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.

REPLY BRIEF OF APPELLANTS

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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	N/A	N/A
Yong Yeh	N/A	N/A
Pacific Surf Designs, Inc.	None	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**
Rev. 10/17

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

1/14/2020
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. INTRODUCTION

Whitewater re-litigates facts to distract the Court with irrelevant and unsupported innuendo to make Mr. Alleshouse seem like a bad guy, even "dishonest." But there was never any such finding below, nor should there have been, because under California law he had the absolute right to leave his employer with everything he had learned that was not a trade secret, build inventions upon it, and compete with his former employer. Whitewater admits that Mr. Alleshouse conceived the subject inventions post-employment, and that he did not use confidential information in doing so. Accordingly, long-established case law applying Cal.Bus.&Prof.Code §16600 uniformly dictates that the Employee Assignment Provision (EAP) cannot reach Pacific Surf Design's (PSD) Patents. All of Whitewater's claims therefore fail and the entire judgment must be reversed.

a. The EAP Cannot Lawfully Reach PSD's Patents Because They Were Admittedly Conceived Without Use of Trade Secrets After Employment.

i. Cal.Bus.&Prof.Code §16600 Prohibits Requiring Former Employees to Assign-Back Inventions Conceived Post-Employment, Unless Based on Employer Trade Secrets.

Whitewater admits that the primary issue before the Court is whether California law prohibits enforcement of the EAP that compels Mr. Alleshouse to assign-back to his former employer an invention "not conceived until after his resignation." (Opp. at pg. 2). Whitewater concedes that Mr. Alleshouse conceived

of the subject inventions post-employment.[1] Just as importantly, Whitewater does not allege theft or misappropriation of any confidential information; to the contrary, Whitewater expressly concedes that theft of confidential information is not at-issue in this case.[2] Accordingly, the question framed for the Court is:

> Does California law prohibit requiring former employees to assign-back inventions conceived post-employment without use of trade secrets?

Every court to consider the issue has reached the same conclusion—**yes**—any such assignment provision is void and unenforceable under §16600.

1. All On-Point Case Law Follows This Rule.

Beginning with *Winston Research Corp. v. Minnesota Mining & Mfg. Co*., 350 F.2d 134 (9th Cir.1965), the Ninth Circuit upheld an assignment agreement that required employees to assign inventions "conceived within one year of termination of employment [which] were based upon confidential information." 350 F.2d at 145. The district courts have built upon this authority by drawing a bright-line distinction

[1] As it must, because the District Court held that the earliest evidence of conception was nearly two weeks post-employment. (Appx0035).

[2] "Right. Your Honor, this is **not a** theft of **trade secrets case**, but what we are arguing is, again, we are arguing the contract piece." (TT791:17-20, Appx0939, Appx0030)(emphasized). Whitewater explained that it is not arguing that Alleshouse took confidential information, but rather that his inventions "relate" to Whitewater's technology and thus are assignable under the contract. (TT793:9-17, Appx0941). PSD's counsel then emphasized this point repeatedly, unchallenged by Whitewater (TT821:20-822:5-13, Appx0969-0970; TT842:7-10, Appx0990).

between, on one hand, agreements that are enforceable because they require assignment of inventions conceived post-employment based on the employer's confidential information, and on the other hand, agreements that are void and unenforceable because they require assignment of inventions conceived post-employment that are not based on the employer's confidential information.

The Court in *Armorlite Lens Co.v. Campbell*, 340 F. Supp. 273, 275 (S.D.Cal.1972) denied summary judgment due to factual questions of when the inventions were conceived, and whether they were based on the employer's secrets, reasoning:

> 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 [under §16600]. (emphasized)

Similarly, in *Applied Materials, Inc. v. Adv. Micro–Fabrication Equip. Co*., 630 F. Supp. 2d 1084, 1090–91 (N.D.Cal.2009) the Court granted summary judgment that an assignment clause was void because it reached inventions conceived post-employment without use of trade secrets:

> 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-employment penalty that violates California public policy as codified in []§16600. (emphasized)

In *Mattel, Inc. v. MGA Entm't, Inc*., 782 F. Supp. 2d 911, 946 (C.D.Cal.2011) the Court denied summary judgment due to factual questions about the intended scope of an agreement to assign, noting the rule:

> As long the assignment [of ideas and inventions] does not extend to post-employment work, it is generally enforceable. *See Patent & Licensing Corp. v. Olsen,* 188 F.2d 522, 525 (2d Cir.1951) [enforcing agreement to assign inventions "made during" employment].

The District Court in *Huawei Techs. Co. v. Yiren Huang*, No. 4:17-cv-00893, 2019 WL 1978339 at *6-9 (E.D.Tex. May 2, 2019) granted a declaratory judgment that an invention assignment provision requiring a former employee to assign-back up to one year post-employment any inventions related to the former employer's business, was unenforceable under §16600:

> the Court finds Defendants' cited authority persuasive. Defendants contend that *Applied Materials* demonstrates that, under California law, assignment provisions can function as non-compete clauses and be accordingly rendered void and unenforceable. *Applied Materials, Inc. v. Adv. Micro–Fabrication Equip. Co.*, 630 F.Supp.2d 1084, 1088–91 (N.D.Cal.2009). … Therefore, the Assignment of Inventions provision is void and unenforceable as an unlawful restraint on trade in violation of [] §16600.

