2019-1852, -2323

In The United States Court of Appeals For The Federal Circuit

WHITEWATER WEST INDUSTRIES, LTD., a Canadian Corporation,

***Plaintiff – Appellee*,**

v.

RICHARD ALLESHOUSE, an Individual, YONG YEH, an Individual, PACIFIC SURF DESIGNS, INC., a Delaware Corporation,

Defendants – Appellants.

APPEAL FROM THE UNITED STATES DISTRICT COURT FOR THE SOUTHERN DISTRICT OF CALIFORNIA IN NO. 3:17-cv-00501-DMS-NLS, JUDGE DANA M. SABRAW.

BRIEF OF APPELLANTS

Manuel Federico de la Cerra
THE LAW OFFICES OF MANUEL DE LA CERRA
7040 Avenida Encinas, Suite 104-381
Carlsbad, California 92011
(760) 809-5520
manny@delacerralaw.com

Counsel for Appellants

Jeff Rambin
FAIRCHILD. PRICE, HALEY & SMITH, LLP
1801 North Street
Nacogdoches, Texas 75963
(903) 520-5789
jeff.rambin@fairchildlawfirm.com

Counsel for Appellants

John Roberts
ROBERTS IP LAW
3129 25th Street, Suite 295
Columbus, Indiana 47203
(812) 418-3663
john@robertsiplaw.com

Counsel for Appellants

FORM 9. Certificate of Interest **Form 9**
Rev. 10/17

UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

Whitewater West Industries, LTD **v.** Richard Alleshouse, Yong Yeh and Pacific Surf Designs, Inc.

Case No. 2019-1852, 2323

CERTIFICATE OF INTEREST

Counsel for the:
☐ (petitioner) ■ (appellant) ☐ (respondent) ☐ (appellee) ☐ (amicus) ☐ (name of party)

Richard Alleshouse, Yong Yeh and Pacific Surf Designs, Inc.

certifies the following (use "None" if applicable; use extra sheets if necessary):

1. Full Name of Party Represented by me	2. Name of Real Party in interest (Please only include any real party in interest NOT identified in Question 3) represented by me is:	3. Parent corporations and publicly held companies that own 10% or more of stock in the party
Richard Alleshouse		
Yong Yeh		
Pacific Surf Designs, Inc.		None

4. The names of all law firms and the partners or associates that appeared for the party or amicus now represented by me in the trial court or agency or are expected to appear in this court **(and who have not or will not enter an appearance in this case)** are:

NONE

FORM 9. Certificate of Interest **Form 9**
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5. The title and number of any case known to counsel to be pending in this or any other court or agency that will directly affect or be directly affected by this court's decision in the pending appeal. *See* Fed. Cir. R. 47. 4(a)(5) and 47.5(b). (The parties should attach continuation pages as necessary).

Whitewater West Industries, Ltd v. Richard Alleshouse, Yong Yeh and Pacific Surf Designs, Inc, United States District Court for the Southern District of California, case 3:17-cv-00501-DMS-NLS

12/23/2019
Date

/Manuel de la Cerra/
Signature of counsel

Please Note: All questions must be answered

Manuel de la Cerra
Printed name of counsel

cc: _____

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I. STATEMENT OF RELATED CASES

This appeal is a consolidation of appeal numbers 2019-1852 and 2019-2323, appealing the final judgment from the United States District Court for the Southern District of California in case 3:17-cv-00501-DMS-NLS. Motions for costs and attorney fees remain pending before the District Court. There are no other known pending cases that will directly affect or be directly affected by this Court's decision in this appeal.

II. JURISDICTIONAL STATEMENT

This Court has jurisdiction under 28 U.S.C. §§1291, 1292, and 1295. The Complaint sought the removal of Defendant Yong Yeh as a named co-inventor of Defendant Pacific Surf Designs, Inc.'s patents, U.S. Patent Nos. 9,044,685, 9,302,189, and 9,592,433 ("PSD's Patents"), and reassignment of those patents to Plaintiff under an employment agreement, plus money damages. (Appx0078). The District Court ruled that Yeh was not an inventor and that PSD's Patents must be assigned to Plaintiff, but denied any money damages. (Appx0012). Defendants timely filed their Notice of Appeal on May 3, 2019, with an Amended Notice on August 26, 2019. (Appx1740; Appx1743). The present appeal is from the District Court's final judgment.

III. STATEMENT OF THE ISSUES

1. Whether the District Court erred by enforcing a patent assignment provision in an employment agreement that failed to comply with Cal. Labor Code §§2871, 2872 and included a holdover provision that forever requires assignment-back of inventions **conceived post-employment** that relate "in any way" to any business the employer might contemplate, in contravention of California's strict ban on post-employment restraints under Cal. Labor Code §2870 and Cal.Bus.&Prof.Code §16600, when no trade secret nor statutory exceptions apply.

2. Whether the District Court erred when it improperly granted standing to Plaintiff to challenge Defendant Yeh's co-inventorship of PSD's Patents and then removed Yeh as co-inventor based on a legally incorrect analysis where the District Court failed to consider Yeh's contributions as part of the claims as a whole, and instead improperly discounted Yeh's contributions individually and out of context as "prior art" based on uncorroborated self-interested testimony.

IV. STATEMENT OF THE CASE

Defendant Alleshouse was employed by Wave Loch, Inc., a predecessor to Plaintiff Whitewater West Industries, LTD ("Whitewater")[1], a company that designed, built, and sold water rides known as sheet-wave rides that were commonly used in amusement parks by surfers and other wave-riding enthusiasts. (TT90:14-18, Appx0237). After nearly five years of employment, Alleshouse separated from Wave Loch and spent months experimenting with various concepts, and reworking models with his business partner Defendant Yeh, before filing three patents for new sheet-wave rides and a new water nozzle aperture that produced rideable waves for the rides. (Appx0020-0022). Plaintiff Whitewater claimed that the inventive ideas behind these patents came solely from Alleshouse's work at Wave Loch, and that

[1] The District Court found that Wave Loch, Inc. was reorganized to form Wave Loch LLC, which transferred its rights to Flowrider Surf Ltd., which was amalgamated into Plaintiff Whitewater West Industries, LTD. (TT513:13-514:16, Appx0661-0662; TT569:8-570:13, Appx0717-0718; TT53:3-15, Appx0200).

Alleshouse had violated his continuing post-employment contractual obligations to assign such inventions back to Wave Loch and its successor-in-interest Whitewater. (Appx0078). Plaintiff Whitewater brought the present suit against Defendants Alleshouse and Yeh, and their company, Pacific Surf Designs, Inc. ("PSD"), for breach of contract and related claims, and to have Yeh removed as a co-inventor. *Id.*

The matter was tried to the Honorable Dana M. Sabraw on February 4, 2019. The District Court found in favor of Plaintiff on its claims for breach of contract, change of inventorship and declaratory relief, but found in favor of Defendants on the balance of the claims and awarded no damages. (Appx0012). The District Court ordered that PSD's Patents be assigned to Plaintiff. *Id*. Defendants timely filed their Notice of Appeal on May 3, 2019. (Appx1740). Defendants also moved the District Court to amend its findings, which it did in-part on August 1, 2019. (Appx0001). Defendants filed an amended notice of appeal on August 26, 2019 to include the August 1, 2019 Order. (Appx1743).

a. Detailed Statement of the Facts

i. Alleshouse's Employment with Wave Loch.

Wave Loch, Inc. hired Alleshouse in October 2007, and eleven months later, on September 8, 2008, Alleshouse entered into a Covenant against Disclosure and Covenant Not to Compete with Wave Loch, Inc. (TT184:3-6, Appx0331; Appx1021-1025). This agreement included the following assignment provision:

> a. Assignment. … Employee agrees that all right, title and interest in all inventions … or patentable material that Employee conceives or hereafter may make or conceive … :
>
> …
>
> (b) resulting from or suggested by Employee's work for Company; or
>
> (c) in any way connected to any subject matter within the existing or contemplated business of Company
>
> shall automatically … become the property of Company …. Employee's obligation to assign the rights to such inventions shall survive the discontinuance or termination of this Agreement for any reason.

(Appx1022, herein the Employee Assignment Provision ("EAP")).

Alleshouse's job description at Wave Loch included fieldwork on the FlowRider and other WaveLoch attractions as well as research and design work improving existing rides and developing new rides. (TT184:11-186:19, Appx0331-0333).

In 2010 or 2011, Wave Loch learned that a competitor, Murphy's Waves, had developed a so-called "half-pipe" ride called the Stingray. (TT108:19-109:8, Appx0255-0256). The Stingray had curved sidewalls and water flowing up an inclined surface, but the sidewalls were not rideable. (TT110:4-18, Appx0257). Wave Loch had meetings to consider improving on the design of the Stingray by somehow making the sidewalls rideable. *Id*. But Wave Loch never solved that

problem nor developed such a ride because it did not have the resources and could not find a buyer. (TT112:3-10, Appx0259; TT528:12-20, Appx0676).

About two years later, on July 27, 2012, when Alleshouse was about to receive his MBA (TT199:2-200:16, Appx0346-0347), he submitted his letter of resignation to Wave Loch, to be effective on August 3, 2012. (Appx1173).

ii. Neither Plaintiff Nor its Predecessors Ever Developed, Sold, or Even Worked-on Any Sheet-Wave Rides that Could Be Ridden Like a Skatepark.

Marshal Myrman, Whitewater's CEO and Alleshouse's supervisor at Wave Loch, admitted that he could not remember Alleshouse ever suggesting a new ride shape that was not in Wave Loch's existing product line during his employment at Wave Loch and that coming up with new ride designs was not part of Alleshouse's job description. (TT112:14–22, Appx0259). Therefore, the inventions could not have "resulted from work performed by Mr. Alleshouse for Wave Loch." Myrman also admitted that, for all the "meetings to improve upon Murphy's half-pipe ride" that Wave Loch supposedly held, Wave Loch never actually developed a half-pipe ride, allegedly because of "resource issue[s]." (TT 112:3–10, Appx0259). Tom Lochtefeld confirmed that Wave Loch **never** developed this ride because it could not find a buyer for the ride. (TT528:12-20, Appx0676). Not a single document was offered into evidence to show that anything was actually done to research or develop the "half-pipe" rides, or any other sheet-wave ride that could be ridden like a

skatepark. Plaintiff's expert confirmed that if they were indeed developing that project, he would have expected to see engineering drawings of it (TT475:8-476:6, Appx0623-0624). There were none.

The best Plaintiffs could muster was a self-serving sketch made by Myrman at his deposition in 2018, purporting to recreate a lone "grease board" drawing from years before. (Appx1757). Myrman admitted that, aside from the purported grease board drawing, there was no evidence that "Wave Loch was working on a half-pipe ride at the time which Alleshouse was employed with Wave Loch." (TT143:15-21, Appx0290). Tellingly, Myrman admitted that he could not recall the relationship of the walls, the rider, and the nozzle on the grease board drawing. (TT116:5-15, Appx0263). Myrman ultimately admitted that discussions never went beyond the grease board drawing. *Id*. Myrman further confirmed that there were no designs at Wave Loch that looked like the '189 Patent, which shares the same specification as the '685 Patent (TT143:22-144:5, Appx0290-0291). As a result, there was never any basis for contending that Plaintiff's predecessor's abandoned thought to consider developing a half-pipe ride was "relate[d] … to [Wave Loch's] business, or actually or demonstrably anticipated research or development" as required by the EAP, years later when Alleshouse and Yeh collaborated to invent a sheet-wave ride that could be ridden like a skatepark.

iii. Alleshouse and Yeh Collaborated to Invent a Sheet-Wave Ride that Could Be Ridden Like a Skatepark.

In mid-July 2012, Defendants Alleshouse and Yeh began correspondence about forming their own business. (TT198:2-200:8, Appx0345-0347). Yeh's contributions go back to this time period, as it was he, as a skateboarder, who came up with the core concept of making a sheet-wave ride that could be ridden like a skatepark. Specifically, Alleshouse testified that the August 4, 2012 notation in his notebook (Appx1065-1066) was the direct result of a conversation he had with Yeh, in which Yeh had proposed the idea of projecting water onto a sheet-wave ride to create standing waves that looked like skateboarding park features. (TT264:14–265:7, Appx0412-0413). Yeh confirmed that this was his idea, and testified about his extensive discussions with Alleshouse regarding the skatepark concept in view of his skateboarding background. (TT368:17–372:6, Appx0516-0520; TT377:5–378:4, Appx0525-0526). Alleshouse also testified that prior to his departing from Wave Loch on August 3, 2012, it was Yeh—who was not subject to Alleshouse's employment agreement—who "had come up with a series of pictures" to demonstrate this idea. (TT265:14–266:21, Appx0413-0414; TT369:8–372:6, Appx0517-0520; Appx1758-1764). Alleshouse credited Yeh's "much stronger skateboarding background" for his ability to come up with this core inventive concept. (TT265:14–266:21, Appx0413-0414). Plaintiff offered no evidence to

contradict Alleshouse's and Yeh's testimony regarding Yeh's core inventive contribution.

On August 14, 2012, after he left Wave Loch, Alleshouse diagrammed nozzle structures and wrote that they would need to "vary flow direction and thickness to optimize surfing experience on the waves and mxmz economics of the attraction." (Appx1073). Two days later, Alleshouse diagramed a half-pipe ride with multiple angled nozzles to project water across the surface with the notations, "3 nozzles, all pointing slightly away from each other. Nozzle #2 can be shut off to run 2 separate rides." (Appx1075-1077). Alleshouse explained that those August 14, 2012 drawings referred to a very different deep-wave ride (as discussed in the prior art Sauerbier patent), not a sheet-wave ride as described in PSD's Patents. (TT240:14–22, Appx0388). By August 20, 2012, Alleshouse and Yeh had a "general idea of the three product categories [they] were going to launch." (TT251:9-12, Appx0399; Appx1061).

Yeh and Alleshouse then collaborated on ride design over the telephone, text messages, and real-time document sharing. (TT349:12-23, Appx0497). They also collaborated in person. For example, in early September 2012, Yeh, residing in the Bay Area, visited Alleshouse in San Diego to collaborate together to see if they could figure out how to make a product work so that it could be surfed on the sidewalls like a skatepark, and to help build demonstrative models for a trade group

conference. (TT257:17-258:25, Appx0405-0406). Alleshouse confirmed (without any controverting evidence from Plaintiff) that at least as of Yeh's September 2012 visit, he and Yeh "were still trying to figure out what kind of these random wacky concepts would work." (TT256:11–257:22, Appx0404-0405). Over time, Alleshouse and Yeh together overcame many technical hurdles and discovered novel combinations of features that together could make a product work so that it could be surfed on the sidewalls, including the layout of the elements of the water attractions relative to each other. (*See generally*, TT294:22–297:8, Appx0442-0445; TT363:17-379:20, Appx0511-0527; TT676:10-712:6, Appx0824-0860). This was all part of an ongoing, side-by-side collaborative inventive process between Alleshouse and Yeh, where Yeh contributed jointly with Alleshouse to the total inventive concept of all of the claims of PSD's Patents. *See id*. The completed models were displayed at the trade group conference in November 2012, and eventually developed as attractions for sale by PSD. (TT256:1-25, Appx0404; TT260:22-261:5, Appx0408-0409).

iv. Yeh's Contributions were Key to Patentability.

In October 2012, Yeh, with the assistance of a patent agent, filed two provisional patent applications based on his and Alleshouse's joint inventions, which matured into three patents issued by the United States Patent and Trademark Office ("USPTO"): Patent Nos. 9,044,685 ("'685 Patent"), 9,302,189 ("'189 Patent"); and Patent No. 9,592,433 ("'433 Patent"). (TT323:22-324:15, Appx0471-0472;

Appx1027-1060). Alleshouse and Yeh were named inventors on all three patents, and they assigned the patents to PSD. *Id*.

For each of PSD's Patents, elements that were indisputably contributed by Yeh were expressly cited by the USPTO as the very points of novelty that rendered the claims patentable as a whole in combination with the other claim elements. As detailed *infra* (*see* §VI(b)(ii)), these critical contributions of Yeh included:

- A nozzle "**wherein the thickness of the orifice in the Z-Y plane is adjustable to different thicknesses along a length of the orifice in the Z-Y plane**" ('433 Claim 1 (Appx1060)).
- A nozzle with "**internal walls coupled to sides of the plurality of orifice wall, wherein the internal walls form a side angle form a rear plane of the nozzle to the sides of the plurality of orifice walls of the orifice**" ('433 Claim 11 (Appx1060)).
- "**a safety chute section and a safety chute sidewall positioned between the activity section and the first water recovery section**" ('189 Claim 14 (Appx1044)).
- "**a plurality of elevated water recovery sections positioned above the plurality of sidewalls**" ('685 Claim 1 (Appx1034)).

Accordingly, several of Yeh's contributions were the very points of novelty that the USPTO expressly recognized as rendering the claimed combinations novel

and non-obvious (and thus patentable) as a whole. But the District Court failed to analyze any of Yeh's contributions in the context of the claims as a whole, and instead, in several instances based solely on Plaintiff's uncorroborated and self-interested testimony, ruled that Yeh's contributions were "prior art" in other contexts and thus he was not entitled to co-inventor status on any of PSD's Patents

V. SUMMARY OF THE ARGUMENT

PSD appeals the District Court's Judgment on the First Cause of Action (breach of contracts), the Fourth Cause of Action (declaratory relief), and the Fifth, Sixth and Seventh Causes of Action (correction of inventorship of the PSD Patents).

Issue #1: With respect to the First and Fourth Causes of Action, the District Court found that Alleshouse breached the Employee Assignment Provision ("EAP") of his Employment Agreement by failing to assign PSD's Patents to Plaintiff. (Appx0012; Appx0015). The District Court acknowledged that the evidence showed that conception of the inventions claimed in PSD's Patents was not completed until sometime **after** Alleshouse's employment with the Plaintiff had terminated. *Id.* But the District Court ruled that the time of conception was irrelevant, because post-employment continuing duties to assign, also known as holdover provisions, are permissible under California law, apparently even if they last forever. *Id.* Specifically, the District Court held that California law "permits the assignment of inventions **conceived after employment**, so long as the inventive idea relates to the

employer's business or anticipated research or development or results from work performed by the employee for the employer." (Appx0029, emphasized). That holding is contrary to California law.

By its errant holding in this case, the District Court created a permanent life-long duty on California employee-inventors to forever assign their new inventions to their former employers, unless their new inventions are completely "unrelated" to the past, present, and anticipated businesses of their former employers. Prudent companies would never hire an inventor-employee, such as an engineer or scientist, if anything she or he subsequently invented might have to be assigned back to their former employer—which is often a competitor. And once an employee has worked for multiple companies in the same technological field, to which of them would she be obligated to assign her post-employment inventions? If the District Court's ruling were allowed to stand, this precedent would force employee-inventors in California to upend their careers to focus on a completely new technology—wholly unrelated to all of their former employers' businesses—each time they changed jobs. This extreme and unworkable life-long hardship is the polar opposite of the well-established law and public policy in California that jealously guards employees' rights to freely move between competing employers without restriction.

The District Court's holding violates California law in multiple ways. First, the scope of the EAP exceeds the outer bounds set by California Labor Code

§2870(a). As a result the EAP was and is unenforceable *ab initio* as against public policy under the plain language of California Labor Code §2870(b). Second, the EAP is unenforceable because Plaintiff indisputably never gave the statutorily required notice under California Labor Code §2872 that the EAP does not apply "to an invention which qualifies fully under the provisions of §2870." Third, "holdover" provisions that require former employees to assign-back to their former employers inventions conceived post-employment constitute substantial restrains on future employment as a matter of law, and thus cannot stand under California Business and Professions Code §16600. The California Supreme Court has made clear that all restraints on employee mobility are unlawful in California under §16600, except very specific statutorily-delimited exemptions and possibly trade secrets, none of which are at issue here. *Edwards v. Arthur Andersen LLP*, 44 Cal. 4th 937, 945, 189 P.3d 285, 290 (2008). Further, it would be improper under California law to judicially reinterpret or narrow the overbroad EAP to make it lawful, because "[e]mployers would have no disincentive to use the broad, illegal clauses if permitted to retreat to a narrow, lawful construction in the event of litigation." *Kolani v. Gluska*, 64 Cal. App. 4th 402, 407, 75 Cal. Rptr. 2d 257, 259 (1998). Thus, not only is the EAP null, void, and unenforceable, it is also incurable under controlling California precedent.

Without an enforceable contract, the judgment for the Plaintiff should be reversed on its first and fourth causes of action for breach of the EAP and for declaratory judgment enforcing the EAP to change ownership of PSD's Patents from PSD to Plaintiff. Alternatively, even if the EAP were to be reinterpreted to rein-in its scope and eliminate the unlawful holdover provision, reversal of those causes of action would still be required. This is because the maximum term of any assignment provision enforceable under California law could not extend past the date that Alleshouse's employment ended, and the evidence indisputably shows that conception of the inventions claimed in PSD's Patents was not completed until after that date. Thus, even if the EAP were to be modified to be lawful, PSD's Patents would be beyond the maximum permissible reach of the EAP, such that it could not be used to require assignment of PSD's Patents to Plaintiff.

Issue #2: With respect to the Fifth, Sixth, and Seventh Causes of Action, the District Court erred in several respects when it removed Yeh as co-inventor of PSD's admittedly-valid patents. First, Plaintiff lacked standing to challenge Yeh's co-inventorship of PSD's Patents, because Plaintiff had no economic interest in those patents since they were found to have been conceived post-employment, and are thus beyond the reach of any valid employment agreement as explained herein with respect to Issue #1.

Second, the District Court incorrectly ruled that Alleshouse had finished conceiving the claimed inventions before Yeh made his contributions, based on the incorrect and unsupported finding that Alleshouse's notebook disclosed everything in the claims of PSD's Patents. To establish conception solely by one of the named co-inventors, the party challenging the named inventorship must show by clear and convincing evidence that the allegedly-sole inventor possessed and appreciated **every feature** recited in the claims. But most of the claimed features are not shown in Alleshouse's notebook, and the District Court refused to compare that notebook to the elements of the claims. If it had, the District Court would have observed that Yeh's contributions, as well as other claim elements, do not appear in Alleshouse's notebook, but rather were supplied by Yeh as established by corroborated and uncontradicted testimony. Moreover, the file histories of PSD's Patents repeatedly show that Yeh's contributions were critical to allowance of claims in each of PSD's Patents.

Third, the District Court incorrectly required that claim elements contributed by the co-inventor must each be considered separately in isolation and found absolutely novel regardless of context, disembodied from the claimed invention as a whole, in direct contravention of this Court's holding in *Pannu v. Iolab Corp.*, 155 F.3d 1344, 1351 (Fed. Cir. 1998). Specifically, it was improper for the District Court to rule that Yeh's contributions did not qualify him as a co-inventor of the claimed

inventions based on the District Court's finding that Yeh's contributions were said to have existed separately in other contexts in the past, without considering Yeh's contributions to the present claims as a whole.

Fourth, the legal presumption that Yeh was properly listed as a co-inventor is a "heavy" one that could only be overcome by clear and convincing evidence, not by Plaintiff's uncorroborated and self-serving testimony that some of Yeh's contributions were allegedly known separately in some other contexts in the past.

