processes. She then

fired Chen when he wouldn't restore access.

Chen allegedly ignored O'Sullivan's termination email and tried to transfer company funds into a bank account that he controlled. The shareholder group also purportedly appointed Chen as president and CEO.

About a week later, the shareholder group executed a "written consent" that purported to remove O'Sullivan as a member of the board of directors of Parity and install defendants Chen, Chowdhury, Lier and McKenna as new directors, O'Sullivan's filings said.

In a brief opposing the status quo order, the defendants called the case "an employment dispute that has been inaccurately presented as a battle over corporate governance."

The vice chancellor ordered the parties to confer on an order and file it to the court by the end of the day Tuesday.

None of the parties responded to Law360's request for comment.

Parity Technologies Inc. and Elizabeth O'Sullivan are represented by Alexander Shapiro of Ford O'Brien Landy LLP, and Matthew W. Murphy, Melissa A. Lagoumis and Edmond S. Kim of Richards Layton & Finger PA.

Jiahao Chen, Rumman Chowdhury, Anders Lier, Michael McKenna, Rumman Chowdhury LLC, Parity Inc. and The Propell Group are represented by Andrea L. Martin of Burns & Levinson LLP, and Richard M. Beck and Sean M. Brennecke of Klehr Harrison Harvey Branzburg LLP.

The case is Parity Technologies Inc. et al. v. Jiahao Chen et al., case number 2022-0450, in the Court of Chancery of the State of Delaware.

--Editing by JoVona Taylor.