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May 18, 2018 - Via ECF and Email

Hon. Analisa Torres
Southern District of New York
500 Pearl Street
New York, NY 10007

Re: *LCS Group, LLC v. Shire LLC, et al.*, Case No. 1:18-cv-02688-AT

Dear Judge Torres:

Pursuant to Your Honor's Rules III(A) and III(B), Defendants Shire LLC and Shire Development LLC[1] seek permission to file a motion to dismiss Plaintiff LCS Group, LLC's ("LCS") Complaint under Federal Rule of Civil Procedure 12(b)(6). On April 26, 2018 Defendants Shire LLC and Shire Development LLC sent LCS a letter detailing the Complaint's many deficiencies. LCS's response did not: (i) resolve the issues raised; (ii) agree to voluntarily dismiss the case; or (iii) provide any specific amendments to the deficient Complaint. Having requested any amended pleading by May 18th and having received no such amendments from LCS, we provide the following reasons why this case must be dismissed under Rule 12(b)(6).

LCS's Complaint alleges state-law contract and tort claims arising out of: (1) a petition by Shire Development LLC for *inter partes* review ("IPR"), before the United States Patent and Trademark Office ("PTO"), of LCS's U.S. Patent No. 8,318,813 ("the '813 patent")[2]; and (2) a Confidential Disclosure Agreement ("CDA") between LCS and Shire LLC that LCS alleges was breached through the filing of the IPR. Of note is that defendants Shire LLC and Shire plc did not file the IPR and defendants Shire Development LLC and Shire plc were not parties to the CDA. The IPR petition was filed in May 2014, and the PTO instituted the IPR in November 2014, after which it ordered cancellation of LCS's '813 patent in June 2015. No appeal was filed from that decision. Nevertheless, at its core, LCS's Complaint improperly seeks to collaterally attack the PTO's judgment by alleging that the IPR petition was based on a fraudulent expert declaration.

As discussed below, LCS's Complaint is fatally deficient and must be dismissed in its entirety. LCS has provided no proposed amendments that could possibly cure these deficiencies.

I. Breach of Contract

LCS's First Claim—breach of contract—must be dismissed. Only parties to contracts can be liable for their breach. *See, e.g.*, *Davis v. Blige*, 505 F.3d 90, 103 (2d Cir. 2007). And here, ***only*** Shire LLC and LCS were parties to the CDA, the document that forms the basis for LCS's breach-of-contract claim. Because a contract cannot bind a nonparty, the breach-of-contract claim against Shire Development LLC—a nonparty to the contract—must be dismissed. Also, the Complaint makes no

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[1] Shire plc—a foreign company—has not been served in this litigation. If properly served, Shire plc reserves its rights to seek dismissal.
[2] The '813 patent names Dr. Louis Sanfilippo as the sole inventor.

plausible allegation that Shire LLC took any steps to prepare or file the IPR petition, the filing being the action that LCS alleges is the basis for its breach-of-contract claim. ***Only*** Shire Development LLC filed the IPR petition. Therefore, this claim against Shire LLC must also be dismissed.

The allegation that Paragraph 7 of the CDA was breached based upon the filing of the IPR with the PTO is untenable for several additional reasons. First, a disclosure to the PTO about the content of the '813 patent and its claims (which the PTO issued) is not a public disclosure within the meaning of Paragraph 7. Moreover, Paragraph 5 excludes from the scope of the Agreement any information that is "already known to the Receiving Party at the time of the disclosure." Therefore, the filing of the IPR petition was not a violation of the CDA. Second, contrary to the Complaint (*see* D.I. 1 ¶17), nothing in the agreement purports to prohibit the filing of an IPR. A contract can be interpreted to prohibit a validity challenge "***only if*** the language of the agreement . . . is clear and unambiguous." *Baseload Energy, Inc. v. Roberts*, 619 F.3d 1357, 1362 (Fed. Cir. 2010) (emphasis added). Because there is no language whatsoever in the CDA prohibiting a validity challenge to the '813 patent—let alone clear and unambiguous language—the breach-of-contract claim fails. Third, even if the CDA is interpreted to preclude a validity challenge to the '813 patent (which it cannot be, as noted), that provision is unenforceable as a matter of law under controlling Second Circuit authority. *Rates Tech. Inc. v. Speakeasy, Inc.*, 685 F.3d 163, 172 (2d Cir. 2012) (holding, at the Rule 12(b)(6) stage, that "covenants barring future challenges to a patent's validity entered into prior to litigation are unenforceable"). For at least these reasons, LCS's First Claim must be dismissed.

