

**IN THE UNITED STATES DISTRICT COURT  
FOR THE SOUTHERN DISTRICT OF TEXAS  
HOUSTON DIVISION**

ARROWS UP, LLC

v.

US SILICA HOLDINGS, INC., and  
SANDBOX LOGISTICS, LLC

§  
§  
§  
§  
§

Civil Action No. 4:17-cv-01945

---

SANDBOX LOGISTICS, LLC,  
SANDY CREEK CAPITAL, LLC, and  
U.S. SILICA HOLDINGS, INC.

§  
§  
§  
§  
§  
§  
§  
§

v.

ARROWS UP, LLC, ARROWS UP, INC.  
(n/k/a ARROWS UP HOLDINGS, INC.) and  
JOHN ALLEGRETTI

---

**SANDBOX'S RESPONSE TO  
ARROWS UP'S PARTIAL MOTION TO DISMISS AND/OR STRIKE  
SANDBOX'S FIRST AMENDED ANSWER AND COUNTERCLAIMS**

---

September 17, 2018

**BECK REDDEN LLP**

Matthew P. Whitley (attorney-in-charge)  
Michael Richardson  
Seepan Parseghian  
Leslie Honey Tronche

**KIRKLAND & ELLIS LLP**

Gianni Cutri (*pro hac vice*)  
Kyle M. Kantarek (*pro hac vice*)  
Adam M. Kaufmann (*pro hac vice*)

# **TABLE OF CONTENTS**

	PAGE
Table of Contents.....	i
Table of Authorities .....	<b>Error! Bookmark not defined.</b>
Table of Exhibits.....	vi
Introduction.....	1
Factual Background .....	3
Legal Standards .....	7
Argument and Authorities .....	7
A.    Federal Law Does Not Preempt SandBox’s Breach Of Contract Counterclaims. ....	7
B.    Res Judicata Does Not Bar SandBox’s Breach Of Contract Counterclaims. ....	10
C.    SandBox Has Alleged Legitimate Fact Issues Relating To Inventorship.....	13
D.    SandBox Has Alleged Facts Sufficient To Satisfy Rule 8(a). ....	17
E.    SandBox’s Inequitable Conduct Counterclaims and Defenses Should Be Allowed.....	18
1.    Leave should be granted to allow SandBox’s inequitable conduct allegations.....	18
2.    SandBox’s inequitable conduct allegations are sufficiently pled .....	20
F.    SandBox’s Unclean Hands Allegations Are Sufficiently Pled. ....	24
Conclusion .....	24
Certificate of Service .....	26

**TABLE OF AUTHORITIES**

<b>CASES</b>	<b>PAGE(S)</b>
<i>Advanced Ion Beam Tech., Inc. v. Varian Semiconductor Equip. Assocs., Inc.</i> , 721 F. Supp. 2d 62 (D. Mass. 2010) .....	23
<i>Amstadt v. U.S. Brass Corp.</i> , 919 S.W. 2d 644 (Tex. 1996).....	11
<i>Ariad Pharms., Inc. v. Eli Lilly &amp; Co.</i> , 598 F.3d 1336 (Fed. Cir. 2010).....	15
<i>Aronson v. Quick Point Pencil Co.</i> , 440 U.S. 257 (1979).....	10
<i>Ashcroft v. Iqbal</i> , 556 U.S. 662 (2009).....	7, 17
<i>Bell Atl. Corp. v. Twombly</i> , 550 U.S. 544 (2007).....	17
<i>Ben C. Jones &amp; Co. v. Gammel Statesman Pub. Co.</i> , 99 S.W. 701 (Tex. 1907).....	2, 12, 13
<i>Bianco v. Globus Med., Inc.</i> , 30 F. Supp. 3d 565 (E.D. Tex. 2014).....	8
<i>U.S. ex rel. Bias v. Tangipahoa Parish Sch. Bd.</i> , 816 F.3d 315 (5th Cir. 2016) .....	18
<i>Biscotti Inc. v. Microsoft Corp.</i> , 2017 WL 1541938 (E.D. Tex. Apr. 28, 2017).....	16
<i>Biscotti Inc. v. Microsoft Corp.</i> , 2017 WL 1682573 (E.D. Tex. Apr. 12, 2017).....	16
<i>Board of Regents, Univ. of Tex. Sys. v. Nippon Tel. &amp; Tel. Corp.</i> , 414 F.3d 1358 (Fed. Cir. 2005).....	9
<i>Brown v. Brown</i> , 2013 WL 5947032 (N.D. Cal. Nov. 5, 2013) .....	10
<i>Brown v. Frank</i> , 2011 WL 5137186 (Ariz. Ct. App. Oct. 31, 2011).....	10
<i>Davis v. Kroger Co.</i> , 2014 WL 12599324 (S.D. Tex. June 26, 2014).....	7

<i>Doe v. Roman Catholic Diocese of Galveston-Houston</i> , 2006 WL 2413721 (S.D. Tex. Aug. 18, 2006) .....	7, 17
<i>Elmotec Statomat, Inc. v. Visteon Corp.</i> , 2009 WL 1034929 (E.D. Mich. Apr. 17, 2009).....	16
<i>EMG Tech., LLC v. Vanguard Grp., Inc.</i> , 2014 WL 12597427 (E.D. Tex. May 12, 2014).....	18, 19
<i>Ethicon, Inc. v. U.S. Surgical Corp.</i> , 135 F.3d 1456 (Fed. Cir. 1998).....	16
<i>Exergen Corp. v. Wal-Mart Stores, Inc.</i> , 575 F.3d 1312 (Fed. Cir. 2009).....	20
<i>Frank's Casing Crew &amp; Rental Tools, Inc. v. PMR Techs., Ltd.</i> , 292 F.3d 1363 (Fed. Cir. 2002).....	23
<i>General Elec. Co. v. Wilkins</i> , 2011 WL 3163348 (E.D. Cal. July 26, 2011) .....	10
<i>Great Plains Trust Co. v. Morgan Stanley Dean Witter &amp; Co.</i> , 313 F.3d 305 (5th Cir. 2002) .....	7
<i>Harrington v. State Farm Fire &amp; Cas. Co.</i> , 563 F.3d 141 (5th Cir. 2009) .....	7
<i>Hitzeman v. Rutter</i> , 243 F.3d 1345 (Fed. Cir. 2001).....	23
<i>Intellectual Ventures I LLC v. Erie Indem. Co.</i> , 850 F.3d 1315 (Fed. Cir. 2017).....	2, 9
<i>In re J.A.L.</i> , 2017 WL 4128947 (Tex. App.—Houston [14th Dist.] Sept. 19, 2017, no pet.) .....	12
<i>Johnson v. Johnson</i> , 385 F.3d 503 (5th Cir. 2004) .....	7
<i>JPMorgan Chase Bank, N.A. v. Prof'l Pharmacy II</i> , 508 S.W.3d 391 (Tex. App.—Fort Worth 2014, no pet.) .....	12
<i>Leviton Mfg. Co., Inc. v. Universal Sec. Instruments, Inc.</i> , 606 F.3d 1353 (Fed. Cir. 2010).....	22, 23
<i>LizardTech v. Earth Res. Mapping, Inc.</i> , 424 F.3d 1336 (Fed. Cir. 2005).....	14