VI. ARGUMENT AND STANDARD OF REVIEW

"On appeal from a bench trial, [the Federal Circuit] review[s] a District Court's decision for errors of law and clearly erroneous findings of fact." *Vapor Point LLC v. Moorhead*, 832 F.3d 1343, 1348 (Fed.Cir.2016), *quoting Trovan, Ltd. v. Sokymat SA, Irori*, 299 F.3d 1292, 1301 (Fed.Cir.2002). "Credibility and intent determinations are questions of fact." *Bell BCI Co. v. United States*, 570 F.3d 1337, 1340 (Fed.Cir.2009). A factual finding is clearly erroneous when, "although there is evidence to support it, the reviewing court on the entire evidence is left with the definite and firm conviction that a mistake has been committed." *Vapor Point LLC*, 832 F.3d at 1348, *quoting United States v. U.S. Gypsum Co.*, 333 U.S. 364, 395, 68 S. Ct. 525, 92 L. Ed. 746 (1948).

This Court applies state law to contract issues. *Lamle v. Mattel, Inc.*, 394 F.3d 1355, 1359 (Fed. Cir. 2005). "Contract interpretation is a question of law." *Bell BCI*

Co., 570 F.3d at 1340. "[L]egal holdings are reviewed *de novo*." *Bell BCI Co.*, 570 F.3d at 1340. Likewise, statutory construction and interpretation are questions of law reviewed *de novo*. *Unwired Planet, LLC v. Google Inc.*, 841 F.3d 1376, 1379 (Fed.Cir.2016).

Likewise, "[i]nventorship is a question of law entitled to *de novo* review by this court." *Vapor Point*, 832 F.3d at 1348. An issued patent carries a presumption of validity under 35 U.S.C. §282, meaning, each patent carries a "presumption that its named inventors are the true and only inventors." *Acromed Corp. v. Sofamor Danek Grp.*, 253 F.3d 1371, 1379 (Fed.Cir.2001). Consequently, "the burden of showing misjoinder or nonjoinder of inventors is a heavy one and must be proved by clear and convincing evidence." *Hess v. Advanced Cardiovascular Sys*., 106 F.3d 976, 979-80 (Fed.Cir.1997).

Additionally, whether someone "who lacks a potential ownership interest in a patent has standing to sue [to correct inventorship] is a question of law that [this Court] decide[s] *de novo.*" *Chou v. Univ. of Chicago*, 254 F.3d 1347, 1355 (Fed.Cir.2001).

a. ISSUE 1: The EAP violates Cal. Labor Code §§2870-2872 and Cal.Bus.&Prof.Code §16600.

i. The EAP is against California's public policy, null, void, unenforceable, and incurable because it violates Cal. Labor Code §2870.

California Labor Code §§2870, 2871, and 2872 strictly protect employees from employers seeking ownership of the employees' inventions. §2870 sets absolute outer limits on the permissible scope of employee invention assignment agreements, and declares that anything exceeding those limits "**is against the public policy of this state and is unenforceable**" as follows:

> (a) Any provision in an employment agreement which provides that an employee shall assign, or offer to assign, any of his or her rights in an invention to his or her employer shall not apply to an invention that the employee developed entirely on his or her own time without using the employer's equipment, supplies, facilities, or trade secret information except for those inventions that either:
>
> > (1) Relate at the time of conception or reduction to practice of the invention to the employer's business, or actual or demonstrably anticipated research or development of the employer; or
> >
> > (2) Result from any work performed by the employee for the employer.
>
> (b) To the extent a provision in an employment agreement purports to require an employee to assign an invention otherwise excluded from being required to be assigned under subdivision (a), the provision is against the public policy of this state and is unenforceable.

Cal.Lab.Code §2870 (emphasized).

The EAP greatly exceeded the maximum temporal and subject matter scope allowed by §2870, because it survives termination of employment and forever requires assignment of anything "suggested by" or "in any way connected to any subject matter within the existing or contemplated business of Company", regardless when conceived. Specifically, the EAP provides in pertinent part:

> a. Assignment. … Employee agrees that all right, title and interest in all inventions … or patentable material that Employee conceives or **hereafter** may make or conceive … :
>
> …
>
> (b) resulting from **or suggested by** Employee's work for Company; or
>
> (c) **in any way connected to** any subject matter within the existing or contemplated business of Company
>
> shall automatically … become the property of Company …. Employee's obligation to assign the rights to such inventions **shall survive the discontinuance or termination of this Agreement for any reason.**

(Appx1022, emphasized).

The EAP violates the maximum temporal scope set by California Labor Law. Specifically, §2870(a) requires the assignee to be the "employer" of the employee-inventor "at the time of conception". *Compare*, Cal.Lab.Code §2870(a) (employee-assignable inventions must: "(1) Relate **at the time of conception** or reduction to practice of the invention to the **employer**'s business, or actual or demonstrably anticipated research or development of the **employer**" (emphasized). The legislative

intent for the temporal limitation of §2870 is carried through in Cal.Lab.Code §2871, which allows employers to require employees to disclose inventions, but only "**during the term of his or her employment**". *See Droeger v. Friedman, Sloan & Ross*, 54 Cal. 3d 26, 50, 283 Cal. Rptr. 584, 812 P.2d 931 (1991) ("One 'elementary rule' of statutory construction is that statutes *in pari materia*-that is, statutes relating to the same subject matter-should be construed together."). Neither the District Court nor the Plaintiff has identified any authority suggesting that §2870 permits an employer to require assignment of inventions conceived after employment is over, not even by a single day; let alone for a lifetime.[2] At least one case has acknowledged that §2870 imposes temporal limitations as well as subject matter limitations. *Freedom Wireless, Inc. v. Bos. Commc'ns Grp., Inc.*, 220 F. Supp. 2d 16, 17–19 (D.Mass.2002) ("*see also* Cal.Lab.Code §2870 (2002) (providing that invention assignment contracts that are open-ended with respect to time and subject matter are against public policy and therefore unenforceable)") (citations, internal quotation marks, and parentheses omitted). Any holdover provision in an employee agreement

[2] The cases identified as having applied §2870 of the Labor Code relate only to inventions undisputedly conceived during the term of employment. *See Mattel, Inc. v. MGA Entertainment, Inc*., 616 F. 3d 904, 912-13 (9thCir.2010) (applicability of §2870 for a doll design conceived during employment). *Compare, Board of Trustees of Leland Stanford Junior University v. Roche Molecular Systems, Inc*., 583 F.3d 832, 845 (Fed.Cir.2009) (based on a "visitor's confidentiality agreement" and not an employee agreement, so the Labor Code, including §2870 and the unenforceability provision of §2870(b), did not apply).

under California law that requires assignment of inventions conceived, without the use of confidential information, **after** employment terminates, is contrary to Labor Code §2870(a) and thus unenforceable under Labor Code §2870(b). *See id. See also*, *Cubic Corp. v. Marty*, 185 Cal. App. 3d 438, 451 (1986); *SiRF Tech., Inc. v. ITC*, 601 F.3d 1319, 1327 (Fed.Cir.2010) ("§2870 allows an employee who claims the benefit of that section to render unenforceable an agreement that attempts to provide for such an assignment."). *Accord, Ingersoll-Rand Co. v. Ciavatta*, 110 N.J. 609, 625, 542 A.2d 879, 886 (1988) (where the Supreme Court of New Jersey reviewed Cal.Lab.Code §2870 and concluded that "[a]ll of these statutes provide that any employee invention assignment agreement that purports to give employers greater rights than they have under the statute is against public policy and, consequently, unenforceable").

The EAP also violates the maximum subject matter scope set by §2870 in at least two respects. First, the EAP requires assignment (regardless of when) if "resulting from **or suggested by** Employee's work for Company." (Appx1022, emphasized). This "suggested by" language is found nowhere in the statute. Many different unrelated ideas might be "suggested" to an employee during their work, above and beyond those ideas that actually "Relate … to the employer's business," as §2870 requires. Cal.Lab.Code §2870(a)(1). For example, an employee might have an idea for a better keyboard while typing up a report for a tire manufacturer. Should

the tire manufacturer be able to force the employee to assign her keyboard invention to them, simply because it was "suggested" to the employee by her work? If there are to be any real subject matter bounds implicated by §2870, surely this vague "suggested by" language exceeds them.

Second, the EAP requires assignment (again, regardless of when) if an invention is "in any way connected to any subject matter within the existing or contemplated business of Company." (Appx1022 (emphasized).) This wildly overbroad phrase is devoid of objective limitations. Indeed, the focus on what was "contemplated" invites self-serving, *post-hoc*, reverse-engineering of nebulous "connect[ions]" to what the employer supposedly had in mind. That approach is decidedly and improperly tilted against the employee. Thankfully, the statute requires concrete "demonstrabl[e]" proof. Cal.Lab.Code §2870(a)(1) ("relate[d] at the time of conception or reduction to practice of the invention to the employer's business, or actual or **demonstrably** anticipated research or development of the employer.")(emphasized). The EAP is effectively boundless in scope, in direct violation of both the letter and spirit of §2870.

The EAP is thus unenforceable as against public policy under Labor Code §2870(b), and cannot form the basis of Plaintiff's breach-of-contract cause of action. *See Kashani v. Tsann Kuen China Enter. Co*., 118 Cal. App. 4th 531, 540-41, 13

Cal. Rptr. 3d 174, 179-80 (2004).[3] Accordingly, the District Court's judgment on the first cause of action for breach of the EAP, and on the fourth cause of action for declaratory judgment to enforce the EAP to transfer PSD's Patents to Plaintiff, should be reversed and the rights to the inventions returned to the inventors. *Bd. of Trustees of Leland Stanford Junior Univ. v. Roche Molecular Sys., Inc.,* 563 U.S. 776, 785, 131 S. Ct. 2188, 2195, 180 L. Ed. 2d 1 (2011) (absent a valid assignment, inventors own their inventions).

ii. The EAP is unenforceable because it failed to provide the statutorily-required notice under Cal. Labor Code §2872.

Section 2872 imposes a mandatory notice provision to prevent unscrupulous employers from hiding §2870's protections from employees:

> If an employment agreement entered into after January 1, 1980, contains a provision requiring the employee to assign or offer to assign any of his or her rights in any invention to his or her employer, **the employer must also, at the time the agreement is made, provide a written notification to the employee** that the agreement does not apply to an invention which qualifies fully under the provisions of §2870. In any suit or action arising thereunder, the burden of proof shall be on the employee claiming the benefits of its provisions.

Cal.Lab.Code §2872 (emphasized).

[3] The Plaintiff also violated Alleshouse's rights under §2871, which provides that "[n]o employer shall require a provision made void and unenforceable by Section 2870 as a condition of employment or continued employment[,]" Yet that is exactly what the Plaintiff did. (TT510:2-17, Appx0658). Thus, the EAP is unenforceable separately under §2871. *Accord*, Cal.Lab.Code §2871.

The language is crystal clear: notice is required ("must") and is necessary to inform an employee of her rights under Labor Code §2870 before signing the agreement. *Id*. And when the required notice is given, then the employee may be tasked with affirmatively claiming the benefits of §2870. *Id*.

It is undisputed that Plaintiff failed to provide Alleshouse with notification of his rights as statutorily required under §2872, but nevertheless required him to sign the overbroad EAP to continue employment in violation of §2871. (Appx0027; TT299:12-23, Appx0447; TT510:2-17, Appx0658).

The EAP is therefore contrary to the explicitly-stated public policy of California and is unenforceable under California law. *See Kashani,* 118 Cal. App. 4th at 540-41, 13 Cal. Rptr. 3d at 179-80. But despite this clear and undisputed violation of the statutes, the District Court contravened California law and public policy and excused Plaintiff's noncompliance with the notice requirement, and inexplicably enforced the burden-of-proof provision of §2872 on the **employee** for the breach of contract claim. (Appx0030). This outcome turns California's employee-protection statutory scheme on its head.

Regardless of the burden of proof, the employer should not have been able to enforce the EAP, because the employer utterly failed to comply with the "must" requirements of Section 2872, and did so to get the employee to sign an assignment provision broader than allowed under §2870—which is exactly what Section 2872

was designed to prevent. Thus, for this additional reason, the District Court's judgment on the first cause of action for breach of the EAP, and on the fourth cause of action for declaratory judgment to enforce the EAP to transfer PSD's Patents to Plaintiff, should be reversed.

iii. Despite the overreach of the EAP, the District Court impermissibly construed the non-compliant language to be consistent with the District Court's incorrect interpretation of §2870.

Labor Code §§2870, 2871, and 2872 exist to protect the rights of employees against overreaching employers, and to guarantee that invention assignment provisions will strictly comply with specific limitations or else be declared "against the public policy of this state" and "unenforceable." Cal.Lab.Code §2870(b). Yet Plaintiff violated each and every one of those provisions, then dragged Defendants through years of litigation, and now seeks to collect its costs and even its attorney fees from Defendants. California's employee-protection laws should be enforced, but here the District Court provided no remedy for the employer's violation of §§2870, 2871, and 2872, and instead read the overbroad EAP to be consistent with §2870. This pro-employer outcome excuses the employer from its failure to comply with §2870 *et seq*., and contravenes California's pro-employee law and policy. As explained by this Court in *Applera Corp v Illumina*:

> [W]e note that §2870 does not confer any rights on employers — it protects employees by rendering assignment agreements unenforceable to the extent they exceed permissible limits. Moreover, the assignment

> provision of the [Employee Invention Agreement] does not incorporate §2870 by reference. [] Thus, Applera did not "avail itself" of any rights envisioned by this statute.

Applera Corp v Illumina, 375 Fed.Appx. 12, 17 (Fed.Cir.2010). This Court further explained that California Law "requires us to construe contractual obligations 'most strongly against the party who caused the uncertainty to exist.'" *Applera,* 375 Fed.Appx. at 17, citing Cal.Civ.Code §1654.

Here there is no dispute that: (1) the EAP was a form contract drafted by the employer, which the employer required its employees to sign; and (2) the EAP does not include any reference to §2870. (Appx1021; Appx0027; TT299:12-23, Appx0447; TT510:2-17, Appx0658). Because the employer failed to "avail itself" of any rights under §2870, the District Court was required to enforce the EAP as it was actually written, interpreting it "strongly" against the Plaintiff. *Applera,* 375 Fed.Appx. at 17. Once that interpretation is performed, only then may the District Court determine whether its scope falls entirely within the outer boundaries defined by §2870(a). If not, it is unenforceable. Cal.Lab.Code §2870(b).

But the District Court ignored California law and inexplicably narrowed the EAP's plain terms in favor of the employer to be consistent with the District Court's interpretation of §2870(a). For example, the District Court found that the EAP "only requires him to assign inventions resulting from his work at Wave Loch or **relating to** Wave Loch's business **at the time he was there**." (Appx0030 (emphasized).)

However, nothing in the EAP in any way limits Alleshouse's assignment obligations to the Plaintiff's business "at the time he was there." To the contrary, the EAP explicitly **survives termination** and requires assignment of any inventions that are "**hereafter**" "in any way connected to any subject matter within the existing **or contemplated** business of Company". (Appx1022, emphasized). In the same sentence the District Court also limited the EAP's vague and overly-broad "in any way connected to" language to just mean "relating to". (Appx0030). [4] Accordingly, the terms that were actually in the EAP, to which the parties are presumed to have originally intended to agree, were not the terms the District Court created from the EAP and enforced in its Judgment. Thus, Defendants were never a party to the EAP as reinterpreted and enforced by the District Court, and it cannot form the basis of a breach of contract action. *Accord*, *Weddington Prods., Inc. v. Flick*, 60 Cal. App. 4th 793, 797 (1998) (a memorandum that appellants signed after an initial mediation

[4] Indeed Plaintiff admitted that the drawing from the CEO's deposition was the only evidence that "Wave Loch was working on a half-pipe ride at the time which Alleshouse was employed with Wave Loch" and that there were no designs at Wave Loch that looked like the '189 Patent, which shares the same specification as the '685 Patent. (TT143:22-144:5, Appx0290-0291; TT143:15-21, Appx0290). And WaveLoch **never** developed the ride. (TT112:3–10, Appx0259; TT528:12-20, Appx0676). Thus, there is no basis for contending that Plaintiff's abandoned thought to develop a half-pipe ride was still "relate[d] … to [Wave Loch's] business, or actually or demonstrably anticipated research or development" "*at the time of conception or reduction to practice of the invention*" as required by §2870.

session became a judgment containing numerous material terms to which appellant had never agreed).

Moreover, the District Court's reinterpretation of the EAP to force it within the bounds of §2870 is contrary to the law and public policy of California. First, narrowing overbroad terms by ignoring the plain contract language to salvage the EAP for an employer, directly contravenes the purpose of §2870 by affirmatively conferring rights on the non-compliant employer, instead of punishing them for their failure to comply with the law. *See Applera*, 375 Fed.Appx. at 17. Second, if not reversed, the District Court's holding will perversely incentivize California employers to flagrantly violate the employee protections of the Labor Code by creating a heads-employer-wins, tails-employee-loses scheme. Under the precedent set by the District Court, if an employee does not challenge an overbroad assignment provision that violates §2870, then the employer wins overbroad rights greater than allowed by law. But if the employee does challenge the unlawful assignment provision, then the employee can spend many thousands of dollars and years of time in litigation only to have the unlawful assignment provision rewritten by the court to make it legal *post hoc*. Worse yet, the wronged employee is then considered the loser in the matter, and has to pay the litigation expenses of the employer who violated the employee's rights under the state's labor laws.

California Courts have caught-on to this grossly inequitable catch-22, and expressly reject rewriting overreaching employment contracts with post-employment restrictions, because otherwise:

> Employers could insert broad, facially illegal covenants not to compete in their employment contracts. Many, perhaps most, employees would honor these clauses without consulting counsel or challenging the clause in court, thus directly undermining the statutory policy favoring competition. Employers would have no disincentive to use the broad, illegal clauses if permitted to retreat to a narrow, lawful construction in the event of litigation.

Applied Materials, Inc. v. Adv. Micro–Fabrication Equip. Co., 630 F. Supp. 2d 1084, 1088–91 (N.D.Cal.2009), *quoting Kolani*, 64 Cal. App. 4th at 407, 75 Cal. Rptr. 2d at 259. Similarly, a California Court of Appeal has stated:

> Any attempt to construe the noncompete and nonsolicitation clauses in such a manner as to make them lawful would not be reforming the contract to correct a mistake of the parties but rather to save a statutorily proscribed and void provision.

Dowell v. Biosense Webster, Inc., 179 Cal. App. 4th 564, 579, 102 Cal. Rptr. 3d 1, 12 (2009).

Under California law, a court cannot salvage an EAP authored by an employer who failed to make any mention of §2870, by reinterpreting the EAP's plain language to fit within the statutory limits of §2870. Here the parties agreed to the EAP as-written, and that assignment agreement is plainly broader than what is allowed under §2870, it was forced on the employee in violation of §2871, and without the notice strictly required by §2872. The EAP is therefore unenforceable

on multiple grounds under California's Labor Code and incurable under California precedent. Without an enforceable assignment agreement, the rights to the inventions vest solely with the inventors. *Bd. of Trustees of Leland Stanford Junior Univ.*, 563 U.S. at 785, 131 S. Ct. at 2195, 180 L. Ed. 2d 1. The District Court's judgment on the first cause of action for breach of the EAP, and on the fourth cause of action for declaratory judgment to enforce the EAP to transfer PSD's Patents to Plaintiff should be reversed.

iv. The EAP is Invalid, Null, Void, Unenforceable, and Incurable under Cal. Bus. & Prof. Code §16600.

Section 16600 of the California Business and Professions Code provides in its entirety that: "[e]xcept as provided in this chapter, every contract by which anyone is restrained from engaging in a lawful profession, trade, or business of any kind is to that extent void." Cal.Bus.&Prof.Code §16600. Under California law, this statute must be construed together with Labor Code §2870. *See Droeger*, 54 Cal. 3d at 50.

The California Supreme Court has clarified that post-employment restrictions that in any way limit an employee's ability to compete with a former employer are void and unenforceable under §16600, unless they fall within the statute's express exceptions involving the sale of a business. *Edwards v. Arthur Andersen LLP*, 44 Cal.4th 937, 945, 81 Cal.Rptr.3d 282, 189 P.3d 285 (2008). No such statutory exceptions are asserted in this case. In *Edwards*, the California Supreme Court expressly rejected the Ninth Circuit's judicially created "narrow restraint" exception,

which had interpreted §16600 to permit limited, narrowly-drawn post-employment restrictions on an employee's ability to compete while still leaving a substantial portion of the market available to that employee. *Id*.

Section 16600 "evinces a settled legislative policy" that favors "open competition and employee mobility." *Id.* "For this reason, **California courts take no prisoners when it comes to Section 16600**." *Hendrickson v. Octagon Inc.*, 225 F. Supp. 3d 1013, 1026–27 (N.D.Cal.2016) (emphasized). Under *Edwards*, "noncompete agreements in employment contracts are *per se* invalid in California as an unlawful restraint on trade." *Quidel Corp. v. Superior Court of San Diego Cty.*, 39 Cal. App. 5th 530, 539, 251 Cal. Rptr. 3d 823, 828 (Ct.App.2019), *reh'g denied* (Sept. 13, 2019).

Strict application of §16600 in the employment context is supported by long-established policy: "California courts have consistently declared this provision an expression of public policy to ensure that every citizen shall retain the right to pursue any lawful employment and enterprise of their choice." *Metro Traffic Control, Inc. v. Shadow Traffic Network*, 22 Cal. App. 4th 853, 859, 27 Cal. Rptr. 2d 573, 577 (1994). This is because "[t]he interests of the employee in his own mobility and betterment are deemed paramount to the competitive business interests of the employers, where neither the employee nor his new employer has committed any

illegal act accompanying the employment change." *Diodes, Inc. v. Franzen*, 260 Cal. App. 2d 244, 255, 67 Cal. Rptr. 19, 26 (Ct.App.1968).

Courts in California universally strike employment assignment provisions that apply to inventions conceived post-termination. For example in *Armorlite Lens Co. v. Campbell*, 340 F. Supp. 273 (S.D.Cal.1972), the trial court stated:

> To require a former employee, who has developed a new idea or concept following the termination of his employment and which is not based upon the employer's secrets or confidential information, to turn over the fruits of his labors to his former employer constitutes, in the opinion of this Court, an unreasonable restraint of trade.

Id. at 275, applying Cal.Bus.&Prof.Code §16600.[5]

Likewise in *Applied Materials,* the Court recognized that assignment clauses "function as unlawful non-compete provisions [under Section 16600] where they require an employee to assign an invention conceived after departing from an employer's service." 630 F. Supp. 2d at 1090. The court then considered and rejected under §16600 an employment assignment agreement that applied to inventions conceived after termination:

> Ultimately, the Court finds that the Assignment Clause is overly broad with respect to both subject matter and temporal scope. Since the Court finds that the Assignment Clause **touches post-employment inventions, regardless of when they were conceived or whether they were based on Applied's confidential information, the Clause necessarily operates as a restriction on employee mobility**. Accordingly, the Court finds that the Assignment Clause is a post-

[5] Plaintiff has stipulated that there has been no misappropriation of its confidential information. (TT791:17-19, Appx0939; Appx0030).

> employment penalty that violates California public policy as codified in Business Professions Code §16600.

Id. at 1090-91 (emphasized). *Accord, Hendrickson*, 225 F. Supp. 3d at 1026–27 (Under §16600, "[a]n employer cannot "**force a former employee to hand over an invention created on her own time and dime.**") (emphasized).