And most recently, in *Conversion Logic, Inc. v. Measured, Inc.*, No. 2:19-cv-05546, 2019 WL 6828283, at *6-7 (C.D.Cal. Dec. 13, 2019) the Court granted a motion to dismiss, striking as void a First Consulting Agreement because the obligation to assign "will continue beyond the termination of [employment]", while

simultaneously upholding a Second Consulting Agreement that "does not require [the employee] to assign his rights beyond termination", reasoning:

> Intellectual property assignment provisions in employment contracts have been upheld when limited to inventions that are based on the employer's confidential information. *See Winston Research Corp. v. Minnesota Mining & Mfg. Co.*, 350 F.2d 134 (9th Cir. 1965); *but see Applied Materials, Inc. v. Advanced Micro-Fabrication Equip. (Shanghai) Co.*, 630 F. Supp. 2d 1084, 1090 (N.D.Cal.2009)(striking the assignment clause that targeted any inventions "relate[d] to former employees' work with [employer]" since such a clause would "encompass[ ] both inventions based on confidential employer information and inventions relating to former ... employees' work in the broad field of semiconductor research and manufacturing")(internal quotations omitted). "As long [as] the assignment [of ideas and inventions] does not extend to post-employment work, it is generally enforceable." *Mattel, Inc. v. MGA Entm't, Inc.*, 782 F. Supp. 2d 911, 946 (C.D. Cal. 2011). (brackets and ellipses in original)

2. *Stanford* is Off-Point Yet Consistent With This Rule.

Despite the clear, longstanding, and consistent reasoning of courts applying §16600, the District Court here ruled that California "permits the assignment of inventions conceived after employment", without acknowledging that this is only true under the trade secret exception. (Appx0029). The District Court relied solely on *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). This is also Whitewater's sole support for departing from California's long-established law holding precisely the opposite.

But the out-of-context dicta in *Stanford* upon which Whitewater relies has no bearing on the present case. In *Stanford*, the Federal Circuit affirmed a district court's ruling that the subject invention was conceived **during** the inventor's period of employment as a consultant:

> Because the invention was conceived during Holodniy's consultancy at Cetus, the court need not reach the issue of the enforceability of the VCA to inventions conceived after Holodniy left Cetus.

Bd. of Trustees of Leland Stanford Junior Univ. v. Roche Molecular Sys., Inc., 487 F. Supp. 2d 1099, 1117 (N.D.Cal.2007). While the operative agreement in *Stanford* was a Visitor's Confidentiality Agreement (VCA) for a consultant and not an employment agreement, the District Court nevertheless applied the same before-versus-after test for conception, and found that the issue was moot because conception occurred during the period of consultancy. *Id*. The Federal Circuit affirmed this part of the District Court's decision. *Stanford*, 583 F.3d at 842-48.

Stanford is thus off-point in at least two critically important ways. First, it did not concern an employment agreement nor in any way affect the mobility of a departing employee, but rather concerned a patent assignment by a third-party consultant, where that consultant continued thereafter to work at *Stanford* without hindrance; the patent assignment had no effect on him whatsoever. *Stanford*, 583

F.3d at 845.[3] Second, the undisturbed holding of the case was that the subject inventions were conceived **during** the period of the inventor's consultancy, so the analogous concerns about post-employment restrictions on employees under §16600 were not triggered. *Stanford*, 487 F. Supp. 2d at 1117, *aff'd*, 583 F.3d at 842-48, *aff'd*, 563 U.S. 776.

Stanford's off-point facts aside, its holding is actually consistent with PSD's position and consistent with the California rule applied by **every court** facing similar facts: employee assignment agreements purporting to cover inventions conceived post-employment that are not based on the employer's confidential information are void and unenforceable under §16600. *Accord*, *id*. *See also, Armorlite Lens Co.*, 340 F. Supp. at 275; *Applied Materials, Inc.*, 630 F. Supp. 2d at 1089; *Huawei Techs. Co.*, 2019 WL 1978339 at *6-9; *Conversion Logic, Inc.*, 2019 WL 6828283, at *6-7. *Accord, Winston Research Corp.* 350 F.2d at 145.

[3] *Compare*, *Conversion Logic, Inc.*, 2019 WL 6828283, at *3 ("'The strict application of section 16600 **in the employment context** is supported by the 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.'"), *quoting Quidel Corp. v. Superior Court*, 39 Cal. App. 5th 530, 539 (2019)(emphasized).