<i>Luv N' Care, Ltd. v. Groupo Rimar</i> , 844 F.3d 442 (5th Cir. 2016) .....	9, 10
<i>Marrese v. Am. Acad. of Orthopaedic Surgeons</i> , 470 U.S. 373 (1985).....	11
<i>Norris v. Hearst Tr.</i> , 500 F.3d 454 (5th Cir. 2007) .....	11
<i>North Amer. Vaccine, Inc. v. Amer. Cyanide Co.</i> , 7 F.3d 1571 (Fed. Cir. 1993).....	14
<i>Novozymes A/S v. DuPont Nutrition Biosciences APS</i> , 723 F.3d 1336 (Fed. Cir. 2013).....	16
<i>PerSeptive Biosystems, Inc. v. Pharmacia Biotech, Inc.</i> , 225 F.3d 1315 (Fed. Cir. 2000).....	22
<i>Powell v. Home Depot U.S.A, Inc.</i> , 2010 WL 375796 (S.D. Fla. Jan. 26, 2010) .....	10
<i>Regeneron Pharm., Inc. v. Merus N.V.</i> , 864 F.3d 1343 (Fed. Cir. 2017).....	22
<i>Regents of the Univ. of Cal. v. Chen</i> , 2017 WL 3215356 (N.D. Cal. July 26, 2017).....	9
<i>Reule v. Sherwood Valley I Council of Co-Owners, Inc.</i> , 2008 WL 8084950 (S.D. Tex. Feb. 14, 2008) (Ellison, J.).....	24
<i>U.S. ex rel. Riley v. St. Luke's Episcopal Hosp.</i> , 355 F.3d 370 (5th Cir. 2004) .....	2, 13
<i>Schlumberger Tech. Corp. v. BICO Drilling Tools, Inc.</i> , 2018 WL 2059399 (S.D. Tex. May 3, 2018) .....	20
<i>Speedfit v. Woodway USA, Inc.</i> , 226 F. Supp. 3d 149 (E.D.N.Y. 2016) .....	10
<i>Tercel Oilfield Prod. USA L.L.C. v. Alaskan Energy Res., Inc.</i> , 2014 WL 645380 (S.D. Tex. Feb. 19, 2014) .....	17
<i>Test Masters Educ. Servs., Inc. v. Singh</i> , 428 F.3d 559 (5th Cir. 2005) .....	10
<i>Traxys N. Am., LLC v. Fila Oilfield Servs., LLC</i> , 2017 WL 4046342 (S.D. Tex. Sept. 12, 2017) .....	19

<i>Trovan, Ltd. v. Sokymat SA, Irori</i> , 299 F.3d 1292 (Fed. Cir. 2002).....	14
<i>Universal Gym Equip., Inc. v. ERWA Exercise Equip. Ltd.</i> , 827 F.2d 1542 (Fed. Cir. 1987).....	9
<i>University of Colo. Found., Inc. v. Am. Cyanamid Co.</i> , 196 F.3d 1366 (Fed. Cir. 1999).....	8
<i>Vision Advancement, LLC v. Johnson &amp; Johnson Vision Care, Inc.</i> , 2007 WL 865699 (E.D. Tex. Mar. 19, 2007) .....	19
<i>Welsh v. Fort Bend Indep. Sch. Dist.</i> , 860 F.3d 762 (5th Cir. 2017) .....	2, 13
<i>WesternGeco v. Ion Geophysical Corp.</i> , 2009 WL 3497123 (S.D. Tex. Oct. 28, 2009) (Ellison, J.).....	19, 20, 21

#### STATUTES

28 U.S.C. § 1738.....	11
-----------------------	----

#### OTHER AUTHORITIES

FED. R. CIV. P.	
8(a) .....	3, 17
15(a)(1)(B) .....	3, 18, 24

**TABLE OF EXHIBITS**

<b>Exhibit No.</b>	<b>Description</b>
1.	Charge of the Court dated July 3, 2018 in Cause No. 2016-03483, <i>SandBox Logistics, LLC and Sandy Creek Capital, LLC v. Arrows Up, Inc., Arrows Up, LLC and John Allegetti</i> , in the 334th Judicial District Court of Harris County, Texas
2.	Mutual Confidentiality and Non-Disclosure Agreement dated January 29, 2014
3.	Settlement Agreement and Release dated January 23, 2015
4.	Agreed Injunction and Final Judgment dated January 23, 2015 in Cause No. 2014-70621, <i>SandBox Logistics, LLC and Sandy Creek Capital, LLC v. Arrows Up, Inc. and John Allegetti</i> , in the 334th Judicial District Court of Harris County, Texas
5.	Order granting summary judgment in part dated June 1, 2018 in Cause No. 2016-03483, <i>SandBox Logistics, LLC and Sandy Creek Capital, LLC v. Arrows Up, Inc., Arrows Up, LLC and John Allegetti</i> , in the 334th Judicial District Court of Harris County, Texas
6.	Plaintiffs' Third Amended Petition dated January 19, 2018 in Cause No. 2016-03483, <i>SandBox Logistics, LLC and Sandy Creek Capital, LLC v. Arrows Up, Inc., Arrows Up, LLC and John Allegetti</i> , in the 334th Judicial District Court of Harris County, Texas

SandBox<sup>1</sup> respectfully submits this response showing why “Arrows Up’s Partial Motion to Dismiss and/or Strike SandBox’s First Amended Answer and Counterclaims” (the “Motion”)<sup>2</sup> should be denied.

### **INTRODUCTION**

Arrows Up’s product line of frac sand containers was derived from SandBox’s technology. That is not a mere allegation; that was the finding of a unanimous Harris County jury in July 2018. Following a four-week trial in state court, the jury determined that Arrows Up improperly used information disclosed by SandBox under a non-disclosure agreement to design the “Jumbo Bins” that Arrows Up has provided to customers since 2015.<sup>3</sup> In addition to finding that Arrows Up breached its contractual obligations to SandBox, the jury found “clear and convincing evidence” that Arrows Up committed fraud.<sup>4</sup>

For obvious reasons, Arrows Up never wanted the state court case to go to trial in the first place. In 2017 — roughly a year before trial — Arrows Up tried to obtain settlement leverage by applying for several patents specifically targeted at SandBox’s technology. Arrows Up then filed this lawsuit for patent infringement, which it publicized through a marketing campaign aimed at industry and investment analysts who review the performance of SandBox and its indirect parent U.S. Silica. As new patents issued in the fall of 2017, Arrows Up amended its complaint to add them to this case. Arrows Up openly admitted in press releases that its objective in pursuing these patent infringement claims was to pressure SandBox into settling its state court lawsuit.

---

<sup>1</sup> Except when necessary to distinguish a specific entity, this response will refer to (i) SandBox Logistics, LLC, Sandy Creek Capital, LLC and U.S. Silica Holdings, Inc. as “SandBox”; and (ii) Arrows Up, LLC, Arrows Up, Inc. (n/k/a Arrows Up Holdings, Inc.) and John Allegretti as “Arrows Up.”

<sup>2</sup> Dkt. 47.

<sup>3</sup> Ex. 1, Charge of the Court dated July 3, 2018, at Question Nos. 1, 3, 5 and 10.

<sup>4</sup> *Id.* at Question Nos. 6 and 8.



The plan did not work. Not only did Arrows Up lose the state court trial, but now it must face the consequences of improperly using information about SandBox's container design to draft patent applications. That conduct violates Arrows Up's contractual promises that it (i) would not use SandBox's design information for any purpose and (ii) would assign to SandBox its patent rights to any invention derived in whole or in part from SandBox's design. Therefore, SandBox has asserted compulsory counterclaims for breach of contract based on Arrows Up's unauthorized use of SandBox's design when drafting claim language for the patents-in-suit.<sup>5</sup> SandBox has also raised counterclaims and affirmative defenses related to the patent law concepts of inventorship, inequitable conduct, and unclean hands.

Predictably, Arrows Up now seeks to avoid litigating the merits of these issues. Its Motion asserts numerous contentions "kitchen sink style" in the hopes that something will stick. But none of Arrows Up's arguments is valid:

- SandBox's breach of contract counterclaims are based on the terms of the parties' agreements, not the federal standard for determining the proper inventors of a patent. Accordingly, they are not preempted by federal patent law because federal courts "apply state law to contractual disputes and interpretations of the parties' patent assignment agreements." *Intellectual Ventures I LLC v. Erie Indem. Co.*, 850 F.3d 1315, 1320 (Fed. Cir. 2017).
- SandBox filed the state court lawsuit in 2016, but the patents-in-suit giving rise to its counterclaims issued in 2017. Res judicata (or "claim-splitting," as Arrows Up calls it) is therefore inapplicable because claims for breach of contract are "not barred by a previous suit on the same contract where the causes of action in the second suit accrued *after* the filing of the first suit." *Welsh v. Fort Bend Indep. Sch. Dist.*, 860 F.3d 762, 766 (5th Cir. 2017) (emphasis in original) (citing *Ben C. Jones & Co. v. Gammel Statesman Pub. Co.*, 99 S.W. Tex. 701, 703 (Tex. 1907)).
- With respect to SandBox's counterclaims and defenses for incorrect inventorship, Arrows Up improperly argues on a 12(b)(6) motion to dismiss that SandBox lacks evidence to prove the merits of its claims. But 12(b)(6) motions merely test the sufficiency of the pleadings, not the sufficiency of the supporting evidence. *U.S.*

---

<sup>5</sup> The patents-in-suit are U.S. Patent Nos. 9,617,065 (the "'065 Patent"), 9,758,993 (the "'993 Patent"), 9,783,338 (the "'338 Patent"), 9,796,504 (the "'504 Patent"), and 9,828,135 (the "'135 Patent").