The *Applied Materials* court further refused to narrowly construe the assignment clause to comport with California law, reasoning that "[e]mployers would have no disincentive to use the broad, illegal clauses if permitted to retreat to a narrow, lawful construction in the event of litigation." 630 F. Supp. 2d at 1091, *quoting Kolani*, 64 Cal.App.4th at 407, 75 Cal.Rptr.2d 257.

While the holdover clauses struck down in *Applied Materials* and *Armorlite* were for one year, the present EAP is much worse because it has no time limit whatsoever—it lasts forever. The EAP requires Alleshouse to assign all inventions "suggested by" or "in any way connected to" the business of Plaintiff and whomever its successors might be, whether or not trade secrets, that are conceived "hereafter," including after discontinuance or termination of the Agreement "for any reason." (Appx1022). As in *Applied Materials*, the EAP is "in no way limited to situations in which former employee inventions are the product of [plaintiff's] confidential information." *Applied Materials*, 630 F. Supp. 2d at 1086, 1090. If the innovation is "suggested by" or "in any way connected to" Plaintiff's business or any of Plaintiff's information, whether such information was used in the development of the

innovation or not, such innovation is within the scope of the EAP. Again, these onerous requirements are not limited temporally and thus last ***forever***. The EAP is thus a severe post-employment penalty that is clearly unenforceable under §16600, both because it is temporally unlimited, and because its scope otherwise exceeds the limits imposed by §2870(a) of the California Labor Code as explained *supra*.

But in this case the District Court ignored all precedent on the issue and incorrectly ruled that §16600 and §2870 "permits the assignment of inventions **conceived after employment**". (Appx0029; emphasized). The District Court justified its clearly incorrect holding on the following employer-friendly reason: "because proving when the inventor-employee conceived the invention—the "ah ha" or "light bulb" moment—would be difficult, if not impossible, for the employer to do." *Id*. This legally baseless justification was recently considered and rejected by a Texas district court that fully analyzed the reasoning in *Applied Materials. See Huawei Techs. Co. v. Yiren Huang*, No. 4:17-CV-00893, 2019 WL 1978339, at *8-9 (E.D.Tex. May 2, 2019) (explicitly rejecting the pro-employer rationale of allowing holdover provisions based on "the difficulty of establishing when any Subject Ideas or Inventions are first conceived").

The District Court failed to appreciate the strict manner in which §16600 must be applied post-*Edwards*, and instead applied an obsolete "rule of reason" type analysis, reasoning that "the Agreement does not restrain Alleshouse from engaging

in the sheet wave profession. It only requires him to assign inventions resulting from his work at Wave Loch or relating to Wave Loch's business at the time he was there." (Appx0030). Not only was the District Court's "rule of reason" analysis legally impermissible post-*Edwards*, it was also factually wrong. First, the actual language of the EAP is actually much broader in scope than the District Court stated and is expressly not limited to "the time he was there". Second, being permanently yoked with the unending duty to assign-back to his former employer any innovation "suggested by" or "in any way connected to" his former employer's business, when that is the former employee's precise area of technical specialization and the former employee is attempting to lawfully compete with his former employer, is a blatantly oppressive holdover provision that would be struck-down as unreasonable under the common law,[6] let alone under the much stricter prohibition of post-*Edwards* §16600.

[6] *Compare, e.g.*, *Ingersoll-Rand*, 110 N.J. at 626-27, 542 A.2d at 887-88 ("As a broad proposition, contracts that are unreasonable are unenforcible; that is, if the restraints imposed are unlimited as to time, space or subject matter. Moreover, courts strictly construe contractual provisions that require assignment of post-employment inventions; they must be fair, reasonable, and just."); *Freedom Wireless, Inc. v. Bos. Commc'ns Grp., Inc.*, 220 F. Supp. 2d 16, 17–19 (D.Mass.2002) ("For over one hundred years, courts have looked skeptically upon employment contracts that require an employee to assign his inventions to his employer. (citations omitted) Where such contracts are open-ended with respect to time limit or subject matter, they may be considered unenforceable as against public policy. (citations omitted) *see also* Cal.Lab.Code §2870 (2002) (providing that invention assignment contracts that are open-ended with respect to time and subject matter are against public policy and therefore unenforceable).")

By the very terms of the District Court's decision, if Alleshouse conceives of an innovation today, seven years after resigning, that is any way "related to" the Plaintiff's actual or contemplated business, he would have to assign his new innovation to Plaintiff, his primary competitor. And if he develops such an innovation on his 90th birthday, he will still be required to assign it under the EAP to whatever successor of Plaintiff that might come knocking on his door.[7] The District Court's decision compels this, despite Plaintiff's stipulation that there has been no misappropriation of its confidential information. (TT791:17-19; Appx0939; Appx0030). These outrageous results starkly demonstrate the District Court's failure to apply the strict limitations of §16600. Alleshouse simply cannot be the Plaintiff's lifelong unpaid indentured inventor under the nation's most employee-mobility-friendly laws.

As the sole legal support for its misguided holding, the District Court cited *Bd. of Trustees of Leland Stanford Junior Univ. v. Roche Molecular Sys., Inc.*, 583 F.3d 832 (Fed.Cir.2009), *aff'd*, 563 U.S. 776, 131 S. Ct. 2188, 180 L. Ed. 2d 1 (2011) (hereafter "*Stanford*"). In *Stanford*, this Court stated that assignment of a researcher's "right, title, and interest in each of the ideas, inventions and

[7] It is a further restraint on trade when Alleshouse has no idea whatsoever to whom he owes the duty to assign. As it stands, the District Court decision requires assignment into perpetuity to whatever entity Plaintiff may contract with, without giving Alleshouse any notice.

improvements" that he might devise "as a consequence of" his work at the company was not void under §16600, because he was not restrained from "engaging in any profession". *Id*. at 845. While unclear, it appears that the District Court might have misinterpreted *Stanford* to mean that a restraint is acceptable as long as the employee is not restrained from engaging in **all** professions (i.e., that a restraint is acceptable if there is "any profession" in which the employee can still engage). That interpretation would, of course, turn §16600 on its head, since California courts have consistently declared that the policy of §16600 is not to ensure that there remains at least one profession still open for each citizen, but rather "to ensure that every citizen shall retain the right to pursue **any** lawful employment and enterprise **of their choice**." *Metro Traffic Control, Inc.*, 22 Cal. App. 4th at 859, 27 Cal. Rptr. 2d at 577 (emphasized). Regardless whether the District Court misunderstood the language it quoted from *Stanford*, that case has no bearing on the present case, because *Stanford* did not concern an employment agreement nor in any way affect the mobility of an employee. Rather, the operative agreement was a Visitor's Confidentiality Agreement (VCA) with a third-party that ended-up having no effect whatsoever on the employee's career with his employer. *Stanford*, 583 F.3d at 842-48.

The District Court erred in enforcing a holdover provision that requires assignment of inventions conceived, without the use of confidential information, **after** employment terminates. Any such holdover provision in an employee

agreement violates §16600 of the California Business and Professions Code and thus is invalid, null, void, unenforceable. *See Hendrickson*, 225 F. Supp. 3d at 1026–27; *Applied Materials*, 630 F. Supp. 2d at 1090; *Armorlite,* 340 F. Supp. at 275; *Huawei Techs. Co.*, 2019 WL 1978339, at *8-9. *Accord, Edwards,* 44 Cal.4th at 945, 81 Cal.Rptr.3d 282, 189 P.3d 285; *Metro Traffic Control, Inc*., 22 Cal. App. 4th at 859, 27 Cal. Rptr. 2d at 577; *Diodes, Inc*., 260 Cal. App. 2d at 255, 67 Cal. Rptr. at 26. And it cannot be cured by the court *post hoc*. *Kolani,* 64 Cal. App. 4th at 407, 75 Cal. Rptr. 2d at 259; *Dowell,* 179 Cal. App. 4th at 579, 102 Cal. Rptr. 3d at 12.

Since the EAP is invalid, null, void, unenforceable, and incurable under §16600, it cannot form the basis of Plaintiff's breach-of-contract cause of action. *See Kashani*, 118 Cal. App. 4th at 540-41, 13 Cal. Rptr. 3d at 179-80. Accordingly, the District Court's judgment on the first cause of action for breach of the EAP, and on the fourth cause of action for declaratory judgment to enforce the EAP to transfer PSD's Patents to Plaintiff should be reversed and the rights to the inventions revested to the inventors. *Bd. of Trustees of Leland Stanford Junior Univ.*, 563 U.S. at 785, 131 S. Ct. at 2195, 180 L. Ed. 2d 1.

v. Regardless, the EAP cannot lawfully reach PSD's Patents because they were conceived after employment terminated.

Any redraft of the EAP to bring it in compliance with California law would necessarily preclude a requirement to assign post-employment inventions. That is because the maximum term of any employee assignment provision enforceable

under California law for inventions not involving employer trade secrets cannot extend past the date the employment ends. *See* Cal.Lab.Code §2870(b); *Cubic Corp.*, 185 Cal. App. 3d at 451; *SiRF Tech., Inc.*, 601 F.3d at 1327; *Ingersoll-Rand Co.*, 110 N.J. at 625, 542 A.2d at 886; *Applied Materials,* 630 F. Supp. 2d at 1090; *Armorlite,* 340 F. Supp. at 273; *Huawei Techs. Co.*, 2019 WL 1978339, at *8-9.

According to the evidence, conception of any and all of PSD's Patents was not completed until sometime after Alleshouse's employment terminated on August 3, 2012. (Appx1173). The District Court ruled that the first evidence that conception was complete occurred two weeks later, on August 16, 2012:

> Alleshouse's notebook shows that by August 16, 2012, he had conceived of the half-pipe/quarter-pipe designs and adjustable nozzles—which ultimately resulted in the '689, '189, and '433 Patents.

(Appx0035).

As explained *infra* regarding Issue 2, the record clearly demonstrates that conception of the inventions claimed in PSD's Patents was not complete until well after the August 16, 2012 date cited by the District Court. But in any event, it is undisputed in the record that the earliest proven date for conception for all the elements of the claims of any of PSD's Patents was well after Alleshouse left Plaintiff's employment. (*see* §VI(b)(ii)).

Accordingly, even if the EAP were to be restricted in scope, interpreted to not include a holdover provision, and otherwise interpreted to be valid and enforceable,

then Alleshouse could not have breached the EAP by refusing to assign PSD's Patents to Plaintiff, because at least some of the inventions claimed in each of PSD's Patents were conceived post-employment. In other words, since PSD's Patents were all conceived post-employment and admittedly without using any trade secrets, PSD's Patents would necessarily be beyond the maximum permissible reach of any valid employee assignment provision. Thus, to the extent the EAP is found to be valid and enforceable, the District Court's judgment for the Plaintiff on the first cause of action for breach of the EAP, and on the fourth cause of action for declaratory judgment to enforce the EAP to transfer PSD's Patents to Plaintiff should be reversed.

b. ISSUE 2: Yeh is a co-inventor of PSD's patents because he jointly conceived of the inventions claimed in those patents.

i. Plaintiff lacked standing to challenge Yeh's co-inventorship of PSD's Patents.

The EAP is either invalid and unenforceable, or alternatively, to the extent the EAP is construed to be valid, it cannot reach PSD's Patents, because the inventions claimed therein were conceived post-employment. Either way, the EAP provides Plaintiff with no ownership nor other economic interest in PSD's Patents, such that Plaintiff lacks standing to challenge the inventorship of PSD's Patents under 35 U.S.C. §256.

The Federal Circuit has explained that: "a plaintiff seeking correction of inventorship under §256 can pursue that claim in federal court only if the requirements for constitutional standing—namely injury, causation, and redressability—are satisfied." *Larson v. Correct Craft, Inc.*, 569 F.3d 1319, 1326 (Fed.Cir.2009). "A plaintiff challenging inventorship meets the Article III burden by showing an ownership interest in the patent, a concrete financial interest in the patent, or a concrete and particularized reputational injury arising from the omission as a named inventor on the patent." *Eastwood v. Molecular Defs. Corp.*, 373 F. Supp. 3d 502, 506 (S.D.N.Y. 2019). With no cognizable interest of any kind in PSD's Patents, Plaintiff cannot meet this standard.

Since Plaintiff had no standing to have brought its causes of action for correction of inventorship of PSD's Patents, the judgment for the Fifth, Sixth and Seventh Causes of Action (correction of inventorship) should be reversed.

ii. The District Court's ruling that Alleshouse had finished conceiving of the claimed inventions before Yeh made his contributions was incorrect, because Yeh's contributions were critical to allowance of the claims.

The District Court decided that Yeh was not an inventor of anything that mattered in PSD's Patents based on its incorrect and unsupported finding that Alleshouse had already fully conceived of everything claimed in PSD's Patents before Yeh began collaborating with Alleshouse. Specifically, the District Court held that "Alleshouse's notebook shows that by August 16, 2012, he had conceived

of the half-pipe/quarter-pipe designs and adjustable nozzles—which ultimately resulted in the '685, '189, and '433 Patents." (Appx0035). The District Court then made clear that it was using that date as the final demarcation of conception, as it next stated that: "**After conception**, Yeh helped reduce the inventions to practice by testing out the models in Alleshouse's garage in September 2012." (Appx0036, emphasized). The Court then discounted Yeh's many contributions as merely "help[ing] identify practical issues with the models based on his experiences in surfing and skateboarding." *Id*.

But there is a gaping hole in the District Court's analysis: those sketches in Alleshouse's notebook provided at Appx1065-1079 do not provide any indication whatsoever (let alone clear and convincing evidence) that Alleshouse had by-then conceived of the complete and operable inventions as claimed in PSD's Patents. Moreover, neither the Plaintiff nor the District Court attempted to establish that Alleshouse contributed all the elements in the claims.

Instead, the District Court made the fundamental mistake of ignoring the details of what was actually recited in the claims of the patents, and instead distilled the inventions down to an oversimplified "gist," namely that of: "half-pipe/quarter-pipe designs and adjustable nozzles—which ultimately resulted in the '685, '189, and '433 Patents." (Appx0035). The District Court boiled-down the claimed inventions to this "gist" in order to find that Alleshouse was the sole inventor, but

that "gist" utterly fails to capture the actual inventions that were patented in PSD's Patents. It is axiomatic that it is improper to distil an invention down to the "gist" or "thrust" of the invention, because that disregards the requirement of analyzing the subject matter "as a whole." *W.L. Gore & Assoc., Inc. v. Garlock, Inc.*, 721 F.2d 1540, 1548 (Fed.Cir.1983).

The District Court's conception analysis based on its grossly-oversimplified "gist" of the inventions is fundamentally flawed. To establish conception by a single inventor, the party challenging joint inventorship must show by clear and convincing evidence that the allegedly sole inventor possessed and appreciated **every feature** recited in the claims. *Ethicon, Inc. v. United States Surgical Corp.*, 135 F.3d 1456, 1460 (Fed.Cir.1998). Had the District Court looked to the claims as a whole to determine conception, as it must, it would have appreciated that Alleshouse's notebook does not reflect what is actually claimed in PSD's Patents.

First, Alleshouse explained at length how his notebook entries up to and including August 16, 2012 did not show the inventions claimed in PSD's Patents.[8]

[8] *See, e.g.*:

- Alleshouse explained how "the sketch on 8/16 … has potentially some of [the claimed] elements but not all of the elements that would make up the '189 or the '685 patents." (TT245:20–246:17, Appx0393-0394).
- The testimony confirms that the design shown in Alleshouse's notebook and relied upon by the District Court (Appx0021) does not show the quarter-pipe ride, and to the extent it shows something that could fall within "a very broad interpretation of the term half-pipe," Alleshouse and Yeh understood it "wouldn't be a very good ride"

When the inventions that were actually claimed in PSD's Patents are considered (instead of the District Court's oversimplified "gist"), the uncontradicted evidence clearly demonstrates that as of September 2012, neither Alleshouse nor Yeh had a sufficiently definite understanding of the complete and operative inventions to constitute conception. Conception occurs only upon the "formation in the mind of the inventor, of **a definite and permanent idea of the complete and operative invention**, as it is hereafter to be applied in practice." *Hybritech Inc. v. Monoclonal Antibodies, Inc.*, 802 F.2d 1367, 1376 (Fed.Cir.1986) (emphasized). Conception as a legal term or art does not occur as a process, but as a specific endpoint in time, "when the inventor has a specific, settled idea, a particular solution to the problem at hand." *Burroughs Wellcome Co. v. Barr Labs., Inc.*, 40 F.3d 1223, 1228 (Fed.Cir.1994).

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because it included large "areas that can't be ridden." (TT237:2–240:2, Appx0385-0388).

- Alleshouse explained that the drawings in his notebook entry dated August 14, 2012, relied upon by the District Court, related to the prior art Sauerbier patent directed to a deep wave ride, not a sheet-wave ride. "Q. … [D]oes your flow direction drawing on August 14, 2012 … have anything to do with the drawing on August 16, 2012 where you drew multiple nozzles with varied flow directions? A. No. …." (TT240:14–22, Appx0388).
- Alleshouse confirmed (without any controverting evidence) that at least as of Yeh's September, 2012 visit, he and Yeh "were still trying to figure out what kind of these random wacky concepts would work." (TT256:11–257:22, Appx0404-0405).

By failing to analyze the claimed subject matter "as a whole" the District Court also failed to notice that several essential claim elements specifically discussed by the examiner were *absent* from Alleshouse's notebook, and based on undisputed testimony, were Yeh's contributions. This makes Yeh a co-inventor. *In re Verhoef*, 888 F.3d 1362, 1366 (Fed.Cir.2018) (finding that a veterinarian was "a joint inventor because she contributed the idea of the figure eight loop, and the figure eight loop is an essential feature of the claimed invention."). For example, Alleshouse's notebook fails to show conception of, among many other claim elements, any of the following claim elements that were indisputably provided by Yeh, and which were also expressly cited by the USPTO as the very points of novelty that rendered the claims patentable as a whole in combination with the other claim elements:

- A nozzle "**wherein the thickness of the orifice in the Z-Y plane is adjustable to different thicknesses along a length of the orifice in the Z-Y plane**". Yeh contributed this feature to the claims of the '433 Patent as part of his collaboration with Alleshouse (Appx1753-1754; TT297:1-5, Appx0445; TT335:12-336:8, Appx0483-0484), and the USPTO confirmed that this claim element formed the basis for the allowability of '433 Claim 1. (Filed on 1/28/16 as dependent claim 17 (Appx1483-1494); 9/9/16 USPTO office action confirming allowable subject matter of claim 17 if

rewritten into independent form (Appx1456-1462); issued as **'433 Claim 1** (Appx1060)).

- A nozzle with "**internal walls coupled to sides of the plurality of orifice wall, wherein the internal walls form a side angle form a rear plane of the nozzle to the sides of the plurality of orifice walls of the orifice**". Yeh contributed this feature to the claims of the '433 Patent as part of his collaboration with Alleshouse (Appx1753-1754; TT337:2-338:7, Appx0485-0486), and the USPTO confirmed that this claim element formed the basis for the allowability of '433 Claim 11. (Filed on 1/28/16 as dependent claim 19 (Appx1483-1494); 9/9/16 USPTO office action confirming allowable subject matter of claim 19 if rewritten into independent form (Appx1456-1462); issued as **'433 Claim 11** (Appx1060)).
- "**a safety chute section and a safety chute sidewall positioned between the activity section and the first water recovery section**". Yeh contributed this feature to the claims of the '189 Patent as part of his collaboration with Alleshouse (Appx1752-1753; TT285:2-22, Appx0433; TT295:4-7, Appx0443), and the USPTO confirmed that this claim element formed a basis for the allowability of '189 Claim 14. (Filed on 5/2/15 as dependent claim 15 (Appx1359-1360); 10/23/15 USPTO office action

confirming allowable subject matter of claim 15 if rewritten into independent form (Appx1310-1315); issued as **'189 Claim 14** (Appx1044)).

- "**a plurality of elevated water recovery sections positioned above the plurality of sidewalls**". Yeh contributed this feature to the claims of the '685 Patent as part of his collaboration with Alleshouse (TT295:4-14, Appx0443; TT363:17-379:20, Appx0511-0527; TT711:7-23, Appx0859), and the USPTO confirmed that this claim element formed the basis for the allowability of '685 Claim 1. (Filed on 10/12/13 as dependent claim 2 (Appx1275); 12/18/14 USPTO office action confirming allowable subject matter of claim 2 if rewritten into independent form (Appx1220-1225); issued as **'685 Claim 1** (Appx1034)).

None of these specific patent-critical features were reflected in the sketches in Alleshouse's notebook, which the District Court expressly relied on as the "clear and convincing" evidence of Alleshouse's sole inventorship.[9,10] To the contrary,

[9] Defendants invite this Court to compare the scant disclosure (Appx1065-1079, representing Alleshouse's pre-8/16/12 notebook entries on which the District Court based conception) against the actual claims of PSD's Patents. This was Plaintiff's "heavy" burden, which they failed to even address.

[10] Interestingly, the District Court's stated premise for rejecting Yeh as an inventor–i.e., conception was completed by August 16, 2012 as evidenced by the notebook–directly conflicts with Plaintiff's position at trial. Through its expert Dr. Stevick, Plaintiff argued that the creation of the inventions in PSD's Patents would

Alleshouse's notebook showed only the "gist" of a new idea he and Yeh wanted to somehow achieve—a "half-pipe" wave ride with surfable sides—without yet knowing what particular combinations of elements might actually make such an unprecedented ride work.

In addition to these discrete examples of Yeh's key contributions to the claimed inventions, Yeh also contributed jointly with Alleshouse to the total inventive concept of all of the claims of PSD's Patents, including the layout of the elements of the claimed water attractions relative to each other, as part of an ongoing, side-by-side collaborative inventive process with Alleshouse. (TT294:22–297:8, Appx0442-0445; TT363:17-379:20, Appx0511-0527; TT676:10-712:6, Appx0824-0860). For example, Yeh was integral to the collaborative inventive process by also providing the following additional claim elements:

- **'685 Patent Claim 1**: "a middle section adjacent to at least one safety chute section," "wherein the plurality of sidewalls are adjacent to the middle section and to the at least one safety chute section," and "wherein the water delivery section creates a flowing body of water over the middle section towards the at least one safety chute section". (Appx1751-1752).

require "a system of equations, 40, 50 pages of calculations". (TT452:21-453:19, Appx0600-0601). There is nothing remotely like that in Alleshouse's notebook. (Appx1065-1079).