3. The District Court's and Whitewater's Justification for a Contrary Rule Has Been Repeatedly Rejected.

The District Court explicitly stated why it thought that California law should "permit[] the assignment of inventions conceived after employment", namely "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." (Appx0029) But the District Court's justification for allowing forced assignment of inventions conceived post-employment has been uniformly rejected by every other court to consider the issue, unless the former employer can prove that the invention is based on the employer's confidential information.[4] *Armorlite Lens Co.*, 340 F. Supp. at 275; *Applied Materials, Inc.*, 630 F. Supp. 2d at 1089; *Huawei Techs. Co.*, 2019 WL 1978339 at *6-9; *Conversion Logic, Inc.*, 2019 WL 6828283, at *6-7. Because otherwise, employers would wield a continuing monopoly over their former employees' minds even with respect to non-secret information, thereby unfairly extending the intellectual property rights of the employer beyond their legitimate interests in protecting their secret information, on the backs of their former employees.

[4] Whitewater stipulated in its Opposition that the burden of proof in this "invention assignment dispute" remains with them as the successor-in-interest of Alleshouse's employer. (Opp. at pg. 25)("If, **as here**, an employer does not provide notice [required by §2872], then the burden does not shift to the employee.") (emphasized).

For example, the *Applied Materials* Court rejected the justification that conception dates would be difficult for an employer to prove, by rejecting an employee invention assignment agreement that "presume[d] inventions [related to the employee's work with the employer] disclosed during the one-year post-employment period were conceived during the period of employment." *Applied Materials, Inc.*, 630 F. Supp. 2d at 1089. Likewise in *Huawei Techs Co.*, the Court rejected the agreement's purported justification that a post-employment invention assignment period was needed "[b]ecause of the difficulty of establishing when any Subject Ideas or Inventions are first conceived by me, or whether they result from my access to Confidential Information or Company Materials[.]" *Huawei Techs. Co.*, 2019 WL 1978339 at *16.

Whitewater's justification for enforcing post-employment invention assignments closely mirrors the plaintiff's losing argument in *Armorlite–i.e.*, some period of post-employment invention assignments should be enforceable to "prevent cupidity upon the part of the employee who, upon recognizing he has hit upon a material improvement in the employer's field, resigns and after termination brings out his improvement." *Armorlite Lens Co.*, 340 F. Supp. at 275. The *Armorlite* Court flatly rejected this justification, except, as in the other cases, when the employer proves that the former employee based the invention on the employer's confidential information. *Id*. The *Armorlite* Court reasoned:

> 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. (emphasized).

In short, the District Court's and Whitewater's justification for a rule contrary to the bright-line rule uniformly followed in every other case applying §16600 to post-employment assignments, has been considered and repeatedly rejected as contrary to the public policy of California. Section 16600 jealously guards the right of Californians to quit their jobs and join (or become) competitors, bringing with them all the knowledge and skills they gained from their former employer, no matter how "unfair" that might seem to the former employer. If it is not confidential information protected as a trade secret, it is absolutely fair game for an employee to leave with it and build inventions upon it.[5]

[5] Whitewater insinuates but admittedly has never attempted to prove that Mr. Alleshouse improperly took its technology. Whitewater's brief argues that "he dealt with the technical aspects of Wave Loch's products" and "learned of WaveLoch's adjustable nozzle system … that allowed water flow to be adjusted across the face of the nozzle" and had "access to Mr. Vicente's models and drawings of the WaveOz and its nozzle structure, all of which were stored in their shared office and company server." (Opp. at pgs. 4-6). But Whitewater admitted that it has not attempted to prove any trade secret theft. (TT791:17-20, Appx0939, Appx0030). Whitewater admitted its failure because it never produced a single one of those models, nozzles or a single file from the company server of that nozzle, never produced a single manufacturing drawing for any of the 15 to 20 nozzles installed annually, and did not subpoena Mr. Vicente at trial. Whitewater also never produced a single engineering drawing, server file, or model regarding its development of the half-pipe

4. Whitewater Misstates The Law and Facts of the §16600 Cases.

Whitewater distinguishes the §16600 case law that is uniformly against it by advancing the following deceptive argument:

> Assignment provisions invalidated as restricting employment under §16600 have a common feature not present here: they all presume that any invention conceived within one year following an employee's termination related to the prior employment and required assignment.

(Opp. at pg. 31).

This is false, because all of the assignment provisions struck down in the §16600 cases were limited to inventions relating to the employer's business (not to "any" invention), and thus were narrower in scope than the unlimited-in-time EAP that Whitewater seeks to enforce here.

To manufacture support for its otherwise unsupportable position, Whitewater misleadingly cites edited language from the invalidated assignment provisions. Specifically, Whitewater's selective quotation from *Huawei* glaringly omitted the

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and quarter-pipe rides. Appendix 2178 to which Whitewater points was admittedly an undated concept drawing with insufficient detail necessary for manufacture or assembly. (TT:126:18-129:5, Appx0273-0276). Moreover, its reliance on U.S.Pat. 8,882,604, a public document, shows that Whitewater is not arguing that its information was protected as confidential. Cal.Civ.Code §3426.1(d)(1). California law required that Whitewater "identify the trade secret with reasonable particularity" before the start of discovery. Cal.Code.Civ.P. §2019.210. But even now, after full discovery, a trial and an appeal brief, Whitewater still has never identified any trade secrets allegedly stolen by Mr. Alleshouse, because as it admitted, this is "**not a** theft of **trade secrets case[.]"** (TT791:17-20, Appx0939, Appx0030)(emphasized).