*ex rel. Riley v. St. Luke's Episcopal Hosp.*, 355 F.3d 370, 376 (5th Cir. 2004). SandBox's well-pled allegations establish a plausible claim for inventorship, replete with fact issues, that cannot be resolved on the pleadings.

- SandBox pled more than enough detail to satisfy the low threshold of FED. R. CIV. P. 8(a). It identified, for example, specific contract provisions that were breached and how Arrows Up breached them. Nevertheless, SandBox has rendered this issue moot by submitting an amended pleading contemporaneously with this response.<sup>6</sup> *See* FED. R. CIV. P. 15(a)(1)(B) (a party may amend its pleading once as a matter of course within 21 days after service of a Rule 12(b) motion to dismiss).
- None of Arrows Up's objections to SandBox's inequitable conduct defenses and counterclaims carry any weight, especially considering that (i) discovery has barely begun and (ii) trial is nine months away. Nor does Arrows Up have a legitimate complaint about the sufficiency of SandBox's pleadings on this issue, particularly given the recent jury verdict confirming that Arrows Up committed fraud.<sup>7</sup>
- Finally, as with its inequitable conduct defenses and counterclaims, SandBox pled sufficient detail with respect to its unclean hands defenses and counterclaims.

For these reasons, as explained in more detail below, SandBox respectfully submits that Arrows Up's Motion should be denied.

### **FACTUAL BACKGROUND**<sup>8</sup>

SandBox is a Houston company founded by father-son team John and Josh Oren. Starting in 2011, SandBox designed specialized containers (called "SandBoxes") and other equipment for transporting and storing frac sand. It also developed a logistical system for delivering frac sand directly to a well site during fracking operations.

In 2014, SandBox retained Chicago-based Arrows Up as a vendor to help it build a plastic version of the metal SandBox. SandBox realized that Arrows Up would need detailed information about its metal container and logistical process to construct a plastic SandBox. SandBox therefore

---

<sup>6</sup> Dkt. 52.

<sup>7</sup> Ex. 1 at Question Nos. 6 and 8.

<sup>8</sup> This is a substantially abbreviated summary of the parties' history. SandBox can provide more detailed briefing, with citations to key documents and deposition testimony, if the Court would find that helpful.

required Arrows Up to sign a non-disclosure agreement (the “NDA”) before the project began.

The NDA included numerous clauses to protect SandBox’s design information. For example:

- the NDA prohibits Arrows Up from using any information provided by SandBox about its equipment design or logistical process without SandBox’s permission;<sup>9</sup>
- it states that any Arrows Up inventions containing modifications, enhancements, derivative works or other improvements relating to SandBox’s equipment design or logistical system — which the contract calls “Related Inventions” — will be owned exclusively by SandBox;<sup>10</sup> and
- it requires Arrows Up to assign to SandBox all worldwide rights to any Related Invention, “including all underlying or resultant intellectual property therein.”<sup>11</sup>

After the parties signed the NDA, SandBox began to share information about its equipment design and logistical system in March 2014. SandBox sent Arrows Up technical drawings and photographs of its metal container. SandBox disclosed more design information and instructions through e-mails and telephone calls. It also shipped a metal SandBox to Chicago so Arrows Up could study its design while building the prototype plastic SandBoxes.

What SandBox did not know, however, is that Arrows Up (and its founder John Allegretti) were facing substantial financial problems. To boost its own sales, Arrows Up began secretly copying SandBox’s ideas almost immediately after it gained access to SandBox’s design. By April 2014, Arrows Up had created advertising that falsely described SandBox’s design concepts as Arrows Up’s inventions. Arrows Up then passed off photographs of SandBox products as a “new” line of Arrows Up frac sand containers. This conduct continued until December 2014, when SandBox filed a lawsuit in state court after discovering what Arrows Up had done.<sup>12</sup>

---

<sup>9</sup> Ex. 2, Mutual Confidentiality and Non-Disclosure Agreement, at ¶¶ 1–2, 8.2.

<sup>10</sup> *Id.* at ¶ 4.

<sup>11</sup> *Id.*

<sup>12</sup> The first case was styled Cause No. 2014–70621, *SandBox Logistics, LLC, et al. v. Arrows Up, Inc., et al.*, in the 334th Judicial District of Harris County, Texas.

Arrows Up knew that it had been caught red-handed, and it quickly backed down. In January 2015, the parties signed a settlement agreement and release (“Settlement Agreement”). In addition to requiring Arrows Up to pay SandBox’s attorney’s fees and re-affirming that the NDA would remain in full force and effect,<sup>13</sup> the Settlement Agreement confirmed that Arrows Up would not use any information about SandBox’s technology that had been provided under the NDA for any purpose whatsoever.<sup>14</sup> Similar restrictions were adopted into an agreed permanent injunction issued by the state court in January 2015.<sup>15</sup>

Yet Arrows Up never intended to honor its promises or the state court’s injunction. Within a few weeks of signing the Settlement Agreement, it resumed giving presentations and promoting advertising that falsely described pictures of SandBox containers as Arrows Up’s “Jumbo Bins.” Arrows Up eventually succeeded in convincing a fracking company named Rock Pile to purchase a set of these Jumbo Bins — all derived from SandBox’s design — in the fall of 2015. Since Rock Pile was also a SandBox customer, it did not take long for SandBox to learn what Arrows Up had done. That led SandBox to file a second state court lawsuit in January 2016.<sup>16</sup>

As discovery was progressing in the state court action in 2017, Arrows Up sought ways to avoid liability by forcing a settlement. It began by using SandBox’s design information to prepare new patent applications aimed at SandBox’s technology. Arrows Up then hired a marketing firm named Edelman to devise a media strategy. That strategy involved three stages. First, Arrows Up would file this patent infringement lawsuit. Second, Edelman would send the lawsuit, a carefully

---

<sup>13</sup> Ex. 3, Settlement Agreement and Release at ¶¶ III(E), III(K). To avoid having to seal any documents, this copy of the Settlement Agreement has been redacted to remove technical drawings of SandBox’s equipment that are attached to the original as an exhibit.

<sup>14</sup> *Id.* at ¶ III(C)(1).

<sup>15</sup> Ex. 4, AGREED INJUNCTION AND FINAL JUDGMENT.

<sup>16</sup> The second case was styled Cause No. 2016-03483, *SandBox Logistics, LLC et al. v. Arrows Up, Inc., et al.*, in the 334th Judicial District Court of Harris County, Texas.

drafted press release, and a set of talking points to analysts who review the financial performance of SandBox and U.S. Silica. These materials were designed to mislead analysts into believing that U.S. Silica's stock price would fall unless SandBox and Arrows Up settled their disputes. Third, Arrows Up would try to bolster this lawsuit by adding new patents as they issued.

Arrows Up followed through on this strategy by filing this action in June 2017 — just two months after the '065 Patent issued in April 2017. It issued a press release urging settlement of the state court case on the same day, and Edelman promptly contacted analysts who cover U.S. Silica to deliver the same message.<sup>17</sup> Later the same week, Arrows Up submitted a litany of other patent applications based on information SandBox had disclosed to Arrows Up under the NDA.

The Patent Office granted four of those new patent applications in the fall of 2017. Arrows Up did not even try to hide the fact that these patents were drafted for litigation purposes. In fact, Arrows Up's counsel notified SandBox shortly after it filed this action that Arrows Up would add more patents to this case as soon as its June 2017 patent applications were granted. In December 2017 — after the last of the patents-in-suit had issued — Arrows Up did just that by filing an amended complaint that added new claims based on patents granted in 2017.<sup>18</sup>

Arrows Up's attempt to force a settlement failed spectacularly. On July 3, 2018, a twelve-person jury found that Arrows Up breached multiple terms of the NDA and Settlement Agreement and committed fraud. It awarded roughly \$15.5-21.6 million in actual damages and \$27.5 million in punitive damages.<sup>19</sup> The state court is now considering the parties' post-verdict motions.

---

<sup>17</sup> Dkt. 45 at Ex. B–C.

<sup>18</sup> Dkt. 30.

<sup>19</sup> *See generally* Ex. 1.