- '**685 Patent Claim 2**: "wherein the plurality of opposing non-parallel sidewalls adjacent to the middle section are any shape chosen from a group consisting of one or more of concave, planar, substantially planar, convex, ellipse, and complex curve shapes". *Id.*
- '**685 Patent Claims 18 and 19**: "at least one water recovery area adjacent to either the plurality of middle or sidewall areas". *Id.*
- **'685 Claim 19**: "wherein the at least one water recovery area is coupled to the plurality of sidewall areas". *Id.*
- **'433 Patent Claim 7**: "wherein the flowing body of water emanates from the orifice at flow angles that vary along a length of the orifice formed by the plurality of orifice walls". (Appx1753-1754).
- **'433 Patent Claim 10**: "a plurality of internal walls coupled to sides of the plurality of orifice walls, wherein the plurality of internal walls forms a single angle from a rear plane of the nozzle to the sides of the plurality of orifice walls of the orifice". *Id.*

Yeh's contributions are fundamental and go back to the very beginning, where he, as a skateboarder, came up with the core concept of making a sheet-wave ride that could be ridden like a skatepark. Alleshouse confirmed that the August 4, 2012 notation in his notebook (Appx1065-1066) was the direct result Yeh's proposal of projecting water onto a sheet-wave ride to create standing waves that looked like

skateboarding park features. (TT264:14–265:7, Appx0412-0413). This is also confirmed by Yeh. (TT368:17–369:7, Appx0516-0517). Alleshouse also testified that Yeh "had come up with a series of pictures" to demonstrate his idea. (TT265:14–266:21, Appx0413-0414; TT369:8–372:6, Appx0517-0520; Appx1758-1764). According to Alleshouse, it was Yeh's "much stronger skateboarding background", that allowed him to come up with this core inventive concept. (TT265:14–266:21, Appx0413-0414). Yeh testifies as to his extensive discussion with Alleshouse regarding the skatepark concept and noting his skateboarding background. (TT368:17–372:6, Appx0516-0520; TT377:5–378:4, Appx0525-0526). There is nothing in the record to contradict Alleshouse's and Yeh's testimony regarding this core inventive contribution by Yeh.

By coming up with the original core concept of making sheet-wave rides that could direct water up the walls to make rideable features like those found in skateboarding parks, Yeh's initial contribution alone should be sufficient to make him a co-inventor of PSD's Patents. *Accord*, *Leo Pharm. Prods., Ltd. v. Rea*, 726 F.3d 1346 (Fed.Cir.2013) ("[A]n invention can often be the recognition of a problem itself.") But as explained in detail *supra*, Yeh went on to contribute not just the original idea, but also many aspects that are recited in the claims, including several ideas that ended-up being the keys to patentability of PSD's Patents.

In discounting Yeh's contributions without considering the claims as a whole, the District Court cited *Garrett Corp. v. United States*, 422 F.2d 874, 881 (Ct.Cl.1970) for the proposition that "[o]ne who merely suggests an idea of a result to be accomplished, rather than means of accomplishing it, is not a joint inventor." (Appx0036). But *Garrett* is plainly distinguishable on its facts. In *Garrett*, the non-joined putative inventor testified that he could not remember contributing to the invention, and the only evidence of his contribution was a contemporaneous memo from the named inventor crediting him with suggesting a feature of the invention that the court found obvious in view of the prior art. Importantly for purposes of this case, the *Garrett* court found that the named inventor "apparently was solely responsible for construction details which made the device complete and operable." *Id.* That is the very opposite of what the evidence in this case shows, because it was Yeh's work with Alleshouse on construction of the models that led to the conception of key features of the patented rides and nozzles that made the idea actually work and are recited in the claims. (TT363:19–367:17, Appx0511-0515; Appx1751-1754). And instructively, the *Garrett* court ultimately concluded that the evidence was insufficient to carry the "heavy" burden of showing misjoinder. *Garrett Corp*., 422 F.2d at 880.

The District Court's finding that Alleshouse had finished conceiving of the claimed inventions before Yeh made his contributions is the foundation of its ruling

that Yeh was not an inventor. But that finding is incorrect and contradicted by all the evidence, including Yeh's and Alleshouse's testimony and Alleshouse's notebook, which does not show Yeh's contributions even though they were critical to allowance of the claims. Since the foundation of the District Court's ruling that Yeh was not an inventor was unsupported and contradicted by all the evidence, Plaintiff necessarily failed to meet its onerous burden of proof on its correction of inventorship claims, and the judgment for the Fifth, Sixth and Seventh Causes of Action (correction of inventorship) should be reversed.

iii. The District Court incorrectly required that claim elements contributed by the co-inventor must each be considered separately and found absolutely novel on their own, disembodied from the claimed invention as a whole.

Carrying-forward its fundamental legal error of failing to consider the claims as a whole, the District Court analyzed each of Yeh's distinct contributions separately and in isolation, and repeatedly ruled that he was not entitled to inventor status if those contributions could be found anywhere in the prior art, disembodied from each other and from the claimed invention as a whole. (*See e.g*. Appx0035-0037; Appx0004-0006). The District Court cited *Eli Lilly and Co. v. Aradigm Corp*., 376 F.3d 1352, 1359 (Fed.Cir.2004) in support of its application of an absolute novelty standard to each element in isolation. (Appx0036, "[c]ontributions to realizing an invention may not amount to a contribution to conception if they merely explain what was 'then state of the art.'").

However, just because an element can be found in some other context in the prior art, disembodied from the claimed invention as a whole, does not render the inventor's contribution merely an explanation of the state of the art. In fact, "[t]his court has long established that '[c]ombination claims can consist of new combinations of old elements ... for it may be that the combination of the old elements is novel and patentable.'" *Acromed*, 253 F.3d at 1381 (burden of producing clear and convincing evidence to change inventorship not met, where patentability arose from the claimed combination of elements).

The fact that a co-inventor's contribution to a claimed invention could be found in the prior art, disembodied from the claimed invention, cannot and does not, by itself, strip the co-inventor of his or her inventor status. *Pannu v. Iolab Corp.*, 155 F.3d 1344, 1351 (Fed.Cir.1998). To the contrary, if a co-inventor's contribution was part of a "collaborative enterprise" with the other inventor to the "total inventive concept" recited in the claim—as was the case with Yeh and Alleshouse—then the co-inventor is a proper inventor under the law, even if the idea he or she contributed had already been disclosed in the prior art. *Id*. This makes sense in view of the black-letter patent law that a combination of known elements can constitute a patentable invention, where, for example, the elements "perform an[] additional or different function in the combination than they perform out of it." *Great Atl. & Pac. Tea Co.*

v. Supermarket Equip. Corp., 340 U.S. 147, 152, 71 S. Ct. 127, 130, 95 L. Ed. 162 (1950).

If inventorship status could be stripped-away simply by showing that each element contributed by the inventor could be found individually in other contexts in the prior art, then all patent claims that combine known elements could be subject to being invalidated as lacking inventorship under pre-AIA 35 U.S.C. §102(f). Specifically, patent challengers could do an end-run around the law of anticipation and obviousness (each of which requires consideration of the claimed inventions as a whole), by parsing the claims into isolated elements found separately in the prior art, and then showing that no one is an inventor because all they contributed were already-known elements. Fortunately, this Court's holding in *Pannu* foreclosed the possibility of using inventorship challenges to improperly parse claims into disembodied elements without considering the claimed invention as a whole. *See Pannu*, 155 F.3d at 1351. *Accord*, *NetMoneyIN, Inc. v. Versign*, 545 F.3d 1359, 1370 (Fed.Cir.2008) (noting that even under §102 it is not proper to treat patent claims "as mere catalogs of separate parts in disregard of the part-to-part relationships set forth in the claims and that give the claims their meaning"), *quoting Lindemann Maschinenfabrick GMBH v. American Hoist and Derrick Co*., 730 F.2d 1452, 1459 (Fed.Cir.1984); *see also*, 35 U.S.C. 103 (requiring evaluation of differences between the prior art and "the claimed invention **as a whole** ….") (emphasized).

Unfortunately, the District Court did here exactly what *Pannu* prohibits, by improperly parsing claim elements in isolation without considering their contribution to the claimed invention as a whole. For example, the District Court erred as a matter of law each time it relied on Plaintiff's uncorroborated and self-serving testimony to determine that one of Yeh's individual contributions did not qualify him for inventorship because it allegedly "was already present in Wave Loch's existing nozzles" or "reflected existing technology from prior art rides" without considering how Yeh's contribution impacted the patentability of the present claims as a whole. (Appx0005-0006). In contrast, the USPTO found that Yeh's contributions were the key to patentability of claims in each of PSD's Patents, because regardless of the novelty of those contributions in isolation in other contexts, the resulting combination of elements in the claims of PSD's Patents was new and non-obvious and thus allowable.

Since the District Court's ruling that Yeh was not an inventor was based on the District Court's failure to consider Yeh's contributions to the claimed inventions as a whole in violation of *Pannu*, the judgment for the Fifth, Sixth and Seventh Causes of Action (correction of inventorship) should be reversed.

iv. Plaintiff's uncorroborated self-serving testimony cannot overcome the "heavy" legal presumption that Yeh was properly listed as an inventor.

An issued patent carries a presumption of validity under 35 U.S.C. §282, including a "presumption that its named inventors are the true and only inventors." *Acromed*, 253 F.3d at 1379 (Fed.Cir.2001). Consequently, "the burden of showing misjoinder or nonjoinder of inventors is a heavy one and must be proved by clear and convincing evidence." *Hess*, 106 F.3d at 979-80.

The law on joint inventorship "sets no explicit lower limit on the quantum or quality of inventive contribution required for a person to qualify as a joint inventor. Rather, a joint invention is simply the product of a collaboration between two or more persons working together to solve the problem addressed." *Fina Oil & Chem. Co. v. Ewen*, 123 F.3d 1466, 1473 (Fed.Cir.1997). "People may be joint inventors even though they do not physically work on the invention together or at the same time, and even though each does not make the same type or amount of contribution." *Burroughs Wellcome*, 40 F.3d 1227. Importantly, a co-inventor's "contribution to one claim is enough" for that individual to be named as a co-inventor for the entire patent. *Ethicon*, 135 F.3d at 1460. To determine whether an inventor contributed to the conception of an invention, one must look to the actual work they did. *See Sewall v. Walters*, 21 F.3d 411, 414 (Fed.Cir.1994) (discussing development of invention).

35 U.S.C. §282 provides a "heavy" presumption that Yeh is properly listed as an inventor in each of PSD's Patents. *See Acromed*, 252 F.3d at 1379; *Hess*, 106 F.3d at 979-80. Notably, Plaintiff never contended that one of its other employees should have been named as an inventor in Yeh's place. Instead, Plaintiff simply argued that Alleshouse completed conception of all the claimed inventions before Yeh became involved, and as described previously, the District Court improperly accepted and adopted this unsupported argument.

Plaintiff's technical expert, Dr. Stevick, offered no opinions on inventorship. (TT459:16-460:15, Appx0607-0608). Dr. Stevick admitted he was never asked to consider any evidence of Yeh's work, nor any documents about how the inventions were conceived. (TT453:11–454:10, Appx0601-0602). Instead, the qualifications he opined on were for a hypothetical "person of ordinary skill in the art," which is irrelevant to inventorship. (TT459:16-460:15, Appx0607-0608).

The only testimony against Yeh's inventorship was that of the self-interested witness most-biased against Defendants, Alleshouse's former employer, Lochtefeld, and his testimony was not only biased and self-serving but wholly uncorroborated. (TT528:24-537:6, Appx0676-0685). Lochtefeld testified that his company Wave Loch essentially invented the nozzle invention claimed in the '433 Patent before Alleshouse and Yeh. Lochtefeld just drew a nozzle in open court and walked through its elements. There were no underlying documents nor any corroboration whatsoever

for his testimony that they had previously come up with that nozzle prior to PSD's Patents. The Defendants challenged Lochtefeld, who claimed that his company had engineering drawing that should show "all of the parts" of the nozzle, and that 15 to 20 nozzle were installed annually and that installation would have "a separate package of engineering drawings" showing the nozzle. (TT535:5-18, Appx0683; TT538:9-539:7, Appx0686-0687). When Lochtefeld's company Flowrider Surf LTD was amalgamated into the Plaintiff, the Plaintiff had access to all of the engineering drawings for each of the installations. (TT539:8-540:18, Appx0687-0688). Yet Plaintiff presented no such engineering drawings nor documents to support Lochtefeld's in-court creation.

Where one contends they are the prior inventor of an invention claimed in an issued patent, it is black letter patent law that the contention must be corroborated. Lochtefeld's testimony relied on by the District Court is strikingly similar to evidence this Court found utterly lacking in *Trovan. Trovan*, 299 F.3d at 1307–8 (finding that trial witness oral testimony regarding a drawing by a third party at a meeting that pre-dated filing of the patent application was not "any corroboration" of the third party's inventorship because "[t]hat drawing … no longer exists and is not part of the record" and the witness testimony "was not contemporaneous with [the third party's] alleged conception"). Plaintiff here presented no documentary evidence of what features had actually been incorporated in the Wave Loch ride

nozzles, and Lochtefeld's self-serving trial testimony was likewise no corroboration at all, as in *Trovan*. Plaintiff's uncorroborated self-serving testimony cannot constitute the clear and convincing evidence required to strip Yeh of his inventorship.

Plaintiff failed to overcome its heavy burden of proof, because the evidence does not clearly and convincingly show that Yeh contributed nothing to the conception of any of the claimed inventions. *Accord, Burroughs Wellcome*, 40 F.3d at 1227-28; *Sewall*, 21 F.3d at 415; *Knorr v. Pearson*, 671 F.2d 1368, 1373 (C.C.P.A. 1982) ("Knorr has adduced no contrary evidence, but instead relies on arguments of counsel. However, arguments of counsel cannot take the place of evidence lacking in the record."). Accordingly, the judgment for the Fifth, Sixth and Seventh Causes of Action (correction of inventorship) should be reversed.

VII. CONCLUSION AND RELIEF SOUGHT

PSD respectfully requests that this Court reverse the District Court's Judgment on the First Cause of Action (breach of contract) because as a matter of law the EAP is null, void, and unenforceable under well-establish California law. Without an enforceable contract requiring assignment, the Judgment lacks any basis to support the Fourth Cause of Action (declaratory relief), nor the Fifth, Sixth and Seventh Causes of Action (correction of inventorship). Consequently, those causes of action should also be reversed without remand. The Fifth, Sixth and Seventh

Causes of Action should also be reversed without remand because Mr. Yeh contributed as a co-inventor on the PSD Patents.

December 27, 2019

By: /s/ Manuel de la Cerra____
Manuel de la Cerra
John Roberts
Jeff Rambin
Attorneys for Defendants-Appellants

ADDENDUM

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UNITED STATES DISTRICT COURT

SOUTHERN DISTRICT OF CALIFORNIA

WHITEWATER WEST INDUSTRIES, LTD., a Canadian corporation

Plaintiff,

vs.

RICHARD ALLESHOUSE, an individual, YONG YEH, an individual, and PACIFIC SURF DESIGNS, INC., a Delaware corporation,

Defendants.

Case No. 17-cv-501 DMS (NLS)

ORDER:

(1) GRANTING IN PART AND DENYING IN PART DEFENDANTS' REQUEST TO AMEND FINDINGS

(2) DENYING DEFENDANTS' REQUEST TO AMEND JUDGMENT

(3) DENYING DEFENDANTS' REQUEST TO STAY

After a bench trial, this Court issued Findings of Fact and Conclusions of Law and entered Judgment accordingly. Presently before the Court is Defendants' motion to: (1) amend Findings of Fact and Conclusions of Law under Rule 52(b) of the Federal Rules of Civil Procedure, (2) amend the Judgment under Rules 52(b) and 59(e), and (3) stay the Judgment under Rule 62.

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I.

LEGAL STANDARD

Rule 52(b) permits a trial court, on motion made by a party no later than 28 days after entry of judgment, to "amend its findings–or make additional findings" and to "amend the judgment accordingly." Fed. R. Civ. P. 52(b). "On motions to amend, however, the findings of fact made by the trial court are entitled to presumptive validity, and will be set aside only if they are clearly erroneous." *United States v. Schiffer*, 836 F. Supp. 1164, 1177 (E.D. Pa. 1993) (citing Fed. R. Civ. P. 52(a)). "Like a Motion for New Trial, the purpose of a motion to amend judgment is to correct manifest errors of law or fact or to present newly discovered evidence." *Id.* (citing *Harsco Corp. v. Zlotnick*, 779 F.2d 906, 909 (3d Cir. 1985)). A motion to amend a court's factual and legal findings is properly denied where the proposed additional facts would not affect the outcome of the case or are immaterial to the court's conclusions. *Weyerhaeuser Co. v. Atropos Island*, 777 F.2d 1344, 1352 (9th Cir. 1985). Furthermore, the motion may not be used to raise new legal theories that could have been raised earlier in the litigation. *See Fontenot v. Mesa Petroleum Co*., 791 F.2d 1207, 1220 (5th Cir. 1986) ("Blessed with the acuity of hindsight, [a party] may now realize that it did not make its initial case as compellingly as it might have, but it cannot charge the District Court with responsibility for that failure through [a] Rule 52(b) motion."); *accord Antoninetti v. Chipotle Mexican Grill, Inc*., No. 05–1660, 2008 WL 1805828, at *2 (S.D. Cal. Apr. 21, 2008) ("A party may not use a Rule 52(b) motion to introduce any new facts or legal theories that were available to them at trial, much less re-litigate facts and legal theories that have previously been rejected by the court."). "Rulings on motions to amend findings are committed to the sound discretion of the district court and will not be disturbed absent an abuse of discretion." 9C Charles Alan Wright & Arthur Miller, Fed. Practice & Procedure § 2582 (3d ed. 2008).

Similar to Rule 52(b), a motion to amend a judgment under Rule 59(e) is

appropriate if (1) the motion is necessary to correct manifest errors of law or fact upon which the judgment is based; (2) the moving party presents newly discovered or previously unavailable evidence; (3) the motion is necessary to prevent manifest injustice; or (4) there is an intervening change in controlling law." *Turner v. Burlington Northern Santa Fe R. Co.*, 338 F.3d 1058, 1063 (9th Cir. 2003) (punctuation modified).

Here, Defendants move to amend Findings of Fact and Conclusions of Law ("Findings) and the Judgment on the ground that the Court committed manifest error in finding that Mr. Yeh was not a joint inventor and that Mr. Alleshouse breached the Agreement.

II.

DISCUSSION

A. Mr. Yeh's Misjoinder

Defendants contend the Court clearly erred in finding that Mr. Yeh was improperly named as an inventor on the three patents at issue. Specifically, they argue the Court erred by failing to engage in claim construction of the patents. But Defendants stipulated that all claim terms would be construed according to their plain and ordinary meaning. (*See* ECF No. 126 at 2:11–14 ("The parties agree that neither party will offer testimony or other evidence suggesting that any term used in any claim of Defendant Pacific Surf Designs' three patents at issue should be assigned anything other than its plain and ordinary meaning.").) Thus, the Court did not need to engage in further claim construction. *See, e.g., Eli Lilly and Co. v. Aradigm Corp.*, 376 F.3d 1352, 1360 (Fed. Cir. 2004) (rejecting defendant's argument that "the district court erred by not construing [a claim]" because it "never requested that the district court construe any terms in [the claim] and never offered a construction of [the claim]"); *United States Surgical Corp. v. Ethicon, Inc.*, 103 F.3d 1554, 1568 (Fed. Cir. 1997) (holding that claim construction is required only "when the meaning or scope of technical terms and words of art is unclear and in

dispute and requires resolution to determine" the issue before the court).

Defendants also assert that the Court erred by failing to undergo a limitation-by-limitation analysis of each patent claim in determining that Mr. Yeh was not a joint inventor. During trial, Plaintiff addressed each of Mr. Yeh's alleged patentable contributions and presented evidence that those features were "either rejected by the patent office or mirrored pre-existing technology by Wave Loch." (*See* Findings at 22.) Defendants stipulated to the entry of the file histories, and Dr. Stevich, based on his review of the patents and file histories, explained what happened during the prosecution.[1] An amendment of the Findings would not change the outcome of the case. *See Weyerhaeuser*, 777 F.2d at 1352. Nevertheless, upon Defendants' request for clarification, the Court amends the Findings to include the following:

Mr. Yeh alleges he contributed to Claims 1, 2, 18, and 19 of the '685 Patent. (Ex. 75 at 5–6.) Specifically, he purports to have contributed to Claim 1 ("a middle section adjacent to at least one safety chute section," "the plurality of sidewalls [] adjacent to the middle section and to [] at least one safety chute section," and "the water delivery section [that] creates a flowing body of water over the middle section towards [] at least one safety chute section"), Claim 2 ("the plurality of opposing nonparallel sidewalls adjacent to the middle section [] any shape chosen from a group consisting of one or more of: concave, planar, substantially planar, convex, ellipse, and complex curve shapes"), Claim 18 ("water recovery area adjacent to either the plurality of middle or sidewall areas" and "water recovery area [] coupled to the plurality of sidewall areas"), and Claim 19 ("water recovery area [] coupled to the plurality of sidewall areas"). (*Id.*; Ex. 11.)[2] However, the file history for the

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[1] Defendants had an opportunity to cross-examine Dr. Stevich regarding his review of the patents and their file histories, as well as offer testimony from their own expert to dispute Dr. Stevich's observations—but they did not do so.

[2] Upon review, the Court recognizes that it inadvertently imported language from the file history to state that Mr. Yeh's alleged contributions to Claims 18 and 19 include a "plurality of elevated water recovery sections." (*See* Findings at 22.) The

'685 Patent demonstrates the Patent Examiner found these purported contributions to be unpatentable in light of Mr. Lochtefeld's earlier patent. (Ex. 132 at 50; Dr. Stevich Testimony at 412, 414–15.)

As to the '189 Patent, Mr. Yeh claims he contributed to Claims 3, 14, and 15. (Ex. 75 at 7.) Specifically, he purports to have contributed to Claim 3 ("plurality of opposing nonparallel sidewalls adjacent to the middle section [] any shape chosen from a group consisting of one or more of: concave, planar, substantially planar, convex, ellipse, and complex curve shapes"). (*Id.*; Ex. 13.) However, the file history for the '189 Patent establishes that the Patent Examiner found this feature to be unpatentable in light of Mr. Lochtefeld's prior patent. (Ex. 133 at 31; Dr. Stevich Testimony at 417–18.) Mr. Yeh also alleges to have contributed to Claim 14 ("a safety chute section and a safety chute sidewall positioned between the activity section and the first water recovery section") and Claim 15 ("the safety chute sidewall [] oriented at a non-parallel angle relative to the first rideable sidewall"). (*Id.*) However, these features reflected existing technology from prior art rides. (Ex. DD3; Lochtefeld Testimony at 525–26, 592–94.)

As to the '433 Patent, Mr. Yeh alleges he contributed to Claims 1, 7, 10, and 11. (Ex. 75 at 8.) Specifically, he purports to have contributed to Claim 1 ("the orifice [that] is non-planar in a Z-Y plane creating a varying thickness of the orifice in the Z-Y plane" and "the thickness of the orifice in the Z-Y plane [that] is adjustable to different thicknesses along a length of the orifice in the Z-Y plane"). (Ex. 75 at 8; Ex. 14.) However, the file history for the '433 Patent establishes that the Patent Examiner found varying thickness to be unpatentable in light of Mr. Lochtefeld's prior patent. (Ex. 134 at 86; Dr. Stevich Testimony at 421–22.) And adjustable thickness was a feature already present in Wave Loch's nozzles at the

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Court amends the quoted portion to be replaced with "water recovery sections," which is what Mr. Yeh purports to have contributed.

time. (Lochtefeld Testimony at 529–32; Yeh Testimony at 693–94.) Additionally, Mr. Yeh alleges to have contributed to Claim 7 ("the flowing body of water emanates from the orifice at flow angles that vary along a length of the orifice formed by the plurality of orifice walls") and Claim 10 ("a plurality of outer walls outside of the plurality of orifice walls, wherein the plurality of outer walls is at a different angle than the plurality of orifice walls"). (Ex. 75 at 8; Ex. 14.) However, the file history for the '433 Patent demonstrates that the Patent Examiner found these features to be unpatentable. (Ex. 134 at 83; Dr. Stevich Testimony at 422.) Lastly, Mr. Yeh alleges to have contributed to Claim 11 ("a plurality of internal walls coupled to sides of the plurality of orifice walls, wherein the plurality of internal walls forms a side angle from a rear plane of the nozzle to the sides of the plurality of orifice walls of the orifice"). (Ex. 75 at 8.) However, this feature was already present in Wave Loch's existing nozzles. (Lochtefeld Testimony at 533–34.)