key requirement that the invention must have "gr[own] out of or result from my work with the Company or is related to the business of the Company," similar to the present EAP. Likewise, Whitewater's selective quotation from *Applied Materials* conspicuously omitted its corresponding limitation: "provided it relates to my work with APPLIED or any of its subsidiaries."[6]

Contrary to Whitewater's deceptive argument, none of the §16600-violative provisions presumed that "any" invention conceived post-employment was

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[6] The full language of the rejected assignment provisions is reproduced below, with the language selectively quoted by Whitewater emphasized:

> Because of the difficulty of establishing when any Subject Ideas or Inventions are first conceived by me, or whether they result from my access to Confidential Information or Company Materials, I agree that **any Subject Idea and Invention shall**, among other circumstances, **be deemed to have resulted from my access to Company Materials if:** (1) it grew out of or result from my work with the Company or is related to the business of the Company, and (2) **it is made**, used, sold, exploited or reduced to practice, or an application for patent, trademark, copyright or other proprietary protection is filed thereon, by me or with my significant aid, **within one (1) year after my termination from employment.**

Compare, Huawei Techs. Co., 2019 WL 1978339 at *16, *with* Opp. at pg. 31.

> In case **any invention is described in a patent application** or is disclosed to third parties **by me within one (1) year after terminating my employment** with APPLIED, **it is to be presumed that the invention was conceived or made during the period of my employment** for APPLIED, and the invention will be assigned to APPLIED as provided by this Agreement, provided it relates to my work with APPLIED or any of its subsidiaries.

Compare, Applied Materials, Inc., 630 F. Supp. 2d at 1088, *with* Opp. at pgs. 31-32.

necessarily related to the prior employment. Instead, the provisions were expressly limited to inventions that grow "out of or result from my work with the Company" or are "related to the business of the Company", etc.[7] And yet despite explicitly requiring a direct subject matter connection to the business of the employer (something that Whitewater deceptively omits in its argument above), each of these assignments were deemed void and unenforceable because, just like the present EAP, they reached inventions conceived post-employment, regardless whether or not they were based on employer trade secrets.

5. Whitewater's Law Firm Knows The Law on §16600: They Recently Won A Case Arguing the Opposite of What They Are Arguing to This Court.

Whitewater's BUCHALTER law firm recently represented the successful defendants in the *Conversion Logic* case cited extensively above. Contrary to the unsupported and misleading arguments they have made to this Court, they filed a brief in late 2019 arguing the law correctly, as follows:

[7] Like *Huawei* and *Applied Materials*, *Armorlite Lens Co.* and *Conversion Logic*, *Inc*. also required a direct connection to the business of the employer, and did not presume it. *Armorlite Lens Co.*, 340 F. Supp. at 274 ("all new ideas and concepts I may have concerning the field of work of the company, or concerning its products, which ideas or concepts occur to me during the period of my employment, or within one (1) year after the termination thereof…); *Conversion Logic*, *Inc*., 2019 WL 6828283, at *6 ("conceived or developed by Employee while employed with the Company or within one (1) year following termination of such employment which relate to or result from the actual or anticipated business, work, research or investigation of the Company or any of its Affiliates.")

> "Assignment clauses function as unlawful non-compete provisions [under §16600] where they require an employee to assign an invention conceived after departing from an employer's service." *Applied Materials, Inc. v. Advanced Micro-Fabrication Equip*., 630 F.Supp.2d 1084, 1090 (N.D.Cal.2009)("*Applied Materials*"). In Applied Materials, the court invalidated an assignment clause that required the assignment of any invention "described in a patent application" or "disclosed to third parties" within one year of termination so long as that invention "relate[d] to [the former's employee's] work with [Plaintiff] or any of its subsidiaries." *Id*. at 1086. As the court explained, such a provision "necessarily operates as a restriction on employee mobility," and thus represents "a post-employment penalty" that violates §16600. *Id*. at 1091.
>
> Here, Conversion alleges that Testwuide breached the assignment clause in the Confidentiality Agreement, which required Testwuide to assign to Conversion "any inventions, ideas, discoveries, and work product that Testwuide developed at Measured between January 2017 and January 2018." (Compl., ¶ 175 (emphasis added). Accordingly, the assignment provision in the Confidentiality Agreement is a post-employment penalty and is unenforceable under §16600.

Conversion Logic, Inc. v. Measured, Inc., No. 2:19-cv-05546, 2019 WL 8503784 (C.D.Cal., ECF No.21-1, pgs. 15-16 of 31, filed 08/06/19)(Defendants' Motion to Dismiss).[8]

The defendants prevailed based on the above argument by Whitewater's law firm, and the causes of action for breach of those assignment provisions were

[8] The employee assignment successfully defeated by Whitewater's law firm required Testwuide to assign to Conversion "all Inventions ... conceived or developed by Employee while employed with the Company or within one (1) year following termination of such employment which relate to or result from the actual or anticipated business, work, research or investigation of the Company or any of its Affiliates[.]" *Conversion Logic, Inc*., 2019 WL 6828283, at *6.

dismissed at the pleading stage without leave to amend. *Conversion Logic, Inc.*, 2019 WL 6828283, at *6-7.