II. Breach of Contract Based on Implied Duty of Good Faith and Fair Dealing

LCS's Second Claim—breach of contract based on implied duty of good faith and fair dealing—must be dismissed for the same reasons as the First Claim. *See Apothecus Pharm. Corp. v. Hendrickson*, No. 16-cv-4932, 2017 WL 5495818, at *4 (E.D.N.Y. May 9, 2017) (noting that there can be no breach of the implied covenant of good faith and fair dealing if the underlying contract is unenforceable). Additionally, the Second Claim arises from the same operative facts as does the First Claim. Under well-established law, a claim for breach of an implied covenant of good faith and fair dealing is subject to dismissal where the claims "arise[] from the same [operative] facts and seek[] the same damages as the breach of contract claim[s]." *New York State Workers Comp. Bd. v. Fuller & LaFiura*, 146 N.Y.S.3d 1110, 1113 (3d Dep't 2017); *see also Cruz v. FXDirectDealer, LLC*, 720 F.3d 115, 125 (2d Cir. 2013). Because breach of the implied duty of good faith and fair dealing is not a cognizable cause of action separate from breach of contract, this claim must be dismissed.

III. Interference with Prospective Economic Advantage

LCS's Third Claim—interference with prospective economic advantage—must be dismissed. First, this claim is barred by the three-year statute of limitations for tortious interference with prospective economic advantage. *10 Ellicott Square Court Corp. v. Violet Realty, Inc.*, 916 N.Y.S.2d 705, 707 (4th Dep't 2011). The conduct alleged in the Complaint (*see* Complaint ¶57) stems from events that occurred more than three years before the Complaint was filed and are thus time-barred.

Additionally, LCS's tortious-interference claim must be dismissed because this state-law claim is preempted by federal law. The allegedly tortious conduct set forth in the Complaint arises from the filing of the IPR (i.e., conduct before the PTO), and does not allege any misconduct in the marketplace. A state-law claim that is based only on misconduct before the PTO is preempted by federal law. *See Lockwood v. Sheppard, Mullin, Richter & Hampton, LLP*, No. CV 09-5157-JFW, 2009 WL 9419499, at *7, *11 (C.D. Cal. Nov. 24, 2009) (finding fraud claims regarding a reexamination request to the PTO preempted by federal law); *CardioVention, Inc. v. Medtronic, Inc.*, 430 F. Supp. 2d 933, 939-41 (D. Minn. 2006) (finding preemption of a tortious-interference claim).

Moreover, LCS's tortious-interference claim also fails to provide the necessary details to support such a claim. LCS fails to identify: (i) any prospective business relationship that LCS had; or

(ii) any specific third party with whom LCS had such a relationship. Additionally, LCS fails to plausibly allege that Shire LLC or Shire Development LLC had knowledge of the prospective economic relation. Accordingly, the tortious-interference claim must be dismissed. *Continental Indus. Grp., Inc. v. Altunkilic*, No. 14 Civ. 790, 2018 WL 1508566, at *5 (S.D.N.Y. Mar. 27, 2018) (Torres, J.) (dismissing tortious-interference claim where "Plaintiff has not adequately alleged *specific* business relationships with which Defendant allegedly interfered").

IV. Fraud

LCS's Fourth Claim—fraud—must be dismissed. As a threshold matter, LCS's fraud claim is barred by Connecticut's 3-year statute of repose. Conn. Gen. Stat. § 52-577. Specifically, the alleged harm—i.e., the cancellation of the '813—occurred in Connecticut, where LCS held the patent. Complaint ¶4. Connecticut law therefore governs LCS's fraud claim. *See Luv N' Care, Ltd. v. Goldberg Cohen, LLP*, 703 F. App'x 26, 28 (2d Cir. 2017) ("When an alleged injury is purely economic, the place of injury usually is where the plaintiff resides and sustains the economic impact of the loss.") (citing *Global Fin. Corp. v. Triarc Corp.*, 715 N.E.2d 482 (N.Y. 1999)). Moreover, under New York's borrowing statute, Connecticut's 3-year time bar applies here. N.Y. C.P.L.R. § 202. The fraud claim alleged by LCS accrued on May 9, 2014—nearly four years before the Complaint—when the IPR was served on LCS Group. *Id.*; ECF No. 1-3 at 71. Accordingly, LCS cannot maintain its fraud allegations.

Even if LCS's fraud claim was not time-barred, it would still be unsupportable for a number of reasons. LCS advances two different theories of fraud: (1) that Shire fraudulently represented that it would comply with the CDA, which LCS asserts was an agreement not to file an IPR (Complaint ¶¶17, 61(a)); and (2) that Shire relied on a fraudulent expert declaration in its IPR Petition (Complaint ¶¶61(b), 63). Shire addresses LCS's two fraud theories separately below.

A. Alleged Fraud Due to Breach of CDA

In addition to being time barred, LCS's fraud allegations regarding compliance with the CDA are not viable because "a cause of action sounding in fraud cannot be maintained when the only fraud charged relates to a breach of contract." *Ellington Credit Fund, Ltd. v. Select Portfolio Servicing, Inc.*, 837 F. Supp. 2d 162, 197 (S.D.N.Y. 2011). LCS's fraud theory regarding statements "that Shire intended to comply, and not breach, the CDA" is coextensive with the breach-of-contract claims and must be dismissed. *Id.*; Complaint ¶61(a).