After carefully reviewing all of the evidence presented at trial, the Court found based on clear and convincing evidence that Mr. Yeh was not a joint inventor. That evidence includes the patents, file histories, testimony of witnesses, emails between Messrs. Alleshouse and Yeh, videos of Messrs. Alleshouse and Yeh, and the diagrams in Mr. Alleshouse's notebook. Indeed, within two weeks of leaving Wave Loch, Mr. Alleshouse had sketched a half-pipe ride divisible into quarter-pipe rides, with a series of nozzles pointing at different angles that vary the direction and thickness of the water flow. (*See* Exs. 21, 22, 36.)[3] Even if, as Defendants argue, the sketches in the notebook did not specify every single element of the patents at

[3] Defendants contend the Court failed to properly account for Mr. Alleshouse's testimony, including that the August 14 diagram showing varying flow direction and thickness to "optimize surfing experience on the waves and [maximize] economics of the attraction" was neither related to sheet waves nor to the August 16 diagram of the half-pipe ride. However, the Court carefully considered Mr. Alleshouse's testimony in light of all the evidence presented at trial. (*See* Findings at 7–8, 17–18, 21–22.)

issue, it was the totality of the evidence that led the Court to conclude that Mr. Alleshouse alone conceived of the inventions and that Mr. Yeh did not make any patentable contributions.

Moreover, Defendants contend the Court clearly erred by failing to make a finding that Mr. Yeh came up with the idea of incorporating skate park features into sheet wave rides. The Court did not explicitly include this in the Findings because Mr. Yeh's suggestion "was really [] throwing stuff at the wall." (Alleshouse Testimony at 267; Yeh testimony at 370 ("They were just us throwing stuff at the wall because we're going through the ideation process, and we kind of picked out—and I have a skateboard, snowboard background, and these are things I kind of enjoyed going to, so we just kind of looked and saw what we could do."). As indicated in the Findings, Mr. Yeh "helped identify practical issues with the models based on his experiences in surfing and skateboarding." (Findings at 22.) But "one who merely suggests an idea of a result to be accomplished, rather than means of accomplishing it, is not a joint inventor." *See, e.g.*, *Garrett Corp. v. U.S.*, 422 F.2d 874, 881 (Ct. Cl. 1970); *Nartron Corp. v. Schukra U.S.A. Inc*., 558 F.3d 1352, 1353, 1359 (Fed. Cir. 2009) ("[T]he alleged co-inventor provided only an insignificant contribution" and "is not entitled to co-inventorship by simply posting the result to [the inventor] and leaving it to [the inventor] to figure out how to accomplish it."); *Eli Lilly & Co.*, 376 F.3d at 1359 ("Contributions to realizing an invention may not amount to a contribution to conception … if they are too far removed from the real-world realization of an invention.") (citing *Garrett Corp*, 422 F.2d at 881). Although Defendants disagree with the Court's holding, they have not demonstrated that the Court committed clear error in finding that Mr. Yeh is not a joint inventor.[4]

[4] Defendants also argue for the first time that Mr. Yeh made a patentable contribution to the '433 Patent by combining older elements of "a nonplanar orifice with varying thickness and variable flow angles" and "water flow adjustment in the Z-Y plane." (Defs.' Mot. at 14–15.) Not only is this inconsistent with Mr. Yeh's

B. Mr. Alleshouse's Breach of the Agreement

Next, Defendants argue that the Court manifestly erred in its legal application of California Labor Code section 2872. In doing so, they reiterate their argument that Wave Loch's failure to provide Mr. Alleshouse with notice under Section 2872 invalidates the Agreement. (*See* Defs.' Trial Brief at 15–16; Mot. for Summ. J. at 12–13.) As previously explained, though Wave Loch did not provide the required notice, the Court finds no legal basis to invalidate the Agreement under California law generally or Section 2872 specifically. (*See* Findings at 13; Order Denying Mot. Summ. J. at 9.)

Defendants correctly point out that Section 2872 requires an employer to provide notice, regardless of whether the subject matter of the patents is integral to an employee's work. As stated in the Findings, "It is undisputed Wave Loch did not provide the required notice to Mr. Alleshouse. California law, however, is silent on the consequences of an employer's failure to provide such notice." (Findings at 13: 2–4.) The Court amends the next sentence in the Findings to be replaced with, "Certainly, that failure should be considered in analyzing procedural unconscionability, but it does not rise to the level of oppression or surprise required to invalidate the Agreement, particularly when considering the lack of substantive unconscionability." (*See* Findings at 13: 4–8.)

Defendants also argue the Court clearly erred by shifting the burden of proof onto Mr. Alleshouse to show that his inventions fall within Labor Code section 2870. But "[t]he employee bears the burden to show that his invention comes within Labor Code section 2870." *See, e.g.*, *Cadence Design Systems, Inc. v. Bhandari*, No. 07-823, 2007 WL 3343085, at *5 (N.D. Cal. Nov. 8, 2007); *Venture Corporation v.*

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testimony, (*see* Yeh Testimony at 693–95), but also Defendants may not, at this stage of the proceedings, introduce a new legal theory that was available to them at trial. *See Fontenot*, 791 F.2d at 1220; *Antoninetti v. Chipotle Mexican Grill, Inc.*, 2008 WL 1805828, at *2.

Barrett, No. 13-3384, 2015 WL 8479475, at *3 (N.D. Cal. Dec. 9, 2015) ("To prove that the three inventions are exempted from assignment under Labor Code § 2870, [the employee] has the burden of [proof] …. "). Even if the burden was on Plaintiff—as Defendants claim without authority, the Court's analysis would remain the same. (*See* Findings at 17–18.) Again, though Defendants disagree with the Court's holding, they have not demonstrated clear error.

C. Defendants' Request to Stay

Lastly, Defendants request that enforcement of the Judgment be stayed pending their appeal to the Federal Circuit. In deciding whether to grant a stay under Rule 62, courts consider four factors: "(1) whether the stay applicant has made a strong showing that he is likely to succeed on the merits; (2) whether the applicant will be irreparably injured absent a stay; (3) whether issuance of the stay will substantially injure the other parties interested in the proceeding; and (4) where the public interest lies." *Hilton v. Braunskill*, 481 U.S. 770, 776 (1987); *E.I. DuPont de Nemours & Co. v. Phillips Petroleum*, 835 F.2d 277, 278, 5 USPQ2d 1109, 1110 (Fed. Cir. 1987). "[T]he four factors can effectively merge" such that the court essentially "assesses movant's chances for success on appeal and weighs the equities as they affect the parties and the public." *Standard Havens Prod. Inc. v. Gencor Indus. Inc.*, 897 F.2d 511, 512 (Fed. Cir. 1990).

Each factor in the analysis need not be given equal weight. *Id*. For example, the Ninth Circuit applies the factors by allowing the party seeking the stay to show either (1) a strong likelihood of success on the merits and the possibility of irreparable harm, or (2) that serious legal questions are raised and that the balance of hardships tips sharply in its favor. *Golden Gate Rest. Ass'n v. City & County of San Francisco*, 512 F.3d 1112, 1115 (9th Cir. 2008). Defendants request a stay on the ground that they raise "serious legal questions." Plaintiff argues that Defendants may not rely on the Ninth Circuit's standard, since they are appealing to the Federal Circuit. The Court declines to resolve this question as Defendants have not made a

sufficient showing to warrant a stay under either standard.

i. Likelihood of Success on the Merits

Defendants must establish a strong likelihood of success on appeal, or failing that, demonstrate a substantial case on the merits provided the other factors militate in Defendants' favor. *Standard Havens Prod., Inc.*, 897 F.2d at 512–13 (citing *Hilton*, 481 U.S. at 778). For the reasons discussed, the Court does not find that Defendants have established a strong likelihood of success or a substantial case on the merits. The Court also declines to find that Defendants have raised serious legal questions. And even if they did, they have failed to show that the balance of hardships tips sharply in their favor. *See Golden Gate Rest. Ass'n*, 512 F.3d at 1115.

ii. Irreparable Injury

Defendants argue that they will be irreparably harmed if Plaintiff diminishes the value of the patents, such as by abandoning them. But "[s]peculative injury cannot be the basis for a finding of irreparable harm." *Goldie's Bookstore, Inc. v. Superior Court*, 739 F.2d 466, 472 (9th Cir. 1984) (citations omitted). Moreover, Defendants fail to provide any evidence to support their claim that Plaintiff is likely to diminish the value of the patents, particularly after Plaintiff spent two years in litigation to recover them. *Cf. Standard Havens Prods.*, 897 F.2d at 515 (finding that evidence of employee layoffs, immediate insolvency, and possible extinction of a company provide a basis of irreparable harm that militates in favor of granting a stay). Accordingly, Defendants fail to show they are likely to suffer irreparable injury absent a stay.

iii. Substantial Injury, Public Interest, Balance of the Equities

Plaintiff argues that allowing Defendants to continue to use and benefit from the patents that have been determined to belong to Plaintiff is inequitable. Plaintiff also points out that "[t]he public interest nearly always weighs in favor of protecting property rights in the absence of countervailing factors." *See Presidio Components, Inc. v. Am. Tech. Ceramics Corp.*, No. 14-02061, 2016 WL 7319538, at *5 (S.D.

Cal. Sept. 19, 2016) (citing *Apple Inc. v. Samsung Elecs. Co.*, 809 F.3d 633, 647 (Fed. Cir. 2015)).

After assessing Defendants' chance for success on appeal and weighing the equities concerning the parties and the public, the Court declines to stay the Judgment. *See Standard Havens*, 897 F.2d at 513. Defendants have failed to show a likelihood of success on the merits or that that the balance of hardships tips sharply in their favor. *See Golden Gate Rest. Ass'n*, 512 F.3d at 1115.

III.

CONCLUSION

For the foregoing reasons, the Court (1) GRANTS in part and DENIES in part Defendants' request to amend Findings of Fact and Conclusions of Law, as reflected; (2) DENIES Defendants' request to amend the Judgment; and (3) DENIES Defendants' request to stay the Judgment.

IT IS SO ORDERED.

Dated: August 1, 2019

Hon. Dana M. Sabraw
United States District Judge

UNITED STATES DISTRICT COURT

SOUTHERN DISTRICT OF CALIFORNIA

WHITEWATER WEST INDUSTRIES, LTD., a Canadian corporation, Plaintiff, vs. RICHARD ALLESHOUSE, an individual, YONG YEH, an individual, and PACIFIC SURF DESIGNS, INC., a Delaware corporation, Defendants.	Case No. 3:17-CV-00501-DMS-NLS **JUDGMENT**

From February 4, 2019 through February 7, 2019, this matter was tried by the Court without a jury. On March 26, 2019, the Court entered its Finding of Fact and Conclusions of Law. (ECF No. 166.) Pursuant to the Court's findings and conclusions, the Court enters **JUDGMENT** as follows:

1. On Plaintiff's First Cause of Action for Breach of Contract, in favor of Plaintiff and against Defendant Richard Alleshouse;
2. On Plaintiff's Second Cause of Action for Intentional Interference with Contract, in favor of Defendants Yong Yeh and Pacific Surf Designs, Inc.;

3. On Plaintiff's Third Cause of Action for Breach of California's Unfair Competition Law, Business and Professions Code section 17200, *et seq*, in favor of Defendant Pacific Surf Designs, Inc.;

4. On Plaintiff's Fourth Cause of Action for Declaratory Relief, in favor of Plaintiff and against Defendants Richard Alleshouse, Yong Yeh, and Pacific Surf Designs, Inc.;

5. On Plaintiff's Fifth Cause of Action for Correction of Inventorship under 35 U.S.C. § 256 of United States Patent Number 9,044,685 entitled, "Water Attractions Involving A Flowing Body of Water" (the " '685 Patent") in favor of Plaintiff and against Defendants Richard Alleshouse, Yong Yeh, and Pacific Surf Designs, Inc.;

6. On Plaintiff's Sixth Cause of Action for Correction of Inventorship under 35 U.S.C. § 256 of United States Patent Number 9,302,189 entitled, "Water Attractions Involving A Flowing Body of Water" (the '189 Patent") in favor of Plaintiff and against Defendants Richard Alleshouse, Yong Yeh, and Pacific Surf Designs, Inc.; and

7. On Plaintiff's Seventh Cause of Action for Correction of Inventorship under 35 U.S.C. § 256 of United States Patent Number 9,592,433 entitled, "Nozzle Shapes and Configurations For Water Attractions Involving A Flowing Body of Water" (the " '433 Patent") in favor of Plaintiff and against Defendants Richard Alleshouse, Yong Yeh, and Pacific Surf Designs, Inc.

The Court further **ORDERS, ADJUDGES, and DECREES** as follows:

1. The records of the United States Patent and Trademark Office be corrected to remove Defendant Yong Yeh as an inventor for the '685, '189, and '433 Patents;

2. The '685, '189, and '433 Patents are to be reassigned from Defendant Pacific Surf Designs, Inc. to Plaintiff;

3. Plaintiff's request for monetary damages is denied; and

4. Plaintiff may file a separate motion for attorney's fees and costs pursuant to Federal Rule of Civil Procedure 54(d).

Dated: April 4, 2019

Hon. Dana M. Sabraw
United States District Judge

UNITED STATES DISTRICT COURT

SOUTHERN DISTRICT OF CALIFORNIA

WHITEWATER WEST INDUSTRIES, LTD., a Canadian corporation,

Plaintiff,

v.

RICHARD ALLESHOUSE, an individual, YONG YEH, an individual, and PACIFIC SURF DESIGNS, INC., a Delaware corporation,

Defendants.

Case No. 17-cv-00501 DMS (NLS)

FINDINGS OF FACT AND CONCLUSIONS OF LAW

Defendant Richard Alleshouse was previously employed by Wave Loch, Inc., where he and his company designed, built and sold large, sophisticated water rides known as sheet wave rides which were commonly used in amusement parks by surfers and other wave riding enthusiasts. Mr. Alleshouse learned the art of making these rides while employed at Wave Loch. After nearly five years of employment, Mr. Alleshouse separated from Wave Loch. Soon thereafter, he and his business partner Defendant Yong Yeh filed three patents for sheet wave rides and a water nozzle aperture that produced rideable waves for the rides. Plaintiff Whitewater West Industries, LTD ("Whitewater"), a successor in interest to Wave Loch, Inc.,

claims that the inventive ideas behind these patents originated from Mr. Alleshouse's work at Wave Loch, and that Mr. Alleshouse has violated his contractual obligations to assign such inventions to Wave Loch and its successor in interest Whitewater. Plaintiff Whitewater now brings suit against Messrs. Alleshouse and Yeh, and their company, Pacific Surf Designs, Inc. ("PSD"), for breach of contract and related claims.

The matter was tried to the Court on February 4, 2019. Roger Scott, Joseph Tache, Gary Wolensky, and Deborah Mallgrave appeared on behalf of Plaintiff. Charanjit Brahma, Mark Mao, and Stacy Hovan appeared on behalf of Defendants. For the reasons set forth below, the Court finds in favor of Plaintiff on its claims for breach of contract, correction of inventorship and declaratory relief and finds in favor of Defendants on the balance of the claims.

I.

FINDINGS OF FACT

A. Agreement Between Wave Loch, Inc. and Richard Alleshouse

Wave Loch, Inc. was a company that developed, manufactured, and sold sheet wave attractions. (Testimony of Marshall Myrman ("Myrman Testimony") at 90–91.) It now operates as a holding company for Wave House Holdings, LLC—which is a holding company for Wave Loch LLC and Wave House International. (Testimony of Thomas Lochtefeld ("Lochtefeld Testimony") at 513–14.) These related Wave Loch entities are owned by Thomas Lochtefeld, the inventor of sheet wave attractions. (Testimony of Geoff Chutter ("Chutter Testimony") at 46; Myrman Testimony at 90.) Sheet wave rides allow participants to perform surfing-like maneuvers over a stationary surface. The nozzles of the rides create the sheet-like flow of water that mimics waves or water flow commonly experienced in the ocean. (Myrman Testimony at 102; Lochtefeld Testimony at 503, 519–29.)

In October 2007, Wave Loch, Inc. hired Mr. Alleshouse as an engineer. (Testimony of Richard Alleshouse ("Alleshouse Testimony") at 183–84.)

Approximately eleven months later, on September 8, 2008, Mr. Alleshouse entered into a Covenant against Disclosure and Covenant Not to Compete ("Agreement") with Wave Loch, Inc./Wave House Global Pte. Ltd. ("Company") and "successors thereof." (Pl.'s Ex. 6) The Agreement contained a number of provisions that addressed the confidential nature of Wave Loch's business and Mr. Alleshouse's obligations with respect to the proprietary information and ideas he was exposed to at work. The Agreement included a covenant against disclosure of confidential information, (*id.* ¶ 1.a.), a covenant not to use confidential information to "carry on" a competing business, (*id.* ¶ 3.), and an assignment provision providing that inventions, improvements and developments derived from employment belonged to Wave Loch, Inc. and had to be assigned by the employee to the company. (*Id.* ¶ 2.a.) Specifically, the assignment provision provides:

> In consideration of compensation paid by Company, Employee agrees that all right, title and interest in all inventions, improvements, developments, trade-secret, copyrightable or patentable material that Employee conceives or hereafter may make or conceive, whether solely or jointly with others:
>
> (a) with the use of Company's time, materials, or facilities; or
>
> (b) resulting from or suggested by Employee's work for Company; or
>
> (c) in any way connected to any subject matter within the existing or contemplated business of the Company
>
> shall automatically be deemed to become the property of Company as soon as made or conceived, and Employee agrees to assign to Company, its successors, assigns, or nominees, all of Employee's rights and interests in said inventions, improvements, and developments in all countries worldwide. Employee's obligation to assign the rights to such inventions shall survive the discontinuance or termination of this Agreement for any reason.

(*Id.*)

On January 1, 2009, Mr. Lochtefeld reorganized Wave Loch, Inc. to Wave Loch LLC after being advised that a limited liability company would be better for

"tax purposes, investment, and flexibility for the future." (Pl.'s Ex. 162; Lochtefeld Testimony at 514–17.) Pursuant to the organizational document, Wave Loch, Inc.'s assets were transferred to Wave Loch LLC. (Pl.'s Ex. 162 (providing for transfer of "enterprise value" of Wave Loch, Inc. to Wave Loch LLC).) The transfer of Wave Loch, Inc.'s "enterprise value" operated to transfer all of Wave Loch, Inc.'s assets, including its employment contracts. (Lochtefeld Testimony at 517 ("[I]n order for Wave Loch LLC to operate, it needed those contracts and agreements[,] so everything went over.")) Consistent with the transfer of all assets, Wave Loch, Inc.'s employees were informed of the reorganization. (Lochtefeld Testimony at 574.) The employees did not experience any noticeable changes during or after the reorganization. (Myrman Testimony at 91; Thatcher Testimony at 158; Alleshouse Testimony at 194.) They continued the same job, received the same pay, worked in the same location, worked with the same group, and reported to the same people. (Alleshouse Testimony at 194–95; Myrman Testimony at 91–92.) They were not required to sign new agreements with Wave Loch LLC. (Lochtefeld Testimony at 514.)

On January 31, 2014, Wave Loch LLC transferred all its rights and interests in the sheet wave business to Flowrider Surf Ltd. ("Flowrider"), a Canadian entity. (Pl.'s Ex. 70; Lochtefeld Testimony at 569.) The contribution agreement specifically included a transfer of "books, files, papers, agreements, correspondence, databases, information systems, programs, software, documents, records and documentation thereof related to any of the Contributed Assets or the Assumed Liabilities, or used in the conduct of the Business, on whatever medium[.]" (Pl.'s Ex. 70 at 2.) Mr. Lochtefeld executed the contribution agreement on behalf of Wave Loch LLC, and Geoff Chutter executed the agreement on behalf of Flowrider. (Pl.'s Ex. 70 at 16.) Mr. Chutter was the president and CEO of Flowrider, and is now the president and CEO of Whitewater. (Chutter Testimony at 42.)

In addition to the contribution agreement, on April 29, 2014, Flowrider and Wave Loch, Inc. entered into an agreement that specifically assigned Mr. Alleshouse's obligations under the Agreement to Flowrider. (Defs.' Ex. DR; Lochtefeld Testimony at 569–70.) On February 1, 2016, Flowrider amalgamated into Whitewater pursuant to Canadian law. (Pl.'s Ex. 146.)

B. Richard Alleshouse's Employment

Mr. Alleshouse's job description at Wave Loch included "extensive field work on [the] FlowRider and other WaveLoch attractions" as well as "research and design work improving existing rides and developing new rides[.]" (Pl.'s Ex. 2; Alleshouse Testimony at 184–86.) Marshall Myrman, then Chief Operating Officer of Wave Loch,[1] planned to make Mr. Alleshouse his successor. (Myrman Testimony at 88–94, 113–14.)

In addition to the responsibilities listed in his job description, Mr. Alleshouse was the product manager for the Flowrider—a sheet wave attraction that uses a rectangular flow nozzle. (Myrman Testimony at 94; Locthefeld Testimony at 429, 503; Testimony of Yong Yeh ("Yeh Testimony") at 705.) He was also responsible for documenting and finalizing the design drawings for the WaveOz, another sheet wave attraction. (Pl.'s Exs. 38, 40; Myrman Testimony at 102–08.) The WaveOz is shaped like a 180-degree punch bowl and uses a radial flow nozzle to direct water up the bowl. (Myrman Testimony at 103–08; Alleshouse Testimony at 320–21.) Oriol Vicente, an engineer at Wave Loch, was the product manager for the WaveOz. (Myrman Testimony at 95–100.) Mr. Alleshouse had access to Mr. Vicente's models and drawings of the WaveOz and its nozzle structure, which were stored in their shared office and company server. (Pl.'s Ex. 162; Thatcher Testimony at 163–66.) He also attended meetings involving the discussion of the WaveOz nozzle. (Pl.'s Ex. 37; Myrman Testimony at 104.) Wave Loch considered obtaining a patent

[1] Mr. Myrman is currently the president of Flowrider. (Myrman Testimony at 88–89.)

for the WaveOz radial flow nozzle, but ultimately did not do so. (Myrman Testimony at 107–08, 124.)

In 2010 or 2011, Wave Loch learned that a competitor, Murphy's Waves, had developed a half-pipe ride called the Stingray. (*Id.* at 108–12.) The Stingray had curved sidewalls and water flowing up an inclined surface. (*Id.*) However, the sidewalls were not effectively rideable. (*Id.*) Wave Loch had meetings to improve upon the design of the Stingray by making the sidewalls rideable. (*Id.* at 107–12, 124; Lochtefeld Testimony at 527–28; Thatcher Testimony at 169.) Mr. Alleshouse participated in these meetings, as attested to by three prior Wave Loch employees. (*Id.*) One of those employees, Andrew Thatcher,[2] recalls Mr. Alleshouse stating he could make a better half-pipe than Murphy's Stingray. (Thatcher Testimony at 170–71.) Wave Loch ultimately did not develop this ride because it could not find a buyer for the ride. (Lochtefeld Testimony at 528; Myrman Testimony at 110.) Wave Loch's business model was to find a buyer for its proposed ride before building the product. (Lochtefeld Testimony at 528; Myrman Testimony at 99.)