6. Mr. Alleshouse Was Clearly Restrained From Engaging in a Lawful Business, Because Whitewater Now Owns The PSD Patents That Prevent Mr. Alleshouse From Practicing The Invention He Created to Compete With Whitewater.

Section 16600 voids "every contract by which anyone is restrained from engaging in a lawful profession, trade, or business of any kind". Cal.Bus.&Prof.Code §16600. Whitewater argues that §16600 does not apply because Mr. Alleshouse allegedly provided no evidence that he was restrained "from participating in the sheet wave business with or without the inventions at issue." (Opp. at pg. 29). Whitewater points to its own experts to support this position, ignoring both common sense and the direct testimony of Mr. Alleshouse.

First, in none of the cases cited above that struck assignment holdovers under §16600 (*i.e.*, *Armorlite Lens Co.*, *Applied Materials Inc.*, *Huawei Techs. Co* and *Conversion Logic Inc.*) did the courts make any further inquiry regarding restraint of the former employee. Instead, the courts rightly accepted the rather obvious point that it is a restraint on a former employee's ability to work if that employee must assign newly-conceived inventions to their former employer, regardless whether or not they were based on the former employer's trade secrets. Such an ongoing assignment duty necessarily encumbers the former employee's ability to offer their

knowledge and creative services to subsequent employers, since their new employer might be paying them to create patentable inventions that the former employer could claw back and use against the new employer. 35 U.S.C. §271. That by-definition constitutes the type of restraint expressly forbidden by §16600, thus the universally-applied bright-line rule that does not require further demonstrations of restraint.

Second, Mr. Alleshouse testified that the rights to the PSD Patents were essential to his business of selling water rides and distinguishing those rides in the market. (TT302:22-303:17, Appx0450-0451). Any restriction of those rights was a very real restraint on the viability of his new company and his employment there. Mr. Alleshouse also recounted the immense amount of time and resources PSD invested into developing and refining the patented designs that Whitewater eventually clawed-back to use against PSD.[9] There is no question that this fundamental change in legal relations and consequent financial and strategic setback to Mr. Alleshouse and his new company PSD greatly exceeds, by magnitudes, the

[9] Mr. Alleshouse testified that PSD continued the costly and time-consuming prosecution of all three of the PSD Patents through the Patent Office. (TT313:1-7, Appx0461). PSD also "continued down the path of fully developing the concepts that we had developed []initially in the garage in 2012 in September" including building "full scale–60-percent size scale model of our quarter-pipe attraction" measuring "55 feet by 25 feet that was approximately [] 6 feet deep [with] 4 feet of water in it." (TT312:9-19, Appx0460). Mr. Alleshouse and his company would not have made these investments if the EAP were enforceable against inventions conceived post-employment. (TT314:2-13, Appx0462).

extremely minor post-employment restraints that have been deemed violative of §16600. *Compare, e.g., Hendrickson v. Octagon Inc.*, 225 F. Supp. 3d 1013, 1026–27 (N.D.Cal.2016)("California courts take no prisoners when it comes to Section 16600." [listing cases rejecting post-employment restrictions on competing with former employers—noting that **even a $20 penalty is too much**]), citing *Morris v. Harris*, 127 Cal.App.2d 476, 477–78, 274 P.2d 22 (1954)(emphasized). *See also, Edwards v. Arthur Andersen LLP*, 44 Cal.4th 937, 945, 81 Cal.Rptr.3d 282, 189 P.3d 285 (2008)(rejecting even "narrow-restraint" exceptions to §16600).

This Court should follow the uniform weight of authority applying §16600 and uphold California's important policy prohibiting post-employment restrictions by reversing the District Court's aberrant holding allowing the EAP to reach past the period of employment to require assignment-back of inventions conceived post-employment, since Whitewater never alleged that the subject inventions were based on confidential information.

b. Cal.Lab.Code §2870 is Consistent with Cal.Bus.&Prof.Code §16600 in Limiting Employee Invention Assignment Agreements To Inventions Conceived During Employment.

Understanding that §16600 necessarily limits employee invention assignment agreements to inventions conceived during the period of employment (except in the narrow exception, not applicable here, where trade secrets have been stolen) is entirely consistent with the statutory scheme recited in Article 3.5 of Chapter 2 of

Division 3 of the California Labor Code (§§2870-2872), entitled "Inventions Made by an Employee." Article 3.5 sets forth the specific circumstances under which an employer can require the assignment of inventions made by an employee.

The first section of Article 3.5, §2870, does not expressly mention time limits on invention assignments. But §2870 does clearly indicate that it is necessarily referring to assignments of inventions conceived during the period of employment, by referring only to assignment of "inventions" from an "employee" to his or her "employer" (and not to assignment by a *former employee* to a *former employer* of inchoate ideas learned during employment that later become inventions by conception post-employment). *See* Cal.Lab.Code §2870.