### **LEGAL STANDARDS**

“Rule 12(b)(6) motions are disfavored and are rarely granted.” *Davis v. Kroger Co.*, 2014 WL 12599324, at \*1 (S.D. Tex. June 26, 2014) (citing *Harrington v. State Farm Fire & Cas. Co.*, 563 F.3d 141, 147 (5th Cir. 2009)). Avoiding 12(b)(6) dismissal does not require detailed factual allegations; one merely needs to plead factual content allowing a court to draw a “reasonable inference” that the respondent is liable for the alleged misconduct. *Ashcroft v. Iqbal*, 556 U.S. 662, 678 (2009). Moreover, courts must “accept the complaint’s well-pleaded facts as true and view them in the light most favorable to the [claimant].” *Johnson v. Johnson*, 385 F.3d 503, 529 (5th Cir. 2004). If the alleged pleading deficiency can be cured by providing more detail, courts typically allow the claimant to amend rather than dismiss the claims on the merits. *See, e.g., Great Plains Trust Co. v. Morgan Stanley Dean Witter & Co.*, 313 F.3d 305, 329 (5th Cir. 2002).

The legal standards are identical for Rule 12(f) motions. “When a Rule 12(f) motion to strike challenges the sufficiency of an affirmative defense, the standards for a Rule 12(f) motion to strike and a Rule 12(b)(6) motion to dismiss are mirror images.” *Doe v. Roman Catholic Diocese of Galveston-Houston*, 2006 WL 2413721, at \*2 (S.D. Tex. Aug. 18, 2006) (quotation omitted). And like 12(b)(6) motions to dismiss, Rule 12(f) motions to strike are disfavored because of “the limited importance of pleadings in federal practice.” *Id.* (quotation omitted).

### **ARGUMENT AND AUTHORITIES**

#### **A. Federal Law Does Not Preempt SandBox’s Breach Of Contract Counterclaims.**

SandBox’s breach of contract counterclaims fall into two general categories: (i) those based on Arrows Up’s unauthorized use of information disclosed under the NDA; and (ii) those based on Arrows Up’s failure to assign its interest in the patents-in-suit to SandBox.<sup>20</sup> Arrows Up asserts

---

<sup>20</sup> Dkt. 45 at pp. 42–45.

in its Motion that federal law bars SandBox from enforcing these contract provisions.<sup>21</sup> Its theory is that federal law provides the exclusive criteria for deciding patent inventorship, and (according to Arrows Up) determining “inventorship is at the core of each of SandBox’s state law claims.”<sup>22</sup>

No one disputes that federal law, not state law, defines the requirements for being listed as a patent inventor. *See, e.g., University of Colo. Found., Inc. v. Am. Cyanamid Co.*, 196 F.3d 1366, 1371 (Fed. Cir. 1999). But Arrows Up mixes up the statutory issue of *patent inventorship* with the contractual issues of *non-use obligations* and *patent assignment*. Contrary to Arrows Up’s conclusory assertions, none of SandBox’s breach of contract counterclaims turn on whether John or Josh Oren qualify as inventors of the patents-in-suit under federal law.

Consider first the counterclaims for Arrows Up’s violations of its non-use obligations. The contracts at issue specifically prohibit Arrows Up’s “use” of any design information provided by SandBox under the NDA.<sup>23</sup> Whether Arrows Up used such information to draft patent claims is a much different factual and legal inquiry than whether the Orens should be named as inventors on the patents-in-suit. *See, e.g., Bianco v. Globus Med., Inc.*, 30 F. Supp. 3d 565, 576–77 (E.D. Tex. 2014) (summarizing the criteria for qualifying as patent inventors under federal law, such as the requirement that one must have formed a “definite and permanent idea” of the claimed invention in his mind). To be sure, some facts may be relevant to both questions, but the applicable legal standards — one defined by a private contract, and the other defined by federal law — are entirely different. That is one reason why federal courts have repeatedly found non-use obligations to be

---

<sup>21</sup> Motion at 3–6.

<sup>22</sup> *Id.* at 4.

<sup>23</sup> Ex. 2 at ¶ 2 (“[Arrows Up] agrees to safeguard, defend, and not use any Confidential Data of [SandBox] for any purpose . . .”); *see also id.* at ¶ 8.2 (same); Ex. 3 at ¶ III(C)(1) (same). “Confidential Data” is broadly defined as any design information provided by SandBox to Arrows Up, regardless of whether that information constitutes a “trade secret.” Ex. 2 at ¶¶ 1, 4; Ex. 3 at ¶ II.



fully enforceable under state contract law. *See, e.g., Universal Gym Equip., Inc. v. ERWA Exercise Equip. Ltd.*, 827 F.2d 1542, 1550 (Fed. Cir. 1987) (state law claim for breach of a contractual prohibition on using the plaintiff’s design information was not preempted by federal law); *see also Luv N’ Care, Ltd. v. Groupo Rimar*, 844 F.3d 442, 447–48 (5th Cir. 2016) (same).<sup>24</sup>

The result is the same for SandBox’s counterclaims based on Arrows Up’s failure to assign its rights to the patents-in-suit. Whether Arrows Up violated that obligation depends on whether the patents-in-suit fall within the contractual definition of “Related Inventions,”<sup>25</sup> not whether the Orens qualify as inventors of those patents under federal patent law. That distinction is fatal to Arrows Up’s argument. *See Regents of the Univ. of Cal. v. Chen*, 2017 WL 3215356, at \*7 (N.D. Cal. July 26, 2017) (denying a 12(b)(6) motion to dismiss a breach of contract claim on the basis of preemption because the defendant could have breached his contractual obligation to assign his patent rights regardless of whether the patent’s inventors were properly named under federal law). Certainly, some facts relevant to the question of *assignment* may also be relevant to the question of *inventorship*, but that does not convert a state law claim into a federal one. *See, e.g., See Board of Regents, Univ. of Tex. Sys. v. Nippon Tel. & Tel. Corp.*, 414 F.3d 1358, 1363 (Fed. Cir. 2005) (state law claims for breach of contract and tortious interference are not preempted even if they implicate a “possible question of inventorship”). That is why federal courts consistently “apply state law to contractual disputes and interpretations of the parties’ patent assignment agreements.” *Intellectual Ventures I LLC v. Erie Indem. Co.*, 850 F.3d 1315, 1320 (Fed. Cir. 2017).

<sup>24</sup> Arrows Up made a similar preemption argument in the state court case, which it lost. After SandBox submitted briefing citing many of these same cases, the state court granted summary judgment and dismissed Arrows Up’s federal preemption defense with prejudice. Ex. 5, Summary Judgment Order.

<sup>25</sup> Ex. 2 at ¶ 4 (Arrows Up “hereby assigns all worldwide rights in and to the Related Inventions,” which are defined as including “any suggestions, improvements, changes, modifications, derivative work, addition, enhancement, update, new version, adaptation, revision or additional inventions relating to [SandBox’s] Confidential Data . . . including all underlying or resultant intellectual property therein.”).



Arrows Up's argument is based entirely on misleading citations to preemption cases that did not involve breach of contract claims.<sup>26</sup> In so doing, Arrows Up ignores what the Supreme Court stated almost 40 years ago: "Commercial agreements traditionally are the domain of state law. State law is not displaced merely because the contract relates to intellectual property which may or may not be patentable . . . ." *Aronson v. Quick Point Pencil Co.*, 440 U.S. 257, 262 (1979); *see also Luv N' Care*, 844 F.3d at 448 ("Intellectual property law is no barrier to enforcement of a contract under state law, 'merely because the contract relates to intellectual property which may or may not be patentable.'") (*quoting Aronson*, 440 U.S. at 262). Arrows Up's preemption defense to SandBox's breach of contract claims<sup>27</sup> should be rejected.

**B. Res Judicata Does Not Bar SandBox's Breach Of Contract Counterclaims.**

Arrows Up next asserts that SandBox's breach of contract counterclaims are barred by res judicata (or "claim splitting") on the theory that "SandBox could have and should have brought the purported patent aspects of those claims in the state court action."<sup>28</sup> In effect, Arrows Up contends that SandBox was required to amend its state court lawsuit (filed in 2016) to add claims related to the patents-in-suit (which issued in 2017). Arrows Up misstates the law.