C. Richard Alleshouse and Yong Yeh Start a Business

While employed at Wave Loch, Mr. Alleshouse began corresponding with his college friend, Mr. Yeh, about forming their own business, now known as Pacific Surf Designs or PSD. (Alleshouse Testimony at 198–99; Yeh Testimony at 338.) Mr. Yeh[3] is currently the Chief Executive Officer of PSD, and Mr. Alleshouse is its Chief Operating Officer. (Yeh Testimony at 322–23.)

On July 9, 2012, while Mr. Alleshouse was still employed at Wave Loch, Mr. Alleshouse and Mr. Yeh exchanged emails about seeking legal advice regarding Mr. Alleshouse's Agreement with Wave Loch. (Pl.'s Ex. 30.) A few days later, the two exchanged correspondence about forming their own business. (Alleshouse

[2] Mr. Thatcher was a sales and marketing representative at Wave Loch during Mr. Alleshouse's employ. (Thatcher Testimony at 154–56.) He is currently the vice president of business development for Flowrider. (*Id.*)

[3] Mr. Yeh has been a licensed attorney for over ten years. (Yeh Testimony at 323.)

Testimony at 198–99; Yeh Testimony at 338.) About two weeks after, on July 27, 2012, Mr. Alleshouse submitted his letter of resignation to Wave Loch, to be effective on August 3, 2012. (Pl.'s Ex. 28; Alleshouse Testimony at 200.)

By the time Mr. Alleshouse resigned from Wave Loch, he "had a concept to form a company doing wave machines." (Alleshouse Testimony at 203.) On July 30, 2012, prior to his departure, Mr. Alleshouse exchanged emails with Mr. Yeh about ways to generate "pre-event buzz" for an upcoming event hosted by the International Association of Amusement Parks and Attractions ("IAAPA"). (*Id.*; Pl.'s Ex. 27.) The day after he left Wave Loch's employment, Mr. Alleshouse sent an e-mail to Mr. Yeh that he had "gained the ability to start a company on a niche market ;)." (Pl.'s Ex. 29.) On the same day, Mr. Alleshouse started documenting designs for wave rides in a notebook. (Pl.'s Ex. 21; Alleshouse Testimony at 220–22.) By August 8, 2012, Mr. Yeh had prepared the IAAPA booth registration forms and submitted incorporation documents for PSD. (Pl.'s Ex. 23; Alleshouse Testimony at 223–25; Yeh Testimony at 345–46.)

On August 14, 2012, Mr. Alleshouse diagrammed nozzle structures that would "vary flow direction and thickness to optimize surfing experience on the waves and mxmz economics of the attraction." (Pl.'s Ex. 36.) Two days later, Mr. Alleshouse diagramed a half-pipe ride with multiple angled nozzles to project water across the surface with the notations, "3 nozzles, all pointing slightly away from each other. Nozzle #2 can be shut off to run 2 separate rides." (Pl.'s Ex. 22; Alleshouse Testimony at 237–40.)

By August 20, 2012, Mr. Alleshouse and Mr. Yeh had a "general idea of the three product categories [they] were going to launch." (Alleshouse Testimony at 251.) On August 20, 2012, Mr. Alleshouse sent Mr. Yeh an email outlining their three product categories. (Pl.'s Ex 19; Alleshouse Testimony at 246–51.) "Group 1" was the "FlowRider knock offs" referred to as Waikiki and Makaha. (Pl.'s Ex 19.) "Group 2" was the "halfpipe type wave" that is "basically [M]urphy[']s wave

halfpipe but with water on the sides," and "would be protected by our patents." (*Id.*) Group 2 also included a ride "very similar to the WaveOz." (*Id.*) "Group 3" was the "[B]arreling wave, which W[ave] L[och] calls … F[low]B[arrel] 5 and F[low]B[arrel] 10." (*Id.*)

On September 5 and 6 of 2012, Mr. Yeh, residing in the Bay Area, visited Mr. Alleshouse in San Diego to help build these models for the IAAPA Conference. (Pl.'s Ex. 16; Alleshouse Testimony at 257–58, 312, 348; Yeh Testimony at 678.) The completed models focused on "Group 2" and were displayed at the IAAPA conference in November 2012, and eventually developed as attractions for sale by PSD. (Alleshouse Testimony at 256–61.)

In October 2012, Mr. Yeh, with the assistance of a patent agent, filed two provisional patent applications based on the inventions. (Pl.'s Ex. 16; Yeh Testimony at 323–24, 332.) These applications resulted in issuance of three patents by the United States Patent and Trademark Office ("PTO"): Patent Nos. 9,044,685 ("'685 Patent") and 9,302,189 ("'189 Patent"), referred to as the "Ride Patents"; and Patent No. 9,592,433 ("'433 Patent"), referred to as the "Nozzle Patent." (Pl.'s Exs. 11, 13, 14; Alleshouse Testimony at 241–43.) Mr. Alleshouse and Mr. Yeh are named inventors on all three patents, and they assigned the patents to PSD. (Pl.'s Exs. 11, 13, 14.)

II.

FINDINGS OF LAW

Plaintiff alleges the following claims: (1) breach of contract against Mr. Alleshouse, (2) intentional interference with contract against Mr. Yeh and PSD, (3) violation of California Business and Professions Code section 17200 against PSD, (4) correction of inventorship for the '685, '189, and '433 Patents, and (5) declaratory relief.

As a threshold matter, Defendants challenge Plaintiff's standing to assert all claims except for declaratory relief. They argue Mr. Alleshouse signed the

Agreement while employed by Wave Loch, Inc. and that the Agreement was never properly assigned to Plaintiff. Defendants' standing argument is addressed first, followed by a discussion of each of Plaintiff's claims for relief.

A. Standing

Whitewater has standing to enforce the Agreement and bring the other claims alleged in this action because it is a successor in interest to Wave Loch, Inc. and owns all of Wave Loch, Inc.'s sheet wave assets, including the subject employment contract. In short, Wave Loch, Inc. was reorganized into Wave Loch LLC, which later transferred its rights and interests in the sheet wave business to Flowrider, which then amalgamated into Whitewater.

Four months after Mr. Alleshouse entered into the Agreement with Wave Loch, Inc., Mr. Lochtefeld formed Wave Loch LLC for tax and related purposes. All of Wave Loch, Inc.'s assets, including its employment contracts, were transferred to Wave Loch LLC pursuant to the organizational document. That document provided for the transfer of the entire "enterprise value" of Wave Loch, Inc. to Wave Loch LLC. As Mr. Lochtefeld testified, Wave Loch LLC needed the employment contracts to operate, "so everything went over." (Lochtefeld Testimony at 517.) The Court agrees.

Thereafter, Mr. Alleshouse's Agreement was transferred to Flowrider when Wave Loch LLC transferred all its rights and interests in the sheet wave business to Flowrider pursuant to the contribution agreement. The contribution agreement provided for the transfer of "agreements" related to Wave Loch LLC's sheet wave business, and the parties intended the transfer to include the employment contracts.

Wave Loch, Inc. and Flowrider later entered into an agreement specifically assigning the Wave Loch, Inc./Alleshouse Agreement to Flowrider. Defendants argue this subsequent agreement is proof that Mr. Alleshouse's Agreement continued to reside with Wave Loch, Inc. and was not transferred to Wave Loch LLC. But Mr. Lochtefeld testified the agreement with Flowrider was simply a

safeguard to ensure that Mr. Alleshouse's Agreement was transferred to Flowrider. (*See* Lochtefeld Testimony at 523–24.) The Court credits that testimony.

How Flowrider ultimately received enforceable rights under the Agreement is not determinative of the claims at issue. What matters is whether the Agreement was transferred to Flowrider—and it is clear it was, either by Wave Loch LLC's contribution agreement or by Wave Loch, Inc.'s assignment.

Finally, Mr. Alleshouse's Agreement was transferred to Whitewater by operation of law when Flowrider amalgamated into Whitewater pursuant to Canadian law. *See FlowRider Surf, Ltd. v. Pacific Surf Designs, Inc*., 2017 WL 2349031, at *4 (S.D. Cal. 2017) ("By operation of Canadian law, on the date of the amalgamation, all of FlowRider Ltd.'s assets became the property of Whitewater West.") Accordingly, Whitewater is a successor of Wave Loch, Inc. and properly holds the Agreement. It has standing to enforce the Agreement and bring the claims asserted in this action.

B. Breach of Contract

"To prevail on a cause of action for breach of contract, the plaintiff must prove (1) the contract, (2) the plaintiff's performance of the contract or excuse for nonperformance, (3) the defendant's breach, and (4) the resulting damage to the plaintiff." *Richman v. Hartley*, 224 Cal. App. 4th 1182, 1186 (2014). Defendants challenge the validity of the Agreement and dispute Mr. Alleshouse breached the contract.

1. Validity of Contract

There is no dispute that the Agreement was signed by Mr. Alleshouse and that it includes an assignment provision. Rather, Defendants challenge the validity of the Agreement on grounds that (1) the Agreement lacks definiteness; (2) the Agreement is procedurally and substantively unconscionable; (3) the assignment provision exceeds the scope of California Labor Code section 2870; and (4) the

Agreement violates California Business and Professions Code section 16600. These arguments are addressed in turn.

a. Definiteness

Defendants challenge the formation of the Agreement on grounds that the definition of "Company," which includes Wave Loch, Inc.'s "divisions, affiliates, subsidiaries, associate companies, shareholders, members, employees, licensees, joint venture partners, or any successors thereof," is too indefinite. "Under California law, a contract will be enforced if it is sufficiently definite (and this is a question of law) for the court to ascertain the parties' obligations and to determine whether those obligations have been performed or breached." *Bustamante v. Intuit, Inc.*, 141 Cal. App. 4th 199, 209 (2006) (citations omitted). On the other hand, if a contract "is so uncertain and indefinite that the intention of the parties in material particulars cannot be ascertained, the contract is void and unenforceable." *Id.*

The definition of "Company" is sufficiently certain and did not present any uncertainty between the parties regarding the employment relationship. As the Court noted in a prior order, the "successor" language at issue is "routinely included in these types of contracts and necessary to protect the proprietary interests of businesses in the relatively common event of organizational restructuring." (Order Denying Defs.' Mot. for Summ. J. at 7.) The succession from Wave Loch, Inc. to the LLC was purely a legal event, simply changing the entity from a corporation to a limited liability company to enjoy flexibility in tax reporting options and management structure. Changing the legal status of the entity had no impact on the daily functioning and duties of Wave Loch employees. There was no misapprehension as to the "company" Mr. Alleshouse worked for or his duties and obligations. The contract is sufficiently definite for the Court to "ascertain the parties' obligations and to determine whether those obligations have been performed or breached." *Bustamante*, 141 Cal. App. 4th at 209. Therefore, the Court finds no issue of contract formation on this basis.

b. Procedural and Substantive Unconscionability

Defendants argue the Agreement is procedurally and substantively unconscionable. Under California law, a contract is unenforceable if it is both procedurally and substantively unconscionable. *Armendariz v. Foundation Health Psychcare Services, Inc.*, 6 P.3d 669, 690 (2000). The former focuses on "oppression or surprise due to unequal bargaining power," while the latter on terms "so one-sided as to shock the conscience." *Pinnacle Museum Tower Assn. v. Pinnacle Market Development, LLC*, 282 P.3d 1217, 1232 (2012) (citations and internal quotations omitted).

There was no evidence that Mr. Alleshouse was deprived of an opportunity to read the Agreement before signing it. Rather, Mr. Alleshouse testified he chose not to read the Agreement because he "was young" and "[did not] know they [were] going to be important[.]" (Alleshouse Testimony at 195–97, 319.) But the failure to read an agreement before signing it does not excuse performance. *See Norcia v. Samsung Telecommunications America, LLC*, 845 F.3d 1279, 1284 (9th Cir. 2017) ("A party cannot avoid the terms of a contract on the ground that he or she failed to read it before signing.") (quoting *Marin Storage & Trucking, Inc. v. Benco Contracting & Eng'g, Inc*., 89 Cal. App. 4th 1042, 1049 (2001)).

While there was no evidence Mr. Alleshouse was required to sign the Agreement as a condition of employment, it is undisputed the Agreement was presented to him several months after beginning his employment with Wave Loch. This fact shows some level of procedural unconscionability but does not itself render the Agreement procedurally unconscionable, particularly since the assignment provision related directly to the services Mr. Alleshouse was providing and for which he was being compensated. Accordingly, there was no oppression or surprise of legal significance.

California Labor Code section 2872 requires an employer to provide written notice to its employee that an assignment of invention provision may not include an

invention that the employee develops entirely on his own time without using company equipment or facilities.[4] It is undisputed Wave Loch did not provide the required notice to Mr. Alleshouse. California law, however, is silent on the consequences of an employer's failure to provide such notice. Certainly, that failure should be considered in analyzing procedural unconscionability, but it is not determinative here because the subject matter of the patents in suit was integral to Mr. Alleshouse's work at Wave Loch and would not have been subject to the notice requirements of Section 2872. No oppression or surprise resulted from the failure to give notice.

Further, the terms of the Agreement are not substantively unconscionable as Mr. Alleshouse was "adequately compensated" for his "inventive duties," including "research[ing]," "design[ing]," "improving existing rides, [and] "developing new rides" for Wave Loch. (Pl.'s Ex. 2); *see Cubic Corp. v. Marty*, 185 Cal. App. 3d 438, 450 (1986) (though the assignment agreement was offered as a "take-it-or-leave-it" condition of employment, it was not unconscionable because employee's responsibilities "encompassed inventive duties" and employee was "adequately compensated through the terms of employment"). The terms of the assignment also are not "unfair" and do not "shock the conscience" because they do not run afoul of Labor Code section 2870, as discussed below. Accordingly, the Agreement is not invalid on this ground as it is neither procedurally nor substantively unconscionable.

c. California Labor Code Section 2870

Defendants argue the assignment provision is invalid because it exceeds the scope of California Labor Code section 2870 and violates California's restrictions

[4] California Labor Code section 2872 provides: "If an employment agreement entered into after January 1, 1980, contains a provision requiring the employee to assign or offer to assign any of his or her rights in any invention to his or her employer, the employer must also, at the time the agreement is made, provide a written notification to the employee that the agreement does not apply to an invention which qualifies fully under the provisions of Section 2870." Cal. Lab. Code § 2872.

on an employer's ability to monopolize an employee's ideas and inventions, as follows:

> Any provision in an employment agreement which provides that an employee shall assign, or offer to assign, any of his or her rights in an invention to his or her employer shall not apply to an invention that the employee developed entirely on his or her own time without using the employer's equipment, supplies, facilities, or trade secret information except for those inventions that either:
>
> (1) Relate at the time of conception or reduction to practice of the invention to the employer's business, or actual or demonstrably anticipated research or development of the employer; or
>
> (2) Result from any work performed by the employee for the employer.

Cal. Lab. Code § 2870.

First, Defendants contend the assignment provision's "suggested by" language exceeds the scope of Section 2870. However, they fail to explain how requiring an employee to assign inventions "suggested by" his work for the employer exceeds the scope of Section 2870, which permits an employer to require an employee to assign inventions "[r]elate[d] to" the employer's business. *See Cadence Design Systems, Inc. v. Bhandari*, No. 07-823, 2007 WL 3343085, at *5 (N.D. Cal. Nov. 8, 2007) ("Courts interpreting employee assignment agreements in the context of section 2870 have construed the 'related to' phrase broadly.")

Second, Defendants argue the Agreement's definition of "Company," which includes Wave Loch, Inc.'s "successors," exceeds the scope of Section 2870's definition of "employer." Defendants fail to present any authority that defining "Company" in this way presents an overbreadth problem or is otherwise violative of Section 2870. Rather, case law supports a contrary finding. *See id.* at *7 ("[T]he language of [Section 2870] contains[s] a broad phrase permitting assignments of inventions that 'relate to the business of the employer.' Had the California Legislature intended the statute to be restricted to the smallest business division in

which the employee actually works, they would have used such language in the statute itself.")

Third, Defendants claim the assignment provision is overbroad because it does not limit the assignment to inventions conceived *during* the time of employment. However, neither the plain language of Section 2870 nor any case applying its provisions imposes such a restriction. The statute itself only carves out inventions developed "entirely on [an employee's] own time without using the employer's equipment, supplies, [or] facilities[.]" (*Id.*) The statute does not limit the assignment of inventions to matters conceived during employment, but rather directs that such assignments may include matters that "[r]elate at the time of conception … to the employer's business, or … anticipated research or development … ; or [r]esult from any work performed by the employee for the employer." (*Id.*) Thus, the statute permits the assignment of inventions conceived after employment, so long as the inventive idea relates to the employer's business or anticipated research or development or results from work performed by the employee for the employer.[5] Accordingly, the assignment provision is consistent with Labor Code section 2870 and is not invalid under any of the grounds asserted by Defendants.

d. California Business and Professions Code Section 16600

Defendants argue the Agreement is prohibited by California Business and Professions Code section 16600. Pursuant to Section 16600, "those contracts that

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[5] For sound reasons, it appears Section 2870 does not set temporal limitations on an assignment of invention provision because proving when the inventor-employee conceived the invention—the "ah ha" or "light bulb" moment—would be difficult, if not impossible, for the employer to do. Thus, Section 2870 tethers the propriety of such assignment provisions to objective standards, *i.e.*, inventions that relate to the employer's business or anticipated research and development or result from work performed by the employee for the employer, and not to subjective standards such as the moment of conception. The neighboring provisions of the statute are also consistent with this interpretation. For example, California Labor Code section 2872, requires the *employee* to prove his or her inventions are *not* covered by an otherwise valid and enforceable assignment of invention provision.

prevent 'engaging in a lawful profession, trade or business of any kind' are void." *Board of Trustees of Leland Stanford Junior University v. Roche Molecular Systems, Inc.*, 583 F.3d 832, 845 (Fed. Cir. 2009).

While the Agreement contains a covenant not to compete that precludes Mr. Alleshouse from using any "confidential information" to "carry on, be engaged by, or take part in any commercial or business endeavor[,]" (Ex. 6, ¶ 3), Plaintiff is not pursuing relief under that provision.[6] Moreover, the Agreement does not restrain Mr. Alleshouse from engaging in the sheet wave profession. It only requires him to assign inventions resulting from his work at Wave Loch or relating to Wave Loch's business at the time he was there. *See Board of Trustees of Leland Stanford Junior University*, 583 F.3d at 845 (stating assignment of researcher's "right, title, and interest in each of the ideas, inventions and improvements" that he might devise "as a consequence of" his work at the company was not void under Section 16600 because he was not restrained from "engaging in any profession"). Accordingly, the Agreement does not violate Section 16600.

2. Breach of Contract

Because the Agreement is valid and enforceable, Mr. Alleshouse bears the burden of demonstrating that the inventions at issue are not covered by the assignment provision. *See* Cal. Lab. Code § 2872 ("In any suit or action arising [under Section 2870], the burden of proof shall be on the employee claiming the benefits of its provisions.") The inventions at issue are: (1) a half-pipe/quarter-pipe

[6] Even if the noncompete provision were unenforceable, it would not invalidate the assignment provision. The Agreement contains a severability clause, which provides: "If any provision of this Agreement shall be invalid or prohibited by a court of competent jurisdiction, such provision shall be ineffective to the extent of such prohibition without invalidating the remainder of such provision or the remaining provisions of this Agreement." (Pl.'s Ex. 6, ¶ 10.f.) *See* Cal. Civ. Code § 1599 ("Where a contract has several distinct objects, of which one at least is lawful, and one at least is unlawful, in whole or in part, the contract is void as to the latter and valid as to the rest.")

sheet wave attraction, which resulted in the '685 and '189 Ride Patents, and (2) a nozzle structure that allows adjustable, non-planar flow on sheet rides, which resulted in the '433 Nozzle Patent.

The evidence presented at trial supports a finding that Mr. Alleshouse's conception of the half-pipe/quarter-pipe ride was (a) related to Wave Loch's business and research, and (b) resulted from work performed by Mr. Alleshouse for Wave Loch. Wave Loch held meetings to improve upon Murphy's half-pipe ride by making the sidewalls rideable, and Mr. Alleshouse participated in those meetings. During one of those meetings, Mr. Alleshouse claimed he could make a better half-pipe than Murphy's Stingray. Mr. Alleshouse does not dispute that evidence; he only testified he could not "specifically recall [saying] that." (Alleshouse Testimony at 183.)

In addition, the day after Mr. Alleshouse resigned from Wave Loch, he drew sketches of half-pipes and quarter-pipes in his notebook. Within two weeks of his resignation, Mr. Alleshouse had complete diagrams of the half-pipe/quarter-pipe ride, which he described as a "halfpipe type wave" that is "basically [M]urphy[']s wave halfpipe but with water on the sides[.]" (Pl.'s Exs. 19, 22; Alleshouse Testimony at 237–51.) These ideas resulted in the '685 and '189 Ride Patents, filed three months after Mr. Alleshouse separated from Wave Loch. This evidence shows Mr. Alleshouse's half-pipe/quarter-pipe invention was related to, and emanated from, Wave Loch's business and research.

The evidence also supports a finding that Mr. Alleshouse's conception of the patented nozzle structure was related to Wave Loch's business and founded upon its existing nozzles. Mr. Alleshouse was the product manager for the Flowrider attraction at Wave Loch. One of the features of the Flowrider was the adjustable nozzle structure that varied the thickness of water flow. Additionally, Wave Loch was in the process of developing radial, non-planar nozzles for its WaveOz attraction during Mr. Alleshouse's employ and at a time when he was responsible for

documenting and finalizing the design drawings for that ride. He attended meetings regarding the WaveOz nozzle structure and had access to Mr. Vicente's models and drawings of the structure, which were stored in their shared office and company server. Within two weeks of resigning from Wave Loch, Mr. Alleshouse had complete diagrams of similar nozzle structures that would "vary flow direction and thickness to optimize surfing experience on the waves and [maximize] economics of the attraction." (Pl.'s Ex. 36.) This invention ultimately resulted in the '433 Nozzle Patent, which, like the Ride Patents, was filed only three months after Mr. Alleshouse left Wave Loch.

Common sense shows that the inventions at issue resulted from Mr. Alleshouse's work at Wave Loch. After all, Mr. Alleshouse (1) suggested that through his experiences at Wave Loch he "gained the ability to start a company on a niche market," (Pl.'s Ex. 29), (2) had plans to start his own company while employed by Wave Loch, (3) had plans to present his own inventions at the IAAPA conference while employed by Wave Loch, (4) described his ideas for the inventions as "knock offs" of Wave Loch's products, (Pl.'s Ex. 19), and (5) diagrammed these complex inventions within two weeks of his resignation.

The evidence demonstrates the inventions are covered by the assignment provision. Mr. Alleshouse has failed to show otherwise. Because Mr. Alleshouse failed to comply with his contractual obligations, Plaintiff has established breach of the parties' Agreement.

a. Equitable Estoppel

Defendants assert the defense of equitable estoppel. Under California law, the elements of equitable estoppel are: "(1) the party to be estopped must be apprised of the facts; (2) he must intend that his conduct shall be acted upon, or must so act that the party asserting the estoppel has a right to believe it was so intended; (3) the other party must be ignorant of the true state of facts; and (4) he must rely upon the conduct to his injury." *City of Long Beach v. Mansell*, 476 P.2d 423, 442 (1970).