This is consistent with the title of Article 3.5 itself, which is "Inventions **Made** by an **Employee**". *Id.* (emphasized). Under federal patent law an invention is not "made" until it is invented, *i.e.*, until a definite and permanent idea of the complete and operative invention is conceived in the mind of the inventor(s). *Solvay S.A. v. Honeywell Int'l, Inc.*, 622 F.3d 1367, 1376 (Fed. Cir. 2010)("when the statute [35 U.S.C.] uses the words 'the invention was made in this country,' it is referring to the act of inventing in the United States."); *Burroughs Wellcome Co. v. Barr Labs., Inc.*, 40 F.3d 1223, 1227–28 (Fed. Cir. 1994)("Conception is the touchstone of inventorship … It is the formation in the mind of the inventor, of a definite and permanent idea of the complete and operative invention...") Thus, an invention

"made" by an "employee" as recited in the title of Article 3.5 is necessarily an invention conceived by someone who is in fact an employee, not a former employee, at the time of conception.

To the extent the words of §2870 and the title of Article 3.5 leave any doubt as to this inherent temporal limitation, §2871 clarifies the point by its express requirement that disclosure of "**all** of the employee's inventions" must be made "**during** the term of his or her employment…." Cal.Lab.Code §2871 (emphasized). Reading these two consecutive sections of Article 3.5 together, along with the title of Article 3.5 itself, plainly demonstrates that the statutory scheme is directed to inventions "made" (i.e., conceived) by an "employee", that is, conceived by a person who is employed by their employer (and not inventions conceived by someone who used to be an employee). Otherwise, it would make no sense and require an impossibility to mandate that "all" covered inventions "must" be disclosed during employment, if covered inventions could also include those not conceived until after employment.

This is simply a common-sense reading of the plain language of Article 3.5, §§2870 et seq., "as a symmetrical and coherent regulatory scheme", with all its parts fitting "into an harmonious whole." *Food and Drug Admin. v. Brown & Williamson Tobacco Corp.*, 529 U.S. 120, 133, 120 S.Ct. 1291, 146 L.Ed.2d 121 (2000)(internal

citations omitted); *Accord*, *Select Base Materials v. Board of Equal*., 51 Cal.2d 640, 645 (Ct. App. 1959).

Reading §§2870 et seq. of the California Labor Code to be internally consistent in requiring conception during employment, also makes §2870 symmetrical, coherent, and harmonious with Cal.Bus.&Prof.Code §16600, which flatly prohibits post-employment restrictions. These California statutes are not in tension with nor contrary to one another as Whitewater argues, and should not be so read, when they can be read together logically and harmoniously consistent with their plain language. *See Zenith Elecs. Corp. v. Exzec, Inc.*, 182 F.3d 1340, 1347 (Fed. Cir. 1999)("'It is a cardinal principle of construction that ... [w]hen there are two acts upon the same subject, the rule is to give effect to both if possible.'"). This Court should not first create and then resolve a conflict between §2870 and §16600 as invited by Whitewater, when the most plausible reading of each statute, consistent with all the authority on point, is that there is no conflict.

In addition, §2870 has been on the books since 1979,[10] so *Armorlite Lens Co.*, 340 F. Supp. at 275, had already been decided for seven years by that time, while the other §16600 cases came decades later, all with no conflict noted between §2870 and their holdings consistently striking down post-employment invention

[10] *See* Cal. Lab. Code §2870 (West)(Added by Stats.1979, c. 1001, p. 3401, § 1. Amended by Stats.1986, c. 346, § 1; Stats.1991, c. 647 (S.B.879), § 5.)

assignments under §16600. *See Applied Materials, Inc.*, 630 F. Supp. 2d at 1089; *Huawei Techs. Co.*, 2019 WL 1978339 at *6-9; *Conversion Logic, Inc.*, 2019 WL 6828283 at *6-7.

This Court should follow the uniform weight of authority and apply a common-sense reading of the statutory schemes that harmonizes them according to their plain language to limit employee invention assignment agreements to inventions "made" (i.e., conceived) during employment. Since Whitewater has admitted that the subject inventions were conceived post-employment (and without the use of trade secrets), the District Court's decision retroactively assigning back to Whitewater the PSD Patents for inventions conceived post-employment is contrary to both §§2870 and 16600 and should be reversed.[11]

[11] As argued in PSD's opening brief, PSD continues to maintain that the EAP is invalid on its face as overbroad in view of §2870, and that the District Court erred by salvaging the EAP by reading its overbroad terms as no broader than the maximum permissible breadth specifically delineated in §2870 (plus unlimited in time), especially when no notice was provided of the maximum permissible scope as required by §2872.

To that point, footnotes 8 and 11 of Whitewater's opposition brief incorrectly argue that "Appellants never raised any argument regarding the phrase 'in any way connected to the subject matter within the existing or contemplated business of the Company' below. As a result, that argument is waived." (Opp. at pg. 22). To the contrary, PSD argued this point extensively during trial (TT841:17-843:4, Appx0989-0991) and in its opening brief at pages 22 and 26-28. PSD waived nothing.

c. Whitewater's New Argument That Mr. Alleshouse Was "Dishonest" is Factually Unsupported and Legally Irrelevant Innuendo.

i. Whitewater's New Cal. Labor Code §2859 Argument Was Never Pled Nor Decided, Was Waived, and is Factually Baseless.