<sup>26</sup> All of the preemption cases cited by Arrows Up involve general complaints that the plaintiff was the real inventor of a patent. *See generally* Motion at 3–5. None of them involved claims that the defendant had breached contractual non-use or patent assignment clauses. *See Speedfit v. Woodway USA, Inc.*, 226 F. Supp. 3d 149, 159-160 (E.D.N.Y. 2016) (conversion); *Powell v. Home Depot U.S.A, Inc.*, 2010 WL 375796, at \*3–5 (S.D. Fla. Jan. 26, 2010) (unjust enrichment and DTPA statute); *Brown v. Brown*, 2013 WL 5947032, at \*7 (N.D. Cal. Nov. 5, 2013) (conversion); *Brown v. Frank*, 2011 WL 5137186, at \*2–7 (Ariz. Ct. App. Oct. 31, 2011) (constructive trust, conversion, unjust enrichment, and declaratory judgment of trademark ownership); *General Elec. Co. v. Wilkins*, 2011 WL 3163348, at \*5–9 (E.D. Cal. July 26, 2011) (unjust enrichment and conversion).

<sup>27</sup> Arrows Up also asserts that SandBox's conversion counterclaim is preempted. SandBox has withdrawn conversion from its amended pleading because Arrows Up raises a reasonable question as to whether Texas conversion law applies to patents. Motion at 24. This issue is therefore moot.

<sup>28</sup> Motion at 6. As a procedural issue, Arrows Up is not allowed to raise an affirmative defense like res judicata in a 12(b)(6) motion to dismiss. *Test Masters Educ. Servs., Inc. v. Singh*, 428 F.3d 559, 570 n.2 (5th Cir. 2005). While this procedural defect alone is sufficient to deny the Motion (and SandBox objects accordingly), we will nevertheless address the substance of Arrows Up's argument.

To start, Arrows Up mistakenly assumes that the applicable elements of res judicata are defined by federal common law.<sup>29</sup> Yet under the Full Faith and Credit statute, 28 U.S.C. § 1738, the preclusive effect of a Texas state court judgment on a subsequent federal lawsuit is determined by Texas law. *Marrese v. Am. Acad. of Orthopaedic Surgeons*, 470 U.S. 373, 380–82 (1985); *see also Norris v. Hearst Tr.*, 500 F.3d 454, 460–61 (5th Cir. 2007). This rule applies even when the federal court has exclusive jurisdiction over the second lawsuit. *Marrese*, 470 U.S. at 380–82. Arrows Up’s discussion of federal common law rules for res judicata is therefore irrelevant.<sup>30</sup>

Under Texas law, res judicata applies only when the second action is “based on the same claims as were raised or could have been raised in the first action.” *Amstadt v. U.S. Brass Corp.*, 919 S.W. 2d 644, 652 (Tex. 1996). No one can legitimately argue that the state court suit involved the same claims that SandBox raises as counterclaims here. The state court case focused on how, beginning in 2014, Arrows Up improperly used SandBox’s design information in its advertising, container design, and logistical process.<sup>31</sup> SandBox asserted no claims in the state court case relating to the drafting of the patents-in-suit or Arrows Up’s failure to assign them to SandBox.<sup>32</sup>

Nevertheless, Arrows Up contends that SandBox “could have and should have” asserted these counterclaims in the state court case.<sup>33</sup> No one disputes, however, that SandBox filed the

---

<sup>29</sup> Motion at 8.

<sup>30</sup> *Id.* at 7–8.

<sup>31</sup> Ex. 6, THIRD AMENDED PETITION, at ¶¶ 45–73.

<sup>32</sup> Citing federal common law, Arrows Up asserts that the state court claims and these counterclaims arise from the “same nucleus of operative facts.” Motion at 8. In addition to using the wrong legal standard, Arrows Up is factually wrong. The question of whether Arrows Up began using SandBox information in 2014 to construct physical containers and a logistical process involves a different set of facts (such as Arrows Up’s emails, advertising and design drawings) than the questions of whether Arrows Up (i) used SandBox information to draft patent claims in 2017 or (ii) failed to assign patents to SandBox in 2017 (which involve analysis of the claims language and patent prosecution files).

<sup>33</sup> Motion at 8.

state court action in January 2016.<sup>34</sup> It is equally undisputed that every one of the patents-in-suit issued in 2017, *between 16 and 23 months after the filing of the state court suit*.<sup>35</sup> Under Texas law, a prior judgment<sup>36</sup> does not preclude a subsequent lawsuit based on claims that accrued after the first lawsuit was filed. *JPMorgan Chase Bank, N.A. v. Prof'l Pharmacy II*, 508 S.W.3d 391, 415 (Tex. App.—Fort Worth 2014, no pet.) (“For res judicata to apply to a claim, that claim must have been in existence when the first suit was filed.”); *see also In re J.A.L.*, 2017 WL 4128947, at \*5–6 (Tex. App.—Houston [14th Dist.] Sept. 19, 2017, no pet.) (citing numerous for the same holding). Moreover, it has been the law in Texas for over 110 years that a claim for breach of a continuing contract is not barred by a previous suit on the same contract if the cause of action in the second suit accrued after the filing of the first suit. *Ben C. Jones & Co. v. Gammel Statesman Pub. Co.*, 99 S.W. 701, 703 (Tex. 1907). These cases are fatal to Arrows Up’s position, for SandBox could not assert claims in January 2016 based on patents that did not exist until 2017.

Nevertheless, Arrows Up insists that SandBox was required to amend its state court petition to add new claims related to the patents-in-suit as they issued in 2017.<sup>37</sup> But as recently noted by the Fifth Circuit, that contention is wholly inconsistent with Texas law:

---

<sup>34</sup> To the extent necessary, SandBox asks the Court to take judicial notice of the state court file for Cause No. 2016-03483, *SandBox Logistics, LLC et al. v. Arrows Up, Inc., et al.*, in the 334th Judicial District Court of Harris County, Texas.

<sup>35</sup> Dkt. 30 at ¶ 9 (the ’065 Patent issued in April 2017); ¶ 10 (the ’993 Patent issued in September 2017); ¶ 11 (the ’338 Patent issued in October 2017); ¶ 12 (the ’504 Patent issued in October 2017); ¶ 13 (the ’135 Patent issued in November 2017). In addition, the applications for all but one of the patents-in-suit were first submitted to the Patent Office in 2017. *Id.* at Exs. A–E (showing filing dates on the first page of each patent). SandBox has alleged (and discovery will establish) that Arrows Up used SandBox information to draft these applications in late 2016 and early 2017. Dkt. 45 at pp. 48–63.

<sup>36</sup> Another procedural defect with Arrows Up’s res judicata argument is that it is premature. As of the filing of this response, the state court has not entered a final judgment in the state court case. A hearing on the parties’ post-verdict motions in the state court case is scheduled for September 21, 2018, so it is likely the state court will enter judgment on or shortly after that date.

<sup>37</sup> Motion at 8.

[W]e reject FBISD’s argument that Welsh was required to amend her petition in *Welsh I* to include claims that were not mature at the time of filing *Welsh I*. **We specifically reject the idea that every time something happens after a lawsuit is filed the plaintiff must immediately amend or risk losing that claim forever.**

*Welsh v. Fort Bend Indep. Sch. Dist.*, 860 F.3d 762, 766–67 (5th Cir. 2017) (applying Texas law) (emphasis added) (citing *Ben C. Jones*, 99 S.W. at 703 (“It is true that under our system of practice the plaintiffs might have amended their petition and have introduced into that suit all causes of action which had accrued under that contract, but there is no rule of practice that required that they should do so.”))).

In short, there can be no real dispute that the parties did not litigate patent-related claims in the state court case. It is equally clear that the patents-in-suit did not exist when the state court case was filed in 2016. Texas law did not require SandBox to amend its state court petition in 2017 — after almost two years of discovery and other litigation activity — to add new claims based on Arrows Up’s new patents. Arrows Up’s res judicata defense thus fails.

**C. SandBox Has Alleged Legitimate Fact Issues Relating To Inventorship.**

Arrows Up seeks to dismiss fourteen separate counterclaims (Counterclaims 6–9 and 15–24) and related defenses at the pleadings stage on the theory that SandBox could never prove it contributed to the patents-in-suit.<sup>38</sup> Arrows Up seemingly forgets that 12(b)(6) motions are limited to review of the pleadings; they are not no-evidence motions for summary judgment. *U.S. ex rel. Riley v. St. Luke’s Episcopal Hosp.*, 355 F.3d 370, 376 (5th Cir. 2004). That misunderstanding leads Arrows Up to make numerous errors in its argument.

---

<sup>38</sup> *Id.* at 9–14.