LCS also fails to plead this fraud theory with particularity under Federal Rule of Civil Procedure 9(b). Among other things, LCS is required to (1) detail the statements that it contends are fraudulent; (2) identify the speaker(s); (3) state where and when the statements were made; and (4) explain why the statements are fraudulent. *Ellington*, 837 F. Supp. 2d at 197. Although LCS asserts that "[e]ach Defendant made false representations," (Complaint ¶61) the Complaint fails to detail those statements, to identify the speakers, or to state when and where the statements were made. Additionally, LCS only makes vague and conclusory statements about its theory of harm and damages. Finally, as explained above, because there was no cognizable breach of contract, LCS cannot demonstrate that the unidentified statements are fraudulent.

B. Alleged Fraudulent Declaration

LCS's fraud theory concerning Dr. Brewerton's IPR expert declaration (*see* Complaint ¶61(b)) is also not viable. We note that LCS—through its "sole Manager and Member" Dr. Sanfilippo (Complaint ¶7)—already sued Dr. Brewerton on a fraud theory in the District of South Carolina and lost. *Sanfilippo v. Brewerton*, No. 2:17-183, 2017 WL 5591615 (D.S.C. Nov. 20, 2017). The court in *Sanfilippo* found that Dr. Sanfilippo was "engaging in an ongoing, abusive use of legal process," and dismissed that case with leave to file for attorney's fees. *Id.* at 3. Of particular relevance here, the *Sanfilippo* court found that there could be no harm for the allegedly fraudulent IPR because the patent was cancelled due to Dr. Sanfilippo's own actions:

> [T]he PTAB did not enter an adverse judgment against [Dr. Sanfilippo] because it credited [Dr. Brewerton's] opinion. . . . [Dr. Sanfilippo] could not show that [Dr. Brewerton] damaged him. The IPR proceeding concluded with the cancellation of the '813 Patent because of [Dr. Sanfilippo's] repeated and willful misconduct during the IPR proceeding, not because of anything that [Dr. Brewerton] did.

Id. at *3. The *Sanfilippo* court also held that the proper forum for challenging the veracity of the declaration was the IPR proceeding before the PTAB, and noted that the PTAB decision is binding on the district court. *Id.* at *2-3. Each of these points is still true in the present litigation.

Independent of the *Sanfilippo* case, multiple other grounds exist for the dismissal of LCS's fraud claim. First, LCS's assertions are preempted by Federal law. *See Lockwood*, 2009 WL 9419499, at *7, *11(finding malicious prosecution and fraud claims preempted by federal law in a case alleging a fraudulent submission of a reexamination request to the USPTO). Second, the Complaint does not allege that LCS relied on the declaration and the IPR filing, let alone that LCS was harmed by such reliance. *See Pasternak v. Lab. Corp. of Am. Holdings*, 59 N.E.3d 485, 493 (N.Y. 2016) (noting that to establish fraud, the plaintiff must have reasonably relied on the representation); *see also Stuart v. Freiberg*, 316 Conn. 809, 822 (2015). Just the opposite, LCS opposed the IPR. Third, the declaration recites an expert witness' opinions and thus cannot constitute fraud. *See Catskill Dev. LLC v. Park Place Entm't Corp.*, 547 F.3d 115 (2d Cir. 2008). Fourth, like LCS's other fraud theory, LCS fails to plead its case with particularity under Rule 9(b). For example, LCS does not identify any of the alleged false statements made about the prior art to the '813 patent, let alone explain how they are fraudulent. Finally, LCS is precluded from rearguing that its patent is nonobvious. *See B&B Hardware, Inc. v. Hargis Indus., Inc.*, 135 S. Ct. 1293 (2015).

V. Conclusion

No plausible amendment to LCS's Complaint can resolve all of the numerous issues raised above. The Court should set a briefing schedule for Shire's Rule 12(b)(6) motion.

We thank the Court for its assistance in this matter, and are prepared to discuss the above issues at the upcoming May 29th Rule 16 conference.

Sincerely,

Porter F. Fleming
Counsel for Defendants

cc: Stephen M. Lobbin, Esq., *Counsel for Plaintiff*

IN THE UNITED STATES DISTRICT COURT
FOR THE SOUTHERN DISTRICT OF NEW YORK

LCS GROUP. LLC, Plaintiffs, v. SHIRE LLC, SHIRE DEVELOPMENT LLC, and SHIRE plc, Defendants.	))))))))))))	Civ. Action No.: 18-cv-2688 (AT)

CERTIFICATE OF SERVICE

I hereby certify that on May 18, 2018, a true and correct copy of the foregoing May 18, 2018 Letter pursuant to Judge Analisa Torres' Individual Rules 3(A) and 3(B)(iii) was filed electronically by operation of the Court's ECF system and served on all other parties through that system and via email, including:

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/s/ Porter F. Fleming
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