Whitewater now implies that Mr. Alleshouse violated Cal. Labor Code §2859. But Whitewater never litigated this violation below, so that argument is waived. *Bozeman Fin. LLC v. Fed. Reserve Bank of Atlanta*, 955 F.3d 971, 973 (Fed. Cir. 2020).

In addition to having waived this argument, the sole support Whitewater cites for its §2859 argument is *Iconix, Inc. v. Tokuda*, 457 F. Supp. 2d 969 (N.D.Cal.2006), which is factually inapposite in several important respects. Specifically, the subject inventions in *Iconix* were developed on employer time and resources, and most importantly, conceived **during** the inventor-employees' employment. *Id*. at 992. The subject inventions were also reduced to practice and exploited by hundreds of thousands of customers **during** the inventor-employees' employment. *Id*. at 989. Finally, the inventor-employees were alleged to have violated a criminal software theft statute (Cal.Penal Code §502(c)) by uploading the employer's source code to their own servers. *Id*. at 997.

In contrast, Whitewater does not allege theft of confidential information, Whitewater admits that the subject inventions were conceived post-employment

without its resources, and there are no findings of bad faith or criminal activity by Mr. Alleshouse. Thus, not only is Whitewater's unpled §2859 argument waived, it is factually inapposite and legally unsupported.

ii. In California the Only Limit on An Employee Quitting and then Conceiving an Invention to Compete With the Former Employer is Theft of Trade Secrets—Which Whitewater Admits Mr. Alleshouse Did Not Do.

As part of its new "dishonesty" innuendo presented for the first time on appeal throughout its brief, Whitewater cites *Huawei Techs. Co* for the proposition that:

> Intellectual Property that was conceived during an employers' tenure or soon after, which relate to that employees work with the employer is likely uniquely suspicious and thus an employer would have a heightened interest in reviewing such Intellectual Property.

(Opp. at pg. 31).

But this soundbite is inapposite dicta, not legal support for Whitewater's case. The *Huawei* Court actually ruled precisely **against** the position Whitewater is now taking, and refused to enforce the post-employment assignment provision notwithstanding the quoted soundbite. *Huawei Techs. Co.*, 2019 WL 1978339 at *6-9. That is because if an employer's information is not a trade secret, it is not "dishonest" for the employee to take it and use it post-employment to conceive an invention. *See Armorlite Lens Co.*, 340 F. Supp. at 275; *Applied Materials, Inc.*, 630 F. Supp. 2d at 1089; *Huawei Techs. Co.*, 2019 WL 1978339 at *6-9; *Conversion*

Logic, Inc., 2019 WL 6828283, at *6-7. *Accord*, *Winston Research Corp.*, 350 F.2d at 145; *Hendrickson*, 225 F. Supp. 3d at 1026–27.

The burden here is admittedly on Whitewater to prove either that the invention was actually conceived during employment, or that the employee used trade secrets to create the invention. *See* FN. 4, *supra*. But Whitewater fails on both counts, because: (1) it admits that Mr. Alleshouse's inventions were "not conceived until after his resignation" (Opp. at pg. 2); and (2) Whitewater has formally stipulated that Mr. Alleshouse did not make the inventions using confidential information. *See* FN. 2, 5, *supra*. Since Whitewater has failed to prove either of these counts, the "dishonesty" aspersions cast about by Whitewater are factually unsupported, legally irrelevant, and tellingly desperate.

d. Removing Mr. Yeh as Co-Inventor Was Reversible Error.

i. Because the EAP Cannot Legally Reach PSD's Patents, Whitewater Lacks Standing to Challenge Inventorship and the Judgment Must Be Reversed.

The threshold point remains that the EAP provides Whitewater with no ownership nor other economic interest in PSD's Patents, such that Whitewater lacks standing to challenge the inventorship under 35 U.S.C. §256. To the extent this Court follows the established case law regarding §16600 and/or §§2870 et seq. and finds the EAP void or otherwise unenforceable to capture the PSD Patents, which were admittedly conceived post-employment without using Whitewater's trade secrets,

then the inventorship analysis ends here and the District Court's judgment for the Fifth, Sixth, and Seventh Causes of Action (correction of inventorship) must be reversed for lack of standing. *Larson v. Correct Craft, Inc*., 569 F.3d 1319, 1326 (Fed.Cir.2009).

ii. The District Court Erred as Matter of Law by Failing to Consider the Claims as a Whole When it Determined that Mr. Alleshouse Had Fully Conceived of the Patented Inventions Based on the August 16, 2012 Notebook Entry.

PSD stands on and reiterates its inventorship arguments in its opening brief, which Whitewater failed to rebut. The claimed inventions were first conceived months, not weeks, after Alleshouse's employment ended, and as a result of collaboration with Yeh. But the District Court veered off-course in its inventorship analysis and improperly found that the claimed inventions were fully conceived by Mr. Alleshouse alone as of August 16, 2012, based solely on a notebook sketch that clearly does not show what was claimed in the PSD Patents.