First, Arrows Up mistakenly argues that SandBox's breach of contract counterclaims turn on a finding of inventorship. As explained earlier, they do not.<sup>39</sup>

Second, inventorship disputes can almost never be resolved at the pleadings stage because *a determination of inventorship first requires the Court to construe the patent claims*. *Trovan, Ltd. v. Sokymat SA, Irori*, 299 F.3d 1292, 1302 (Fed. Cir. 2002) (“[A]n inventorship analysis, like an infringement or invalidity analysis, begins as a first step with a construction of each asserted claim to determine the subject matter encompassed thereby.”). This has not yet happened. Claim construction briefing has just begun, and the *Markman* hearing will not take place until November 2018.<sup>40</sup> Over a dozen claim terms are currently in dispute.<sup>41</sup>

The Court's *Markman* ruling will greatly impact the inventorship analysis. For example, Arrows Up asserts that a nesting support need only be “hollow” or have an “opening.”<sup>42</sup> SandBox disagrees, based on the plain meaning of the claim language and evidence establishing that Arrows Up conceived only of a nesting support that is “rounded, elongated, and hollow.”<sup>43</sup> In any event, Arrows Up's overbroad interpretation would not be supported by the original patent specification. *North Amer. Vaccine, Inc. v. Amer. Cyanide Co.*, 7 F.3d 1571, 1577 (Fed. Cir. 1993) (“A patent applicant cannot disclose and claim an invention narrowly and then, in the course of an infringement suit, argue effectively that the claims should be construed to cover that which is neither described nor enabled in the patent.”); *see also LizardTech v. Earth Res. Mapping, Inc.*, 424 F.3d 1336, 1345–46 (Fed. Cir. 2005) (specification must “demonstrate that the patentee

---

<sup>39</sup> See *supra* at 7-10 (discussing Counterclaims 6, 7 and 9). SandBox has other counterclaims and defenses that do relate to inventorship (Dkt. 45 at pp. 34–36, 45–63), which is why we present other arguments.

<sup>40</sup> Motion at Ex. E, p. 5.

<sup>41</sup> Dkt. 44.

<sup>42</sup> Dkt. 44-1 at 2-4

<sup>43</sup> *Id.*

possessed the full scope of the invention” and “enable the full breadth of that claim”). This would mean that, at a minimum, John Oren is an unnamed inventor on each of the patents-in-suit, for Arrows Up’s construed claims would be based on information it did not disclose in a patent specification before it received SandBox’s design information in 2014. As this example illustrates, the merits of an inventorship dispute cannot be resolved through a 12(b)(6) motion raised prior to claim construction.

Third, Arrows Up conflates the *specification* of a patent with its *claims*. Arrows Up argues that, since the *specification* of the patents-in-suit did not change after September 2011 (which pre-dates SandBox’s disclosure of design information to Arrows Up in 2014), SandBox could not have contributed anything to the patented claims.<sup>44</sup> But the date of the specification is not the issue. The issue is whether Arrows Up drafted patent *claims* — which were filed and/or amended long after Arrows Up gained access to SandBox’s technology — by using information obtained from John Oren’s design of SandBox’s containers.<sup>45</sup> That issue, like the question of whether Arrows Up’s patent specification sufficiently supports the full breadth of the construed claims (which requires a *Markman* ruling), is a highly contextual question of fact that cannot be resolved on the pleadings. *See, e.g. Ariad Pharms., Inc. v. Eli Lilly & Co.*, 598 F.3d 1336, 1351 (Fed. Cir. 2010).

SandBox’s well-pled allegation — which must be assumed true — is that the claims at issue here were not disclosed in the earlier specification, but rather were crafted based on information Arrows Up obtained later under the NDA.<sup>46</sup> Moreover, even if each individual

---

<sup>44</sup> Motion at 10–14; *see also id.* at 11 (“SandBox could not have contributed to the conception of the inventions described in the claims of the patents-in-suit, as those elements were already disclosed to the Patent Office [in the specification].”).

<sup>45</sup> Dkt. 45 at ¶¶ 203–207, 225, 243, 261, 279.

<sup>46</sup> Dkt. 45 at ¶¶ 177, 182, 187, 192, 197.

element of the claims at issue are spread out in disparate places in the earlier specification, that does not mean the *combination* of those elements (which Arrows Up assembled years later after seeing SandBox's design) was disclosed in the earlier specification. *Novozymes A/S v. DuPont Nutrition Biosciences APS*, 723 F.3d 1336, 1349 (Fed. Cir. 2013) (each claim must be supported "as an integrated whole rather than as a collection of independent limitations"). And should the jury find that the subject matter of even a single patent claim was conceived by John or Josh Oren, then they should have been named as co-inventors and the patents-in-suit are unenforceable against SandBox. See *Ethicon, Inc. v. U.S. Surgical Corp.*, 135 F.3d 1456, 1460, 1466 (Fed. Cir. 1998) (explaining "a co-inventor need not make a contribution to every claim of a patent" and "a joint inventor as to even one claim enjoys a presumption of ownership in the entire patent").

Put simply, the issue of inventorship cannot be resolved on the pleadings. Even to address inventorship on a summary judgment motion (which Arrows Up would lose due to fact issues), the Court would have to issue its *Markman* rulings and allow sufficient time for fact and expert discovery.<sup>47</sup> Compare *Biscotti Inc. v. Microsoft Corp.*, 2017 WL 1682573, at \*1 (E.D. Tex. Apr. 12, 2017) (ruling that inequitable conduct and inventorship allegations met pleading requirements), *report and recommendation adopted*, 2017 WL 1541938 (E.D. Tex. Apr. 28, 2017), with *Elmotec Statomat, Inc. v. Visteon Corp.*, 2009 WL 1034929, at \*3–4 (E.D. Mich. Apr. 17, 2009) (granting summary judgment on inventorship years into the case following substantial discovery).<sup>48</sup> Arrows Up cannot short-circuit the litigation process through an improper 12(b)(6) motion to dismiss.

---

<sup>47</sup> In addition to obtaining written communications about the preparation of the patents-in-suit — which Arrows Up has not yet produced — SandBox will obtain relevant evidence on this issue by deposing the named inventors (including John Allegretti) and possibly the patent prosecution attorneys about what data they possessed at the time the patent claims at issue were drafted.

<sup>48</sup> Arrows Up erroneously cites *Elmotec*, a summary judgment decision made after substantial discovery had taken place, as if it involved a 12(b)(6) motion to dismiss. Motion at 12.



**D. SandBox Has Alleged Facts Sufficient To Satisfy Rule 8(a).**

Arrows Up next complains that certain counterclaims and defenses are “devoid of factual detail sufficient to allow Arrows Up to prepare an adequate defense.”<sup>49</sup> Yet Rule 8(a) does not require detailed factual allegations. *Bell Atl. Corp. v. Twombly*, 550 U.S. 544, 555 (2007). It simply requires pled facts that, when assumed to be true, allow one to draw a reasonable inference that Arrows Up is liable. *See, e.g., Iqbal*, 556 U.S. at 678. Therefore, with respect to breach of contract, SandBox need merely “allege the existence of a contract, its own performance or tender of performance, a breach by [Arrows Up], and damages as a result of that breach.” *Tercel Oilfield Prod. USA L.L.C. v. Alaskan Energy Res., Inc.*, 2014 WL 645380, at \*2 (S.D. Tex. Feb. 19, 2014).

That is exactly what SandBox has done. It identified the two contracts at issue, alleged its own performance, *identified the specific contract provisions that Arrows Up breached*, stated how those provisions were breached, and identified the damages and other relief being requested.<sup>50</sup> This easily satisfies the requirement of a “short and plain statement” of SandBox’s claims. FED. R. CIV. P. 8(a). There is certainly more evidence underlying SandBox’s claims, but the proper vehicle for obtaining that information is the discovery process. Given “the limited importance of pleadings in federal practice,” Arrows Up cannot demand that SandBox lay out the details of its case in a complaint. *Roman Catholic Diocese*, 2006 WL 2413721, at \*3 (quotation omitted).

Arrows Up’s approach appears to be a classic case of arguing for the sake of arguing (as evidenced by Arrows Up’s alleged confusion over whether “ladder design” is relevant when, by its own admission, the patents-in-suit do not have any claims about ladders).<sup>51</sup> Nevertheless, the

---

<sup>49</sup> *Id.* at 17; *see generally id.* at 14-17. While it states that this argument applies to multiple defenses and counterclaims, Arrows Up only refers specifically to breach of contract counterclaims in its Motion.