Plaintiff initially pursued its breach of contract claim in May 2014 in an earlier filed action. After the parties were unable to resolve their differences, the case was dismissed without prejudice pursuant to a tolling agreement. More than two years after dismissing that action, Plaintiff filed the present lawsuit. Defendants contend Plaintiff's dismissal of the 2014 action led them to believe Plaintiff had abandoned its contract claims.

Any reliance by Defendants was not justified because they knew dismissal of the 2014 action was without prejudice and subject to a tolling agreement, and thus could be revived at any time. Contrary to Defendants' assertion, there is no basis to conclude Plaintiff was required to notify Defendants of its intent to re-file the claim. Accordingly, Plaintiff is not equitably estopped from asserting these claims.

b. Laches

Defendants also assert the defense of laches. This argument is based on a conclusory allegation that Plaintiff engaged in inexcusable delay and PSD was thereby prejudiced by continuing to prosecute the patents. Defendants have failed to establish unreasonable delay and prejudice, both of which are necessary to a defense on this ground. *See Danjaq LLC v. Sony Corp*., 263 F.3d 942, 951 (9th Cir. 2001) ("To demonstrate laches, the defendant must prove both an unreasonable delay by the plaintiff and prejudice to itself.") (citations and internal quotations omitted). Having failed to meet these elements, this defense lacks merit.

C. Intentional Interference of Contract

Plaintiff failed to prove that Mr. Yeh and PSD intentionally interfered with the Wave Loch/Alleshouse Agreement. "Under California law, a claim for intentional interference with contract requires: (1) a valid contract between plaintiff and a third party; (2) defendant's knowledge of the contract; (3) defendant's intentional acts designed to induce breach or disruption of the contract; (4) actual breach or disruption; and (5) resulting damage." *Family Home and Finance Center,*

Inc. v. Federal Home Loan Mortg. Corp., 525 F.3d 822, 825 (9th Cir. 2008) (citations omitted).

At issue is the third element—whether Mr. Yeh and PSD intended to induce breach or disrupt Mr. Alleshouse's Agreement with Wave Loch, Inc. and its successors. *See Bank of New York v. Fremont General Corp*., 523 F.3d 902, 911 (9th Cir. 2008) ("Generally, the knowledge of a corporate officer within the scope of his employment is the knowledge of the corporation.") (citations omitted). Plaintiff contends that Mr. Yeh and PSD disrupted Mr. Alleshouse's Agreement by having Mr. Alleshouse assign the inventions to PSD, instead of to Wave Loch or its successors. As evidence of Mr. Yeh's intent, Plaintiff points to the fact that he sought advice of counsel regarding Mr. Alleshouse's Agreement. (*See* Pl.'s Ex. 30.) But that evidence also supports the opposite inference—that Mr. Yeh sought legal advice to ensure the assignments would be lawful and not interfere with Mr. Alleshouse's Agreement. There is insufficient evidence to conclude Mr. Yeh and PSD intended to disrupt Mr. Alleshouse's contractual obligations to Plaintiff. Accordingly, Plaintiff's intentional interference claim lacks merit.

D. California Business and Profession Code Section 17200

Plaintiff failed to show PSD engaged in "unlawful" or "unfair" business practices. California's Unfair Competition statute "prohibits any unfair competition, which means 'any unlawful, unfair or fraudulent business act or practice.'" *In re Pomona Valley Med. Group*, 476 F.3d 665, 674 (9th Cir. 2007) (quoting Cal. Bus. & Prof. Code § 17200, et seq.). This law is "intended to preserve fair competition and protect consumers from market distortions." *Kwikset Corp. v. Superior Court*, 246 P.3d 877, 891 (2011).

Plaintiff's assertion that PSD engaged in "unlawful" business practice is based on its intentional interference claim, which fails for the reasons discussed above. Alternatively, Plaintiff claims PSD engaged in "unfair" business practice by advertising and offering inventions that should have been assigned to Whitewater.

However, other than this conclusory allegation, Plaintiff fails to show how such conduct is "immoral, unethical, oppressive, unscrupulous or substantially injurious to consumers" as to constitute "unfair" conduct under Section 17200. *See Ticconi v. Blue Shield of Calif. Life & Health Ins*. Co., 160 Cal. App. 4th 528, 539 (2008) ("An unfair business practice occurs when that practice … is immoral, unethical, oppressive, unscrupulous or substantially injurious to consumers.") (citations and internal quotations omitted). Because the facts do not support a finding of "unlawful" or "unfair" business practices, Plaintiff's Section 17200 claim is denied.

E. Correction of Inventorship

Plaintiff alleges Mr. Yeh was improperly joined as co-inventor of the '685, '189 and '433 Patents. Section 256(a) of Title 35 of the United States Code permits correction of inventorship "[w]henever through error a person is named in an issued patent as the inventor." 35 U.S.C. § 256(a). "The inventors as named in an issued patent are presumed to be correct." *Hess v. Advanced Cardiovascular Sys., Inc*., 106 F.3d 976, 980 (Fed. Cir. 1997) (citations omitted). In cases alleging misjoinder, as here, "the burden on each party [is] to show facts supported by clear and convincing evidence that the [ ] person listed as an inventor had not in fact contributed to the conception of the invention." *Thompson v. Haynes*, 305 F.3d 1369, 1384 (Fed. Cir. 2002). In other words, the party alleging misjoinder must show by clear and convincing evidence "that the persons to be removed did not contribute to the invention of any of the allowed claims." *Univ. of Pitt. of Commonwealth Sys. of Higher Ed. v. Hedrick*, 573 F.3d 1290, 1297 (Fed. Cir. 2009).

The evidence supports a finding that Mr. Alleshouse alone conceived of the inventions, and that Mr. Yeh's contributions occurred thereafter and are insufficient under the law. Mr. Alleshouse's notebook shows that by August 16, 2012, he had conceived of the half-pipe/quarter-pipe designs and adjustable nozzles—which ultimately resulted in the '685, '189, and '433 Patents. *Eli Lilly and Co. v. Aradigm Corp*., 376 F.3d 1352, 1359 (Fed. Cir. 2004) ("Conception is … the completion of

the mental part of invention.") (citing *Burroughs Wellcome Co. v. Barr Labs., Inc.*, 40 F.3d 1223, 1227–28 (Fed. Cir. 1994)). Based on these designs, Mr. Alleshouse knew what types of products he would build and sell for the targeted niche market, and he shared those ideas with Mr. Yeh on August 20, 2012. After conception, Mr. Yeh helped reduce the inventions to practice by testing out the models in Mr. Alleshouse's garage in September 2012. Mr. Yeh also helped identify practical issues with the models based on his experiences in surfing and skateboarding. *See Ethicon, Inc. v. U.S. Surgical Corp.*, 135 F.3d 1456, 1460 (Fed. Cir. 1998) ("[O]ne does not qualify as a joint inventor by merely assisting the actual inventor after conception of the claimed invention."); *Garrett Corp. v. U.S.*, 422 F.2d 874, 881 (Ct. Cl. 1970) ("One who merely suggests an idea of a result to be accomplished, rather than means of accomplishing it, is not a joint inventor.") (citations omitted).

Moreover, Plaintiff produced evidence that Mr. Yeh's alleged patentable contributions were either rejected by the patent office or mirrored pre-existing technology by Wave Loch. For example, all of Mr. Yeh's contributions to the '685 and '189 Ride Patents—safety chute, rideable sidewall of a complex curve shape, and plurality of elevated water recovery sections—were found to be unpatentable by the PTO in light of the Lochtefeld prior art. (Pl.'s Ex. 132; Dr. Stevich Testimony at 408–19.) Similarly, Mr. Yeh's purported contributions to the '433 Nozzle Patent of a nonplanar orifice with varying thickness and variable flow angles were found to be unpatentable in light of the Lochtefeld prior art. (Pl.'s Ex. 134; Dr. Stevich Testimony at 420–23; Lochtefeld Testimony at 531–36; Pl.'s Closing Argument at 789–94.) Likewise, Mr. Yeh's alleged patentable contribution regarding water flow adjustment in the Z-Y plane reflected existing technology in Wave Loch's Flowrider rides. (Pl.'s Ex. 134; Stevich Testimony at 420–23; Lochtefeld Testimony at 531–36); *see Eli Lilly and Co. v. Aradigm Corp.*, 376 F.3d 1352, 1359 (Fed. Cir. 2004) ("Contributions to realizing an invention may not amount to a contribution to conception if they merely explain what was 'then state of the art.'")

This evidence demonstrates Mr. Yeh did not contribute to the conception of the inventions as required by law. Plaintiff has met its burden. Accordingly, Mr. Yeh was improperly named as a co-inventor for the patents in suit.

F. Declaratory Relief

Based on the foregoing findings that Plaintiff has proved its claims for breach of contract and correction of inventorship, the Court grants Plaintiff's request for declaratory relief and orders that: (1) the records of the PTO be corrected to remove Mr. Yeh as an inventor for the '685, '189, and '433 Patents, and (2) the patents in suit be reassigned from PSD to Plaintiff.

G. Damages

Plaintiff seeks $1.8 million in reasonable royalty damages based on a hypothetical negotiation for a license fee paid by PSD to Whitewater to use the patented technology. (Testimony of Dr. Robert Vigil Testimony at 610–12; 642–44.) This hypothetical negotiation assumes PSD would have sought a license, and Whitewater would have granted such a license. In reality, Whitewater rarely licenses intellectual property. (Alleshouse Testimony at 302–04; Chutter Testimony at 61.)

This case is therefore better suited to a damages calculation based on traditional concepts of compensatory damages and unjust enrichment. (Testimony of Dr. Justin Lewis ("Dr. Lewis Testimony") at 749–51.) The goal of compensatory damages is to put the plaintiff "in as good a position as he or she would have occupied" if the defendant had not breached the contract. *Lewis Jorge Construction Management, Inc. v. Pomona Unified School Dist.*, 34 Cal. 4th 960, 967 (2004).

Here, no evidence was presented of Whitewater's loss from not having ownership of the patents. In fact, PSD was unable to find a single buyer for its patented rides. (Yeh Testimony at 352.) Wave Loch was also unable to find a buyer for a similar half-pipe ride. (Lochtefeld Testimony at 528; Myrman Testimony at 110.) And Plaintiff did not present any evidence that it could have found a buyer had it owned the patents. (*See* Yeh Testimony at 352; Lochtefeld Testimony at 528.)

In addition, no evidence was adduced showing Defendants were unjustly enriched. Indeed, the evidence showed Defendants were unable to make a single sale of the patented inventions. (Dr. Lewis Testimony at 761–62.) Because Plaintiff has failed to establish damages on these grounds or entitlement to a reasonable royalty, the Court declines to award monetary damages.[7]

III.

CONCLUSION AND ORDER

Based on the foregoing findings of fact and conclusions of law, it is ordered as follows:

1. Defendant Yong Yeh is to be removed as co-inventor of the '685, '189, and '433 Patents;
2. The '685, '189, and '433 Patents are to be reassigned from PSD to Plaintiff; and
3. Plaintiff may file a separate motion for attorneys' fees and costs pursuant to Federal Rule of Civil Procedure 54(d).

IT IS SO ORDERED.

Dated: March 27, 2019

Hon. Dana M. Sabraw
United States District Judge

[7] Plaintiff may be entitled to reasonable attorneys' fees and costs pursuant to the parties' contract. (*See* Pl.'s Ex. 6 at 3.) The Court reserves ruling on this issue pending further briefing, including whether apportionment of fees is warranted.

UNITED STATES DISTRICT COURT

SOUTHERN DISTRICT OF CALIFORNIA

WHITEWATER WEST INDUSTRIES, LTD, a Canadian corporation,

Plaintiff,

v.

RICHARD ALLESHOUSE, an individual, YONG YEH, an individual, and PACIFIC SURF DESIGNS, INC., a Delaware corporation,

Defendants.

Case No. 17-cv-0501 DMS (NLS)

ORDER ON DEFENDANTS' DAUBERT MOTIONS

Defendants' *Daubert* motions came on for hearing on January 23, 2019. Joseph Tache appeared for Plaintiff, and Charanjit Brahma, Mark Mao and Stacy Hovan appeared for Defendants. After thoroughly reviewing the parties' briefs and hearing argument from counsel, the Court issues the following rulings:

1. Defendants' motion to exclude Dr. Vigil's opinions is denied. The Court stands on the reasoning set out during the hearing on Dr. Vigil's reliance on testimony from Messrs. Mack., Kiem and Myrman and Dr. Vigil's reasonable royalty opinions. On the issue of Dr. Vigil's reliance on the opinion of Dr. Stevick concerning technological comparability, that aspect of the motion is also denied. Although Dr. Stevick's opinion should have been

in his report, Defendants had notice of his opinion by virtue of Dr. Vigil's report and the other litigation between the parties. Defendants also had an opportunity to question Dr. Stevick about his opinions, but chose not to do so. This, despite evidence from Defendant Alleshouse himself about the similarity of the products at issue in this case. If Defendants believe that a further pinpoint deposition of Dr. Stevick is necessary in light of this ruling, they shall inform the Court forthwith.

2. As to Defendants' motion to exclude Dr. Stevick's opinions on inventorship, that motion is denied. The Court reserves ruling on Defendants' motion to exclude Dr. Stevick's opinions on the scope of the patent claims pending the hearing on Defendants' motions *in limine*.

IT IS SO ORDERED.

Dated: January 23, 2019

Hon. Dana M. Sabraw
United States District Judge

UNITED STATES DISTRICT COURT

SOUTHERN DISTRICT OF CALIFORNIA

WHITEWATER WEST INDUSTRIES, LTD, a Canadian corporation,

Plaintiff,

v.

RICHARD ALLESHOUSE, an individual, YONG YEH, an individual, and PACIFIC SURF DESIGNS, INC., a Delaware corporation,

Defendants.

Case No. 17-cv-0501 DMS (NLS)

ORDER DENYING DEFENDANTS' MOTION FOR SUMMARY JUDGMENT

This case comes before the Court on the motion for summary judgment filed by Defendants Pacific Surf Designs, Richard Alleshouse and Yong Yeh. Plaintiff filed an opposition to the motion, and Defendants filed a reply. After reviewing the parties' briefs and the record on file in the case, the motion is denied.

I.

BACKGROUND

Plaintiff Whitewater West Industries, Ltd. is a Canadian corporation, and an alleged successor to a number of "Wave Loch" entities owned or controlled by Thomas Lochtefeld. Lochtefeld is alleged to have "pioneered the sheet wave attraction industry and many of its

innovative and popular attractions" and products, including two products at issue, the "FlowRider" and "WaveOz." (First Am. Compl. ¶¶ 11, 18 & 21.)

In September 2007, Defendant Richard Alleshouse began working at one of Lochtefeld's Wave Loch entities, Wave Loch, Inc. In September 2008, Alleshouse signed a Covenant Against Disclosure and Covenant Not to Compete with Wave Loch, Inc./Wave House Global Pte. Ltd. (*Id.*, Ex. 1 ("Agreement").) That Agreement included an Assignment Provision which assigns to Wave Loch, Inc. "all inventions, improvements, developments, trade-secret, copyrightable or patentable material that Employee [Alleshouse] conceives or hereafter may make or conceive," under certain conditions. (Decl. of Charanjit Brahma in Supp. of Mot. ("Brahma Decl."), Ex. B at 4.)

In January 2009, Wave Loch, LLC was formed, and at some point thereafter, perhaps in early 2010, Alleshouse's employment was transferred from Wave Loch, Inc. to Wave Loch, LLC. According to Plaintiff, Wave Loch, Inc. also assigned all of its assets to Wave Loch, LLC. (Decl. of Roger L. Scott in Opp'n to Mot. ("Scott Decl."), Ex. 3 at 46:7-49-23.)

At some time during his employment with Wave Loch, LLC, and by at least July 2012, Alleshouse began corresponding with Defendant Yong Yeh about the two of them going into business together. (Scott Decl. in Suppl. of Opp'n to Mot., Ex. 4 at 39.[1]) During that timeframe, July 2012, Alleshouse also approached Yeh regarding his Agreement with Wave Loch. (*Id.* at 43.)

On July 27, 2012, Alleshouse tendered his resignation to Wave Loch, LLC, and stated his last date of employment would be August 3, 2012. (Brahma Decl., Ex. F.) Three days after tendering his resignation, Alleshouse and Yeh exchanged emails about how to

[1] The page numbers referenced here are the page numbers of Yeh's deposition transcript. Defendants object to this evidence on the ground that the transcript submitted by Plaintiff is unauthenticated hearsay. The Court overrules that objection given Defendants' reliance on this same evidence. There is no dispute Yeh's testimony is that of a party opponent taken under oath.

generate "pre-event buzz" for an upcoming event hosted by the International Association of Amusement Parks and Attractions ("IAAPA"). (Scott Decl., Ex. 6.)

On August 4, 2012, the day after leaving Wave Loch, Alleshouse started a lab notebook with designs for sheet wave attractions. (*Id.*, Exs. 7-9.)[2] Later in August, Alleshouse sent Yeh an email discussing their anticipated "products," including "FlowRider knock offs" and a product "very similar to the WaveOz[.]"[3] (Scott Decl., Ex. 10.) In the concluding paragraph of that email, Alleshouse stated about the product models he was developing, "So they look like Flowriders. How do we want to make them look different? Angled rear wall? Angled side walls? Need to come up with something to at least make it look slightly different." (*Id.*)

The following month, September 2012, Defendant Pacific Surf Designs ("PSD"), the company founded by Alleshouse and Yeh, retained a consulting firm to assist with patent protection for their products. Patent applications were filed in October 2013, and three patents were subsequently issued: United States Patents Nos. 9,044,685 ("the '685 Patent"), 9,302,189 ("the '189 Patent") and 9,592,433 ("the '433 Patent").

On March 13, 2017, Plaintiff filed the present case alleging the following claims: (1) breach of contract against Alleshouse, (2) intentional interference with contract against Defendants Yeh and PSD, (3) violation of California Business and Professions Code § 17200 against Defendant PSD, (4) declaratory relief against all Defendants, (5) correction of inventorship of the '685 Patent, (6) correction of inventorship of the '189 Patent and (7) correction of inventorship of the '433 Patent.

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[2] Defendants object to this evidence on the ground it is unauthenticated hearsay. The Court overrules this objection as the evidence was produced by Defendants during discovery and purports to be material attributed to Alleshouse, a party opponent. *Maljack Prods., Inc. v. GoodTimes Home Video Corp.*, 81 F.3d 881, 889 n.12 (9th Cir. 1996). The evidence also has non-hearsay value.

[3] Plaintiff alleges the "Flowrider" was Wave Loch's "most popular product." (First Am. Compl. ¶ 18.) WaveOz is another Wave Loch product. (*Id.* ¶ 21.)

II.

DISCUSSION

Defendants move for summary judgment on all of Plaintiff's claims. The Court addresses the claims and Defendants' arguments below.

A. Legal Standard

Summary judgment is appropriate if there is no genuine issue as to any material fact, and the moving party is entitled to judgment as a matter of law. Fed. R. Civ. P. 56(c). The moving party has the initial burden of demonstrating that summary judgment is proper. *Adickes v. S.H. Kress & Co.*, 398 U.S. 144, 157 (1970). The moving party must identify the pleadings, depositions, affidavits, or other evidence that it "believes demonstrates the absence of a genuine issue of material fact." *Celotex Corp. v. Catrett*, 477 U.S. 317, 323 (1986). "A material issue of fact is one that affects the outcome of the litigation and requires a trial to resolve the parties' differing versions of the truth." *S.E.C. v. Seaboard Corp.*, 677 F.2d 1301, 1306 (9th Cir. 1982).

The burden then shifts to the opposing party to show that summary judgment is not appropriate. *Celotex*, 477 U.S. at 324. The opposing party's evidence is to be believed, and all justifiable inferences are to be drawn in its favor. *Anderson v. Liberty Lobby, Inc.*, 477 U.S. 242, 255 (1986). However, to avoid summary judgment, the opposing party cannot rest solely on conclusory allegations. *Berg v. Kincheloe*, 794 F.2d 457, 459 (9th Cir. 1986). Instead, it must designate specific facts showing there is a genuine issue for trial. *Id. See also Butler v. San Diego District Attorney's Office*, 370 F.3d 956, 958 (9th Cir. 2004) (stating if defendant produces enough evidence to require plaintiff to go beyond pleadings, plaintiff must counter by producing evidence of his own). More than a "metaphysical doubt" is required to establish a genuine issue of material fact. *Matsushita Elec. Indus. Co., Ltd. v. Zenith Radio Corp.*, 475 U.S. 574, 586 (1986).

B. Breach of Contract

Plaintiff's first claim is for breach of contract against Defendant Alleshouse. To prevail on a claim for breach of contract, Plaintiff must show the existence "of a contract,

plaintiff's performance or excuse for failure to perform, defendant's breach and damage to plaintiff resulting therefrom." *Spinks v. Equity Residential Briarwood Apartments*, 171 Cal. App. 4th 1004, 1031 (2009) (quoting *McKell v. Washington Mutual, Inc.*, 142 Cal. App. 4th 1457, 1489 (2006)). Here, Defendants argue Plaintiff cannot establish the existence of a valid contract sufficient to support its claim. To the extent there is a valid contract, Defendants argue Plaintiff cannot prove breach.

To start, there is no dispute there was a contract between Alleshouse and Wave Loch, Inc./Wave House Global Pte. Ltd. There is also no dispute that this contract included an Assignment Provision in favor of Wave Loch, Inc., as follows:

> In consideration of compensation paid by Company, Employee [Alleshouse] agrees that all right, title and interest in all inventions, improvements, developments, trade-secret, copyrightable or patentable material that Employee conceives or hereafter may make or conceive, whether solely or jointly with others:
>
> (a) with the use of Company's time, materials, or facilities; or
>
> (b) resulting from or suggested by Employee's work for Company; or
>
> (c) in any way connected to any subject matter within the existing or contemplated business of Company
>
> shall automatically be deemed to become the property of Company as soon as made or conceived, and Employee agrees to assign to Company, its successors, assigns, or nominees, all of Employees' rights and interests in said inventions, improvements, and developments in all countries worldwide. Employee's obligation to assign the rights to such inventions shall survive the discontinuance or termination of this Agreement for any reason.

(Brahma Decl., Ex. B at 4.)[4] Defendants argue this Provision is void for several reasons. First, they assert it violates California Labor Code § 2870. Second, they contend the

[4] Plaintiff's breach of contract claim is confined to the Assignment Provision. (*See* Opp'n to Mot. at 2 n.1.) Accordingly, the Court does not address Defendants' arguments on the nondisclosure provision of the Agreement.

provision is overbroad in several respects, namely (1) it requires Alleshouse to assign inventions conceived after leaving Wave Loch, (2) the definition of "Company" is overbroad and (3) it is not limited to inventions developed using Wave Loch's intellectual property.[5] None of these arguments is persuasive.