Whitewater attempts to avoid scrutiny of the District Court's errant legal analysis by casting it all as findings of fact, based on imagined unfavorable credibility determinations that are found nowhere in the record, and detailed analyses that Whitewater proposes post-hoc but that the District Court never actually performed.

The contemporaneous record shows that the District Court simply looked at the August 16, 2012 notebook entry, and ruled 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).

It is not seriously disputed that the August 16, 2012 notebook entry fails to show what is recited in the claims of the '685, '189, and '433 Patents.[12] But the District Court failed to cite any other specific source of information that purportedly demonstrates this date of conception. Nor was there ever any finding that the August 16, 2012 notebook entry was an enabling disclosure of what was claimed in the PSD Patents. *Compare*, *Coleman v. Dines*, 754 F.2d 353 (Fed.Cir.1985):

> [To] establish[] conception a party must show possession of every feature recited in the count, and that every limitation of the count must have been known to the inventor at the time of the alleged conception. [] Conception must be proved by corroborating evidence which shows that the inventor disclosed to others his 'completed thought expressed in such clear terms as to enable those skilled in the art' to make the invention.

Coleman, 754 F.2d at 359 (citations omitted).

[12] PSD invites this Court to compare the scant disclosure representing Alleshouse's pre-8/16/12 notebook entries on which the District Court based conception (Appx1065-1079) against the actual claims of PSD's Patents. Appx1034-1035 ('685 claims), Appx1044-1045 ('189 claims), and Appx1060 ('433 claims). This was Whitewater's "heavy" burden, which it failed to address and as a consequence the District Court failed to address. *Hess v. Advanced Cardiovascular Sys*., 106 F.3d 976, 979-80 (Fed.Cir.1997)("the burden of showing misjoinder or nonjoinder of inventors is a heavy one and must be proved by clear and convincing evidence.")

Whitewater glosses over these points by referencing a subsequent perfunctory statement made by the District Court when challenged on its inventorship analysis, that: "it was the totality of the evidence that led the Court to conclude the Mr. Alleshouse alone conceived of the inventions and that Mr. Yeh did not make any patentable contributions." (Appx0007). But still, the District Court failed to actually analyze the claims of the PSD Patents in view of August 16, 2012 notebook entry (nor in view of any other corroborating evidence, let alone a contemporaneous enabling disclosure) and find that the claimed inventions, as a whole, were necessarily conceived in the mind of Mr. Alleshouse alone on that date. *Compare*, *WL. Gore & Assoc., Inc. v. Garlock, Inc.*, 721 F.2d 1540, 1548 (Fed.Cir.1983)("it is the claims that measure and define the invention …. Each claimed invention must be considered as a whole."), *abrogated on other grounds by Markman v. Westview Instruments, Inc*., 52 F.3d 967 (Fed.Cir.1995)(*en banc*); *Pannu v. lolab Corp.*, 155 F.3d 1344, 1351 (Fed.Cir.1998)(inventorship includes contributing to the "total inventive concept").

The District Court's failure to analyze the PSD Patent claims as a whole in determining that Mr. Alleshouse had solely completed conception by August 16, 2012 was an error in the District Court's legal analysis subject to *de novo* review, not an underlying factual finding subject to the clearly erroneous standard of Rule 52(a)(6). Nonetheless, the District Court's improper inventorship analysis is so

egregiously lacking, even after PSD's post-judgment petition, that it clearly fails under either standard. *Allergan, Inc. v. Apotex Inc.*, 754 F.3d 952, 968 (Fed. Cir. 2014)("The district court, therefore, committed clear error in finding corroboration of an earlier priority date in documents that collectively do not include any description of the claimed invention …."), *cert. denied*, 574 U.S. 1075, 135 S.Ct. 956, 190 L.Ed.2d 832 (2015).

iii. The District Court Erred as Matter of Law by Failing to Consider Mr. Yeh's Contributions in the Context of the Claims as a Whole.

Whitewater also fails to rebut the point, argued at length on pages 52-55 of PSD's brief, that the District Court erred as a matter of law by requiring that the claim elements contributed by Mr. Yeh must each be considered separately and found absolutely novel on their own, disembodied from the claimed invention as a whole. Instead of defending the District Court's improper analysis, Whitewater blames PSD for the District Court's legally improper analysis by arguing that it "was done in direct response to Appellants specific request that the District Court engage in a 'limitation-by-limitation' analysis of each patent claim." (Opp. Brief at 56). But PSD's post-judgment petition that the court address the inventorship inquiry to the claims of the patents did not excuse the court from following the law and considering Mr. Yeh's collaborative contributions to the total inventive concept in the context of the claims as a whole. *See Pannu*, 155 F.3d at 1351.

For these and the other reasons provided in PSD's opening brief, the District Court's judgment for the Fifth, Sixth, and Seventh Causes of Action (correction of inventorship) should be reversed.

II. CONCLUSION AND RELIEF SOUGHT

PSD reiterates all the arguments in its opening brief, in addition to the points emphasized in this reply, and respectfully requests reversal without remand on all counts.

May 27, 2020

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CERTIFICATE OF FILING AND SERVICE

I hereby certify that on this 27th day of May, 2020, I caused this Reply 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:

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Dated: May 27, 2020

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