<sup>50</sup> Dkt. 45 at pp. 42-43.

<sup>51</sup> Motion at 17.



Court need not expend energy on this issue. SandBox is submitting an amended pleading to render this issue moot.<sup>52</sup> See FED. R. CIV. P. 15(a)(1)(B).

**E. SandBox's Inequitable Conduct Counterclaims and Defenses Should Be Allowed.**

Arrows Up argues that SandBox required leave from the Court to raise inequitable conduct issues after July 9, 2018.<sup>53</sup> SandBox, believing that the counterclaims deadline applied, filed its inequitable conduct counterclaims in compliance with the counterclaims deadline on August 6, 2018.<sup>54</sup> Recognizing the weakness of its argument, Arrows Up also complains about the factual sufficiency of SandBox's inequitable conduct pleadings.<sup>55</sup> None of these objections has merit.

**1. Leave should be granted to allow SandBox's inequitable conduct allegations.**

SandBox believed that it had complied with the deadline for asserting counterclaims. If it is wrong — and if the inequitable conduct allegations were filed less than a month late — SandBox respectfully requests leave to raise these issues. With more than nine months until trial (and seven months before the discovery cutoff), the importance of these allegations warrants leave to amend. See, e.g., *EMG Tech., LLC v. Vanguard Grp., Inc.*, 2014 WL 12597427, at \*3 (E.D. Tex. May 12, 2014) (allowing a pleading amendment made ten months after the deadline).

The parties agree that courts consider four factors in addressing whether to allow a pleading amendment after a deadline has passed: (1) explanation for the failure to amend, (2) importance of the amendment, (3) potential prejudice in allowing the amendment, and (4) the availability of a continuance to cure such prejudice. *U.S. ex rel. Bias v. Tangipahoa Parish Sch. Bd.*, 816 F.3d 315, 328 (5th Cir. 2016). Here, assuming that SandBox misunderstood the scheduling order, it filed

---

<sup>52</sup> Dkt. 52.

<sup>53</sup> Motion at 17–19.

<sup>54</sup> The parties proposed a scheduling order that the Court does not appear to have entered. Dkt. 29.

<sup>55</sup> Motion at 17–19.

inequitable conduct allegations less than thirty days late in a case that will not go to trial until June 2019. That hardly suggests a lack of diligence (especially since SandBox and Arrows Up were battling in the state court trial for the entire month of June and received a jury verdict on July 3).

The other three factors clearly favor SandBox. First, courts regularly find inequitable conduct to be important because it can render patents unenforceable. *See, e.g., WesternGeco v. Ion Geophysical Corp.*, 2009 WL 3497123, at \*7 (S.D. Tex. Oct. 28, 2009) (Ellison, J.) (“The Court also notes that [nonmovant’s] inequitable conduct claims go to the heart of the issue disputed in this case — namely inventorship of the technology at issue.”); *EMG Tech.*, 2014 WL 12597427, at \*3 (“If [Defendant] can successfully show inequitable conduct, it would be dispositive of the entire case.”); *Vision Advancement, LLC v. Johnson & Johnson Vision Care, Inc.*, 2007 WL 865699, at \*3 (E.D. Tex. Mar. 19, 2007) (“The Court finds that the importance of these [inequitable conduct] allegations is clear.”). As discussed in the next section, SandBox’s well-pled allegations demonstrate a strong case for finding inequitable conduct in this case.

Next, there is no prejudice to Arrows Up. Discovery will not end until May 2019, roughly nine months after SandBox filed its counterclaims.<sup>56</sup> Expert reports are not due for six months, motion briefing does not close for seven months, and trial is at least nine months away.<sup>57</sup> No depositions need to be repeated, because none have taken place. Arrows Up has more than enough time to take whatever discovery it needs on inequitable conduct. *See, e.g., EMG Tech.*, 2014 WL 12597427, at \*3 (allowing an inequitable conduct amendment because “the deadline for discovery had not lapsed at the time [Defendant] sought leave to amend”); *Traxys N. Am., LLC v. Fila Oilfield Servs., LLC*, 2017 WL 4046342, at \*5 (S.D. Tex. Sept. 12, 2017) (granting leave to amend because

---

<sup>56</sup> Motion at Ex. E, p. 6.

<sup>57</sup> *Id.* at 6–8.

“the delayed start of discovery also minimizes the potential prejudice”). This is why Arrows Up can identify no alleged “prejudice” other than “multiplying the complexity and the cost of the litigation.”<sup>58</sup> Indeed, it is telling that Arrows Up cannot identify a single deadline that it would be unable to meet if the Court allows SandBox’s amendment.

Finally, if a 30-day continuance of some deadline or the trial setting were needed to let Arrows Up recapture the time between July 9 and August 6, SandBox would have no objection. Arrows Up’s assertion that a continuance would not “assuage these concerns” is more conclusory rhetoric.<sup>59</sup> Therefore, because SandBox has shown that the relevant factors illustrate good cause to allow the inequitable conduct allegations, SandBox respectfully requests that the counterclaims and defenses be permitted.

**2. SandBox’s inequitable conduct allegations are sufficiently pled.**

Arrows Up next argues that SandBox’s inequitable conduct pleadings lack sufficient detail.<sup>60</sup> But at the pleading stage, SandBox need merely allege facts supporting a reasonable inference that individuals ““(1) knew of the withheld information or of the falsity of the material misrepresentation; and (2) withheld or misrepresented this information with a specific intent to deceive the [Patent Office].”” *Schlumberger Tech. Corp. v. BICO Drilling Tools, Inc.*, 2018 WL 2059399, at \*2 (S.D. Tex. May 3, 2018) (quoting *Exergen Corp. v. Wal-Mart Stores, Inc.*, 575 F.3d 1312, 1328–29 (Fed. Cir. 2009)). While inequitable conduct pleadings are subject to the heightened standard of Rule 9(b), that does not require SandBox to prove its case or set forth its evidence. *WesternGeco*, 2009 WL 3497123, at \*6 (“The heightened pleading requirements of Rule 9(b) do not require that [the nonmovant] definitively prove the merits of its claim. What is

---

<sup>58</sup> Motion at 19.

<sup>59</sup> *Id.*

<sup>60</sup> *Id.* at 19–24.

determinative here is that [the movant] was given fair notice of the basis for [the nonmovant's] inequitable conduct defense.”). As explained below, Arrows Up received fair notice.

According to Arrows Up, SandBox failed to plead the “who, what, when, where, how, and why” showing that its inequitable conduct allegations are material. That is not true. SandBox’s pleadings set forth a simple and straightforward allegation: to the extent any claims of the patents-in-suit cover SandBox’s products (an issue that is in dispute), then Arrows Up concealed material information from the Patent Office (*i.e.*, that its patent claims were based on SandBox’s design) and John Oren should have been named as a co-inventor. Arrows Up clearly understands this allegation, for it summarized the claim in its Motion.<sup>61</sup>

Arrows Up first alleges that it does not know who committed inequitable conduct. That is nonsense. The people who committed inequitable conduct are obviously the named inventors, who submitted false inventorship oaths and failed to disclose to the Patent Office that their patent claims were derived from SandBox: John Allegretti (whom a state court jury just found to have committed fraud), Anthony M. Raso, and Lyndon Just.<sup>62</sup>

Next, Arrows Up suggests that SandBox failed to put it on notice of the “what, when, and where.” But these are subsumed within the oaths themselves, filed with the Patent Office when the named inventors submitted their patent claims using information derived from SandBox.<sup>63</sup> At a minimum, the named inventors made false representations to the Patent Office on August 1, 2016 (’065 Patent), June 23, 2017 (’993 Patent), June 26, 2017 (’338 Patent), June 27, 2017 (’504

---

<sup>61</sup> *Id.* at 22 (summarizing SandBox’s allegations as “the subject matter of the patents-in-suit was provided to Arrows Up by SandBox and was derived from SandBox’s confidential information, and that this retroactively rendered John Oren the inventor of the patents-in-suit”) (quotation omitted).

<sup>62</sup> The named inventors are prominently listed on the face of the patents-in-suit. Dkt. 30, Exs. A–E. To avoid further such complaints, SandBox recites these names in its amended pleading. Dkt. 52.

<sup>63</sup> Dkt. 45 at pp. 45–63.