California Labor Code § 2870 restricts, on public policy grounds, an employer's ability to monopolize an employee's ideas and inventions, as follows:

> Any provision in an employment agreement which provides that an employee shall assign, or offer to assign, any of his or her rights in an invention to his or her employer shall not apply to an invention that the employee developed entirely on his or her own time without using the employer's equipment, supplies, facilities, or trade secret information except for those inventions that either:
>
> (1) Relate at the time of conception or reduction to practice of the invention to the employer's business, or actual or demonstrably anticipated research or development of the employer; or
>
> (2) Result from any work performed by the employee for the employer.

Cal. Labor Code § 2870. Defendants argue the Assignment Provision at issue here, on its face, violates section 2870, but they fail to specify how it does so. In any event, the Provision appears to sufficiently track section 2870, as it is limited to inventions that (a) relate to Wave Loch's business or anticipated research or development, or (b) result from work performed by Alleshouse for Wave Loch.

Next, Defendants assert the Provision is overbroad in several respects. First, they argue it requires Alleshouse to assign inventions conceived after he left Wave Loch. Defendants fail to cite where that requirement is found in the Provision. Notably, Plaintiff

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[5] Defendants raised a new overbreadth argument in their reply brief, specifically, that the Provision covers inventions "suggested by" the Employee's work for the Company, not just inventions that "result from" such work. Because Defendants did not raise this argument in their opening brief, the Court declines to consider it. *See Zamani v. Carnes*, 491 F.3d 990, 997 (9th Cir. 2007) (stating district court need not consider arguments raised for first time in reply brief).

does not read the Provision to include that requirement. Nor does the Court. This argument, therefore, does not warrant a finding that the Provision is void and unenforceable.

Defendants also argue that "Company," as defined in the Agreement, is ambiguous and overbroad. The Agreement states, "Company shall include its divisions, affiliates, subsidiaries, associate companies, shareholders, members, employees, licensees, joint venture partners, or any successors thereof." However, Defendants fail to cite any authority to support their argument that defining "Company" in this way results in an overbreadth problem or is otherwise violative of section 2870. Indeed, authority cited by Plaintiff suggests the opposite. *See Cadence Design Sys., Inc. v. Bhandari*, No. C 07-00823 MHP, 2007 WL 3343085, at *7 (N.D. Cal. Nov. 8, 2007) ("Had the California Legislature intended the statute to be restricted to the smallest business division in which the employee actually works, they would have used such language in the statute itself.") The "successor" language at issue is routinely included in these types of contracts and necessary to protect the proprietary interests of businesses in the relatively common event of organizational restructuring.

Finally, Defendants contend the Provision is overbroad because it is not limited to inventions developed using Wave Loch's intellectual property. Defendants appear to suggest that this would violate section 2870, but the Court disagrees. Section 2870 is not limited to inventions developed through use of the employer's intellectual property. Rather, the statute allows for the assignment of inventions if the employee used not just the employer's intellectual property, but also "the employer's equipment, supplies, [and] facilities[.]" Cal. Labor Code § 2870 (a). Thus, this argument does not warrant a finding that the Provision is void or unenforceable.

Having failed to make this showing, Defendants argue Plaintiff cannot prove Alleshouse breached the Assignment Provision. Specifically, they assert there is no evidence Alleshouse conceived of the inventions during his employment with Wave Loch,

Inc.[6] Defendants contend that Alleshouse's employment with Wave Loch, Inc. is the only relevant time period because the Agreement was between Alleshouse and Wave Loch, Inc. only. Defendants acknowledge, however, that "Company" is defined in the Agreement as more than just Wave Loch, Inc. As stated above, "Company shall include its divisions, affiliates, subsidiaries, associate companies, shareholders, members, employees, licensees, joint venture partners, or any successors thereof." Defendants have not shown that Wave Loch, LLC, which was Alleshouse's employer immediately subsequent to Wave Loch, Inc., does not fit within any of those categories. Indeed, at a minimum there is a genuine issue of material fact as to whether Wave Loch, LLC was an affiliate or successor of Wave Loch, Inc. (*See* Scott Decl., Ex. 3 at 49-50[7]) (Lochtefeld describing relationship between Wave Loch, Inc. and Wave Loch, LLC). There is also, at a minimum, a genuine issue of material fact as to whether Alleshouse conceived of his inventions while he was employed by Wave Loch, LLC. (*See* Scott Decl., Ex. 6) (July 30, 2012 email from Alleshouse to Yeh discussing "need to have a product which is different" for IAAPA).

Defendants' final argument in support of their request for summary judgment on the breach of contract claim is that the claim is barred by California Labor Code § 2872. This statute provides:

> If an employment agreement entered into after January 1, 1980, contains a provision requiring the employee to assign or offer to assign any of his or her rights in any invention to his or her employer, the employer must also, at the time the agreement is made, provide a written notification to the employee that the agreement does not apply to an invention which qualifies fully under the provisions of Section 2870.

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[6] Under the heading of failure to prove breach, Defendants also argue the assignment provision is not "necessary to protect any Wave Loch, Inc. confidential information." (Mem. of P. & A. in Supp. of Mot. at 11.) It is unclear how this argument relates to the element of breach, and even less clear how this argument entitles Defendants to summary judgment. Absent clarification on this point, the Court declines to further address this argument.

[7] The page numbers referenced here are the page numbers of Lochtefeld's deposition transcript. Defendants object to this evidence on the ground it is unauthenticated hearsay. The Court overrules this objection. *See supra* note 1.

Cal. Labor Code § 2872. Notably, the statute is silent on the effect of an employer's failure to provide this notification to its employee, and Defendants fail to cite any authority to support their argument that the failure to provide this notice renders the Assignment Provision unenforceable. In the absence of such authority, the Court declines Defendants' invitation. This argument does not warrant summary judgment for Defendants on Plaintiff's breach of contract claim.

In light of the above, Defendants' motion for summary judgment on Plaintiff's breach of contract claim is denied.[8]

C. Correction of Inventorship

The only other claims at issue here are Plaintiff's claims for correction of inventorship. Specifically, Plaintiff alleges a claim for misjoinder, *i.e.*, that Yeh was incorrectly named as an inventor on the patents in suit.

Title 35 U.S.C. § 256(a) states:

> Whenever through error a person is named in an issued patent as the inventor, or through error an inventor is not named in an issued patent, the Director may, on application of all the parties and assignees, with proof of the facts and such other requirements as may be imposed, issue a certificate correcting such error.

35 U.S.C. § 256(a). In cases like this one alleging misjoinder, "the burden on each party [is] to show facts supported by clear and convincing evidence that the [ ] person listed as an inventor had not in fact contributed to the conception of the invention." *Thompson v. Haynes*, 305 F.3d 1369, 1384 (Fed. Cir. 2002). In other words, the party alleging misjoinder must show, by clear and convincing evidence, "that the persons to be removed did not contribute to the invention of any of the allowed claims." *Univ. of Pitt. of Commonwealth Sys. of Higher Ed. v. Hedrick*, 573 F.3d 1290, 1297 (Fed. Cir. 2009).

[8] Defendants' arguments for summary judgment on Plaintiff's claims for intentional interference with contract, unfair competition and declaratory relief derive from their arguments on the breach of contract claim. Accordingly, Defendants' request for summary judgment on those claims is, likewise, denied.

Here, Defendants argue Plaintiff has failed to set forth any evidence that Yeh did not contribute to the inventions described in the Patents. However, Plaintiff has cited evidence, namely Alleshouse's notebooks, to support its argument that Alleshouse himself conceived of the inventions without any input from Yeh. Nevertheless, the Court cannot make a determination of inventorship on the present motion because the parties have not completed the first step in the inventorship analysis, which is "construction of each asserted claim to determine the subject matter encompassed thereby." *Trovan, Ltd. v. Sokymat SA, Irori*, 299 F.3d 1292, 1302 (Fed. Cir. 2002). Only after that step is completed can the Court then "compare the alleged contributions of each asserted co-inventor with the subject matter of the properly construed claim to then determine whether the correct inventors were named." *Id.*[9]

III.

CONCLUSION AND ORDER

For these reasons, the Court denies Defendants' motion for summary judgment.

IT IS SO ORDERED.

Dated: December 19, 2018

Hon. Dana M. Sabraw
United States District Judge

[9] In light of these rulings, the Court also denies Defendants' request to strike Plaintiff's request for monetary damages and a jury trial.

UNITED STATES DISTRICT COURT

SOUTHERN DISTRICT OF CALIFORNIA

WHITEWATER WEST INDUSTRIES, LTD., a Canadian corporation,

Plaintiff,

v.

RICHARD ALLESHOUSE, an individual, YONG YEH, an individual, and PACIFIC SURF DESIGNS, INC., a Delaware corporation,

Defendants.

Case No. 17-cv-0501 DMS (NLS)

ORDER DENYING MOTION TO DISMISS

Pending before the Court is Defendants Pacific Surf Designs, Inc. ("PSD"), Richard Alleshouse, and Yong Yeh's motion to dismiss pursuant to Federal Rule of Civil Procedure 12(b)(1). Plaintiff Whitewater West Industries, Ltd. ("Whitewater") filed an opposition to the motion, and Defendants filed a reply. For the reasons set forth below, the motion is denied.

I.

BACKGROUND

Wave Loch, Inc. is in the business of designing and manufacturing sheet wave attractions. (FAC ¶ 12.) Sheet waive attractions involve flowing water over a

stationary surface, which recreates the speed of ocean waves in order to "allow ride participants to simulate a surfing experience." (*Id.* ¶ 11.)

In September 2007, Wave Loch employed Alleshouse as an engineer. (*Id.* ¶¶ 13, 18.) Allehouse had broad engineering responsibilities and was privy to Wave Loch's efforts to develop new sheet wave attractions. (*Id.* ¶ 18.) Prior to his employment with Wave Loch, Alleshouse had no experience with designing sheet wave attractions. (*Id.* ¶ 14.)

In September 2008, as a condition of his continued employment with Wave Loch, Alleshouse entered into a "Covenant against Disclosure and Covenant Not to Compete" ("Agreement") with Wave Loch and Wave House Global Pte. Ltd. (FAC ¶ 14, Ex. 1.) Wave Loch and Wave House Global are collectively referred to as "Company" in this Agreement. The Agreement contained the following provision:

> Assignment. In consideration of compensation paid by Company, Employee agrees that all right, title and interest in all inventions, improvements, developments, trade-secret, copyrightable or patentable material that Employee conceives or hereafter may make or conceive, whether solely or jointly with others:
>
> (a) with the use of Company's time, materials, or facilities; or
> (b) resulting from or suggested by Employee's work for Company; or
> (c) in any way connected to any subject matter within the existing or contemplated business of Company
>
> shall automatically be deemed to become the property of Company as soon as made or conceived, and Employee agrees to assign to Company, its successors, assigns, or nominees, all of Employee's rights and interests in said inventions, improvements, and developments in all countries worldwide. Employee's obligation to assign the rights to such inventions shall survive the discontinuance or termination of this Agreement for any reason.

(FAC ¶ 14, Ex. 1.) Whitewater is an assignee of the Agreement.[1]

[1] In April 2014, Wave Loch assigned to Flowrider Surf, Ltd. ("Flowrider"), a

On July 27, 2012, Alleshouse resigned from Wave Loch. (FAC ¶ 23.) Subsequently, Alleshouse and Yeh founded PSD, which, like Wave Loch, also designs and manufactures sheet wave attractions. (*Id.* ¶¶ 24, 28.) On October 13, 2012, less than 90 days after resignation, Alleshouse filed a provisional application for U.S. Patent Nos. 9,044,685 and 9,302,189, which the U.S. Patent and Trademark Office ("USPTO") issued on June 2, 2015. (*Id.* ¶¶ 29, 34.) Subsequently, on October 24, 2012, Alleshouse filed a provisional application for U.S. Patent No. 9,592,433, which the USPTO issued on July 30, 2015. (*Id.* ¶¶ 31, 34.) The asserted inventions relate directly to the type of sheet waive attractions Wave Loch was developing while Alleshouse was employed there.[2] (*Id.* ¶¶ 36–38.) Plaintiff therefore alleges Alleshouse developed the asserted inventions while employed at Wave Loch and/or used information he obtained at Wave Loch to develop the inventions. (*Id.* ¶ 34.) Nevertheless, Alleshouse failed to assign the ownership of those inventions to Wave Loch or its assigns as required under the Agreement. (*Id.* ¶ 39.) Rather, he assigned them to PSD. (*Id*. ¶ 38.)

On March 13, 2017, Whitewater, asserting rights as assignee of the Agreement, filed a Complaint against Alleshouse, Yeh, and PSD. Subsequently on June 23, 2017, Whitewater filed a FAC, alleging the following causes of action: (1) breach of written contract, (2) intentional interference with contract, (3) unfair and unlawful business practices in violation of the Unfair Competition Law ("UCL"), Cal. Bus. & Prof. § 17200 *et seq*., (4) declaratory relief, (5) correction of inventorship of the '685 patent under 35 U.S.C. § 256, (6) correction of inventorship of the '189 Patent Under 35 U.S.C. § 256, and (7) correction of inventorship of the

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subsidiary of Whitewater, all of its rights and obligations under the Agreement. (FAC ¶ 12.) Subsequently, on February 1, 2016, Florwrider was amalgamated into Whitewater. (*Id.*) As a result, Plaintiff alleges Whitewater assumed all rights and obligations to that assignment. (*Id.*)

[2] These Patents lists Alleshouse and Yeh as the inventors. (FAC ¶¶ 29, 31.)

'433 Patent Under 35 U.S.C. § 256.

II.

DISCUSSION

A. Article III Standing

Defendants move to dismiss, contending the Court lacks subject matter jurisdiction because Plaintiff does not have Article III standing. Pursuant to Federal Rule of Civil Procedure 12(b)(1), a party may move to dismiss based on the court's lack of subject matter jurisdiction. "Article III of the Constitution confines the federal courts to adjudication of actual 'Cases' and 'Controversies.'" *Lujan v. Defs. of Wildlife*, 504 U.S. 555, 590 (1992). "The Article III case or controversy requirement limits federal courts' subject matter jurisdiction by requiring, inter alia, that plaintiffs have standing and that claims be 'ripe' for adjudication." *Chandler v. State Farm Mut. Auto. Ins. Co.*, 598 F.3d 1115, 1121–22 (9th Cir. 2010) (citing *Allen v. Wright*, 468 U.S. 737, 750 (1984)). Consequently, a "lack of Article III standing requires dismissal for lack of subject matter jurisdiction under Federal Rule of Civil Procedure 12(b)(1)." *Maya v. Centex Corp.*, 658 F.3d 1060, 1067 (9th Cir. 2011) (emphasis omitted).

To satisfy Article III's standing requirements, a plaintiff must show "(1) it has suffered an 'injury in fact' that is (a) concrete and particularized and (b) actual or imminent, not conjectural or hypothetical; (2) the injury is fairly traceable to the challenged action of the defendant; and (3) it is likely, as opposed to merely speculative, that the injury will be redressed by a favorable decision." *Friends of the Earth, Inc., v. Laidlaw Envtl. Servs., Inc.*, 528 U.S. 167, 180–81 (2000) (citing *Lujan*, 504 U.S. at 560–61). When a case is at the pleading stage, "the plaintiff must 'clearly … allege facts demonstrating' each element." *Spokeo, Inc. v. Robins*, 136 S. Ct. 1540, 1547 (2016).

A Rule 12(b)(1) motion to dismiss for lack of standing may attack the court's subject matter jurisdiction either facially or factually. *Leite v. Crane Co.*, 749 F.3d

1117, 1121 (9th Cir. 2014). A "facial" attack accepts the truth of the plaintiff's allegations but asserts that they "are insufficient on their face to invoke federal jurisdiction." *Safe Air for Everyone v. Meyer*, 373 F.3d 1035, 1039 (9th Cir. 2004). In resolving a facial attack, the court, "[a]ccepting the plaintiff's allegations as true and drawing all reasonable inferences in the plaintiff's favor, … determines whether the allegations are sufficient as a legal matter to invoke the court's jurisdiction." *Leite v. Crane Co.*, 749 F.3d 1117, 1121 (9th Cir. 2014) (citing *Pride v. Correa*, 719 F.3d 1130, 1133 (9th Cir. 2013)). In contrast, a "factual" attack "contests the truth of the plaintiff's factual allegations, usually by introducing evidence outside the pleadings." *Id*. (citations omitted). In resolving a factual attack, the court "may review evidence beyond the complaint without converting the motion to dismiss into a motion for summary judgment." *Safe Air for Everyone*, 373 F.3d at 1039 (citing *Savage v. Glendale Union High Sch.*, 343 F.3d 1036, 1039 n. 2 (9th Cir.2003)).

Defendants contend "it is clear on the face of the Complaint and the Non-Compete Agreement … that Plaintiff lacks standing to bring all of its claims[.]" (Mem. of P. & A. in Supp. of Mot. at 6.) Although Defendants appear to state they are making a facial challenge to subject matter jurisdiction, they do not contend Plaintiff failed to sufficiently plead each requisite element to demonstrate standing. Rather, Defendants argue Plaintiff lacks standing based on the following grounds: (1) Plaintiff was not a party to the Agreement, which was executed between Alleshouse and Wave Loch and Wave House Global,[3] (2) the Agreement is unenforceable as a matter of law, because non-compete covenants are void and unenforceable pursuant to Cal. Bus. & Prof. Code § 1660, and (3) even if the Agreement is enforceable, it is not assignable because it is personal in nature and Alleshouse did not consent to assignment. These grounds, however, do not amount

[3] Plaintiff does not dispute Defendants' argument that it was not a party to the Agreement, which was executed between Alleshouse and Wave Loch and Wave House Global.

to a facial attack on subject matter jurisdiction because they do not challenge the sufficiency of Plaintiff's allegations to show standing. Defendants' arguments also do not amount to a factual attack on subject matter jurisdiction as they do not contest the truth of Plaintiff's factual allegations. For example, Defendants do not dispute whether Plaintiff was assigned rights under the Agreement. Instead, they argue the Agreement is not assignable. These arguments are inappropriate to be resolved on a Rule 12(b)(1) motion. Because the pleadings do not address standing, but the merits of the case, the Court construes the motion under Rule 12(b)(1) as a motion under Rule 12(b)(6). Accordingly, to the extent Defendants' motion to dismiss is filed pursuant to Rule 12(b)(1), it is denied.

B. Failure to State a Claim

A motion to dismiss pursuant to Federal Rule of Civil Procedure 12(b)(6) tests the legal sufficiency of the claims asserted in the complaint. *Navarro v. Block*, 250 F.3d 729, 731 (9th Cir. 2001). In deciding a motion to dismiss, all material factual allegations of the complaint are accepted as true, as well as all reasonable inferences to be drawn from them. *Cahill v. Liberty Mut. Ins. Co*., 80 F.3d 336, 338 (9th Cir. 1996). However, a court need not accept all conclusory allegations as true. Rather, it must "examine whether conclusory allegations follow from the description of facts as alleged by the plaintiff." *Holden v. Hagopian*, 978 F.2d 1115, 1121 (9th Cir. 1992) (citation omitted); *see Benson v. Ariz. St. Bd. of Dental Exam'rs*, 673 F.2d 272, 275–76 (9th Cir. 1982) (court need not accept conclusory legal assertions). A motion to dismiss should be granted if a plaintiff's complaint fails to contain "enough facts to state a claim to relief that is plausible on its face." *Bell Atl. Corp. v. Twombly*, 550 U.S. 544, 570 (2007). "A claim has facial plausibility when the plaintiff pleads factual content that allows the court to draw the reasonable inference that the defendant is liable for the misconduct alleged." *Ashcroft v. Iqbal*, 556 U.S. 662, 678 (2009) (citing *Twombly*, 550 U.S. at 556).

Defendants argue, without any analysis, the "Agreement is unenforceable as

a matter of law" because "non-compete covenants with California employees are generally avoid and unenforceable in California" pursuant to Cal. Bus. & Prof. Code § 16600. (Mem. of P. & A. in Supp. of Mot. at 6.) By the plain language of § 16600, only those contracts that prevent "engaging in a lawful profession, trade or business of any kind" are void. Defendants, however, do not argue the Agreement restrained Alleshouse from engaging in any profession.[4] In any event, Defendants' argument is meritless as non-compete agreements may be enforceable in California despite § 16600. *See Asset Mktg. Sys., Inc. v. Gagnon*, 542 F.3d 748, 758 (9th Cir. 2008) ("Under California law, non-competition agreements are unenforceable unless necessary to protect an employer's trade secret."); *Armorlite Lens Co. v. Campbell*, 340 F. Supp. 273, 275 (S.D. Cal. 1972) (non-compete agreements are enforceable to the extent they "relate[ ] to ideas and concepts which were based upon secrets or confidential information of the employer[.]").

Moreover, Defendants argue the Agreement is not assignable because the restrictive covenants in the Agreement are personal in nature and lacks Alleshouse's consent to assignment. (Mem. of P. & A. in Supp. of Mot. at 11.) The provision at issue, however, is not a restrictive covenant. Rather, it is an assignment provision, where Alleshouse agreed to assign Wave Loch and its assigns future rights in inventions made or conceived by him while in Wave Loch's employ. Such a provision affects property rights and is distinguishable from restrictive covenants, which "'hampers a person's ability to earn a living[.]'" *Target Tech. Co., LLC v. Williams Advanced Materials, Inc.*, No. SACV 04-1083 DOCMLGX, 2007 WL

[4] Defendants argue for the first time in the reply brief that the Agreement is void and unenforceable because its restrictive covenants are overbroad and unreasonable. The Court, however, declines to address this argument because Plaintiff was deprived of the opportunity to respond to the argument and the Court does not have the benefit of full briefing. *See Zamani v. Carnes*, 491 F.3d 990, 997 (9th Cir. 2007) ("The district court need not consider arguments raised for the first time in a reply brief.").

6201689, at *9 (C.D. Cal. Feb. 6, 2007) (quoting *Harsco Corp. v. Zlotnicki*, 779 F.2d 906, 910 (3d Cir. 1985)). An assignment of rights in inventions made before the existence of the inventions "may be viewed as an assignment of an expectant interest." *Filmtec Corp. v. Allied-Signal Inc.*, 939 F.2d 1568, 1572 (Fed. Cir. 1991). An assignment of an expectant interest may be the subject of a valid assignment. *Id.* ("non-existing [personal] property may be the subject of valid assignment") (quoting *Mitchell v. Winslow*, 17 F. Cas. 527, 531–32 (C.C.D. Me. 1843)). Because future rights in inventions are assignable, Defendant's motion to dismiss pursuant to Rule 12(b)(6) is therefore denied.[5]

III.

CONCLUSION

For the reasons stated above, the Court denies Defendants' motion to dismiss.

IT IS SO ORDERED.

Dated: September 7, 2017

Hon. Dana M. Sabraw
United States District Judge

[5] Defendants improperly raise a number of new arguments for the first time in their reply brief. For the reasons stated above, the Court declines to address those arguments.

CERTIFICATE OF FILING AND SERVICE

I hereby certify that on this 27th day of December, 2019, I caused this Brief of Appellants to be filed electronically with the Clerk of the Court using the CM/ECF System, which will send notice of such filing to the following registered CM/ECF users:

Joseph R. Tache
Roger L. Scott
BUCHALTER
18400 Von Karman Avenue, Suite 800
Irvine, California 92612
(949) 224-6446
rtache@buchalter.com
rscott@buchalter.com

Counsel for Appellee

/s/ Manuel Federico De La Cerra
Counsel for Appellants

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Dated: December 27, 2019

/s/ Manuel de la Cerra
Counsel for Appellants