Patent), and June 29, 2017 ('135 Patent), in which they did not disclose SandBox's contributions.<sup>64</sup> As to Arrows Up's complaints regarding "how and why," SandBox's pleading explains that the named inventors concealed their reliance on John Oren's design of the SandBox container.<sup>65</sup>

As a matter of law, inventorship is "clearly material to patentability" because an incorrect listing of inventors can render a patent invalid under 102(f). *Leviton Mfg. Co., Inc. v. Universal Sec. Instruments, Inc.*, 606 F.3d 1353, 1360 (Fed. Cir. 2010); *PerSeptive Biosystems, Inc. v. Pharmacia Biotech, Inc.*, 225 F.3d 1315, 1321 (Fed. Cir. 2000) ("As a critical requirement for obtaining a patent, inventorship is material."). A full and accurate disclosure of the true nature of the relationship between Arrows Up and SandBox "would have been 'important' to a reasonable examiner's consideration of the inventorship question." *PerSeptive*, 225 F.3d at 1321–22 (holding patents unenforceable when a group of named inventors concealed the relationship with another company and other individuals who may have invented the technology). Despite Arrows Up's misguided argument, the "materiality" of inventorship is not legitimately in dispute.

Lastly, Arrows Up argues that SandBox did not sufficiently plead the intent requirement for inequitable conduct. Not so. SandBox described circumstances showing a specific intent to deceive the Patent Office: Arrows Up and John Allegretti (1) received information from SandBox and John Oren under the NDA in 2014; (2) were sued in state court for misusing that information in 2016; (3) misused SandBox's information again in 2017 to draft claims for the patents-in-suit in an attempt to capture SandBox's technology and gain settlement leverage; and (4) concealed this information from the Patent Office.<sup>66</sup> These factual allegations are sufficient to infer a specific intent to deceive the Patent Office. *Regeneron Pharm., Inc. v. Merus N.V.*, 864 F.3d 1343, 1351

---

<sup>64</sup> *Id.* at ¶¶ 205-06, 224, 242, 260, 278; *see also* Dkt. 52 at ¶¶ 251, 270, 288, 306, 324.

<sup>65</sup> Dkt. 45 at ¶¶ 2–4, 212–18, 230–36, 248–54, 266–72, 284–90.

<sup>66</sup> Dkt. 45 at ¶¶ A-L.

(Fed. Cir. 2017) (“An inference of intent to deceive is appropriate where the applicant engages in ‘a pattern of lack of candor,’ including where the applicant repeatedly makes factual representations ‘contrary to the true information he had in his possession.’”) (quotation omitted); *see also Frank’s Casing Crew & Rental Tools, Inc. v. PMR Techs., Ltd.*, 292 F.3d 1363, 1376 (Fed. Cir. 2002) (affirming inequitable conduct finding where the district court “found not only inferred intent to mislead the PTO on the part of the [named inventors], but also direct evidence of deliberate scheming on the part of the [named inventors] designed to claim the patents for themselves and omit [true inventors] from participation” in order “to settle [a] dispute with [a true inventor]”) (quotation omitted); *Advanced Ion Beam Tech., Inc. v. Varian Semiconductor Equip. Assocs., Inc.*, 721 F. Supp. 2d 62, 81 (D. Mass. 2010) (“This court finds that [nonmovant’s] alleged failure to name [an unnamed inventor] as a co-inventor despite their knowledge of his contribution to the claims of the [asserted patent] is sufficient to state a claim that the defendants were attempting to deceive the PTO.”).

The rest of Arrows Up’s “pleading” complaints are really arguments on the merits. It says, once again, that it cannot have relied on SandBox’s design information because the *specification* for the patents-in-suit was written in 2011.<sup>67</sup> But that is not the law — the date of the specification is irrelevant to whether Arrows Up used SandBox’s design to draft *claims*. *Leviton*, 606 F.3d at 1360 (“Neither an inventor nor his counsel may graft claims onto an earlier specification if those claims do not reflect what the inventor actually invented at the time of the earlier application.”); *see also Hitzeman v. Rutter*, 243 F.3d 1345, 1358–59 (Fed. Cir. 2001) (“[A]n inventor who failed to appreciate the claimed inventive features of a device at the time of alleged conception cannot use his later recognition of those features to retroactively cure his imperfect conception.”).

---

<sup>67</sup> Motion at 22–23.

Arrows Up has no legitimate cause to complain about SandBox's pleadings. In any event, as discussed earlier, SandBox has filed an amended pleading that renders Arrows Up's alleged concerns moot.<sup>68</sup> See FED. R. CIV. P. 15(a)(1)(B).

**F. SandBox's Unclean Hands Allegations Are Sufficiently Pled.**

At the end of its Motion, Arrows Up makes a conclusory attack on SandBox's defenses and counterclaims based on unclean hands. This section presents no real arguments; instead, it makes conclusory statements and refers to Arrows Up's other complaints under Rules 8(a) and 9(b).<sup>69</sup> Accordingly, its argument fails for the same reasons discussed *supra* at pages 16-23.

There are additional deficiencies with this section. For example, SandBox's unclean hands counterclaims plead different facts from its other counterclaims.<sup>70</sup> Yet Arrows Up does not even identify a single allegation from these counterclaims, much less present an argument as to why it is inadequately pled. This kind of conclusory argumentation will not suffice. *Reule v. Sherwood Valley I Council of Co-Owners, Inc.*, 2008 WL 8084950, at \*3 (S.D. Tex. Feb. 14, 2008) (Ellison, J.) ("Conclusory statements alone, especially those that disregard relevant portions of a plaintiff's complaint, cannot alone support dismissal under Rule 12(b)(6).").

**CONCLUSION**

Arrows Up cannot avoid liability for its blatant disregard of the parties' contracts and the rules of the Patent Office. The time will come when it will have to answer to this Court and a jury for its actions in obtaining the patents-in-suit. For now, however, all SandBox requests is that

---

<sup>68</sup> Dkt. 52.

<sup>69</sup> Motion at 25. Arrows Up asserts that unclean hands is more commonly pled as an affirmative defense only. Motion at 25. But Arrows Up's cursory analysis and citation to out-of-circuit case law do not establish such a conclusion. In any event, whether unclean hands should be characterized as an affirmative defense or a counterclaim is not an issue that requires resolution at this stage.

<sup>70</sup> Compare Dkt. 45 at ¶¶ 201-292 with *id.* at ¶¶ 293-317

“Arrows Up’s Partial Motion to Dismiss and/or Strike SandBox’s First Amended Answer and Counterclaims” be denied.

Dated: September 17, 2018

Respectfully submitted,

**BECK REDDEN LLP**

/s/ Matthew P. Whitley

Matthew P. Whitley  
State Bar No. 24037703  
Southern District No. 33589  
[mwhitley@beckredden.com](mailto:mwhitley@beckredden.com)  
Michael Richardson  
State Bar No. 24002838  
Southern District No. 23630  
[mrichardson@beckredden.com](mailto:mrichardson@beckredden.com)  
Seepan Parseghian  
State Bar No. 24099767  
Southern District No. 2953872  
[sparseghian@beckredden.com](mailto:sparseghian@beckredden.com)  
Leslie Honey Tronche  
State Bar No. 24078681  
Southern District No. 1725410  
[ltronche@beckredden.com](mailto:ltronche@beckredden.com)  
1221 McKinney St., Suite 4500  
Houston, Texas 77010-2010  
Telephone No. (713) 951-3700  
Facsimile No. (713) 951-3720

**KIRKLAND & ELLIS LLP**

Gianni Cutri (*pro hac vice*)  
Illinois State Bar No. 6272109  
[gcutri@kirkland.com](mailto:gcutri@kirkland.com)  
Kyle M. Kantarek (*pro hac vice*)  
Illinois State Bar No. 6320889  
[kyle.kantarek@kirkland.com](mailto:kyle.kantarek@kirkland.com)  
Adam M. Kaufmann (*pro hac vice*)  
Illinois State Bar No. 6303658  
[adam.kaufman@kirkland.com](mailto:adam.kaufman@kirkland.com)  
300 North LaSalle  
Chicago, Illinois 60654  
Telephone No. (312) 862-3372  
Facsimile No. (312) 862-2200



**CERTIFICATE OF SERVICE**

The undersigned certifies that on September 17, 2018, the foregoing document was filed electronically and served upon known counsel for Arrows Up via the Court's CM/ECF system.

By: /s/ Matthew P. Whitley  
Matthew P. Whitley