

**UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF CALIFORNIA**

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

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.

**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

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

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

11 In January 2009, Wave Loch, LLC was formed, and at some point thereafter, perhaps
12 in early 2010, Alleshouse’s employment was transferred from Wave Loch, Inc. to Wave
13 Loch, LLC. According to Plaintiff, Wave Loch, Inc. also assigned all of its assets to Wave
14 Loch, LLC. (Decl. of Roger L. Scott in Opp’n to Mot. (“Scott Decl.”), Ex. 3 at 46:7-49-
15 23.)

16 At some time during his employment with Wave Loch, LLC, and by at least July
17 2012, Alleshouse began corresponding with Defendant Yong Yeh about the two of them
18 going into business together. (Scott Decl. in Suppl. of Opp’n to Mot., Ex. 4 at 39.¹) During
19 that timeframe, July 2012, Alleshouse also approached Yeh regarding his Agreement with
20 Wave Loch. (*Id.* at 43.)

21 On July 27, 2012, Alleshouse tendered his resignation to Wave Loch, LLC, and
22 stated his last date of employment would be August 3, 2012. (Brahma Decl., Ex. F.) Three
23 days after tendering his resignation, Alleshouse and Yeh exchanged emails about how to
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26 ¹ The page numbers referenced here are the page numbers of Yeh’s deposition transcript.
27 Defendants object to this evidence on the ground that the transcript submitted by Plaintiff
28 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.

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

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

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

16 On March 13, 2017, Plaintiff filed the present case alleging the following claims:
17 (1) breach of contract against Alleshouse, (2) intentional interference with contract against
18 Defendants Yeh and PSD, (3) violation of California Business and Professions Code §
19 17200 against Defendant PSD, (4) declaratory relief against all Defendants, (5) correction
20 of inventorship of the ‘685 Patent, (6) correction of inventorship of the ‘189 Patent and (7)
21 correction of inventorship of the ‘433 Patent.

22
23
24 ² Defendants object to this evidence on the ground it is unauthenticated hearsay. The Court
25 overrules this objection as the evidence was produced by Defendants during discovery and
26 purports to be material attributed to Alleshouse, a party opponent. *Maljack Prods., Inc. v.*
27 *GoodTimes Home Video Corp.*, 81 F.3d 881, 889 n.12 (9th Cir. 1996). The evidence also
28 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,

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

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

10 In consideration of compensation paid by Company, Employee
 11 [Alleshouse] agrees that all right, title and interest in all inventions,
 12 improvements, developments, trade-secret, copyrightable or patentable
 13 material that Employee conceives or hereafter may make or conceive, whether
 solely or jointly with others:

14 (a) with the use of Company's time, materials, or facilities; or

15 (b) resulting from or suggested by Employee's work for Company;
 16 or

17 (c) in any way connected to any subject matter within the existing
 18 or contemplated business of Company

19 shall automatically be deemed to become the property of Company as soon as
 20 made or conceived, and Employee agrees to assign to Company, its
 21 successors, assigns, or nominees, all of Employees' rights and interests in said
 22 inventions, improvements, and developments in all countries worldwide.
 23 Employee's obligation to assign the rights to such inventions shall survive the
 discontinuance or termination of this Agreement for any reason.

24 (Brahma Decl., Ex. B at 4.)⁴ Defendants argue this Provision is void for several reasons.
 25 First, they assert it violates California Labor Code § 2870. Second, they contend the
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27 ⁴ Plaintiff's breach of contract claim is confined to the Assignment Provision. (*See* Opp'n
 28 to Mot. at 2 n.1.) Accordingly, the Court does not address Defendants' arguments on the
 nondisclosure provision of the Agreement.

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

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

7 Any provision in an employment agreement which provides that an employee
 8 shall assign, or offer to assign, any of his or her rights in an invention to his
 9 or her employer shall not apply to an invention that the employee developed
 10 entirely on his or her own time without using the employer’s equipment,
 11 supplies, facilities, or trade secret information except for those inventions that
 12 either:

13 (1) Relate at the time of conception or reduction to practice of the invention
 14 to the employer’s business, or actual or demonstrably anticipated research or
 15 development of the employer; or

16 (2) Result from any work performed by the employee for the employer.

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

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

25 ⁵ Defendants raised a new overbreadth argument in their reply brief, specifically, that the
 26 Provision covers inventions “suggested by” the Employee’s work for the Company, not
 27 just inventions that “result from” such work. Because Defendants did not raise this
 28 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).

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

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

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

25 Having failed to make this showing, Defendants argue Plaintiff cannot prove
26 Alleshouse breached the Assignment Provision. Specifically, they assert there is no
27 evidence Alleshouse conceived of the inventions during his employment with Wave Loch,
28

1 Inc.⁶ Defendants contend that Alleshouse's employment with Wave Loch, Inc. is the only
 2 relevant time period because the Agreement was between Alleshouse and Wave Loch, Inc.
 3 only. Defendants acknowledge, however, that "Company" is defined in the Agreement as
 4 more than just Wave Loch, Inc. As stated above, "Company shall include its divisions,
 5 affiliates, subsidiaries, associate companies, shareholders, members, employees, licensees,
 6 joint venture partners, or any successors thereof." Defendants have not shown that Wave
 7 Loch, LLC, which was Alleshouse's employer immediately subsequent to Wave Loch,
 8 Inc., does not fit within any of those categories. Indeed, at a minimum there is a genuine
 9 issue of material fact as to whether Wave Loch, LLC was an affiliate or successor of Wave
 10 Loch, Inc. (*See* Scott Decl., Ex. 3 at 49-50⁷) (Lochtefeld describing relationship between
 11 Wave Loch, Inc. and Wave Loch, LLC). There is also, at a minimum, a genuine issue of
 12 material fact as to whether Alleshouse conceived of his inventions while he was employed
 13 by Wave Loch, LLC. (*See* Scott Decl., Ex. 6) (July 30, 2012 email from Alleshouse to
 14 Yeh discussing "need to have a product which is different" for IAAPA).

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

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

23 ⁶ Under the heading of failure to prove breach, Defendants also argue the assignment
 24 provision is not "necessary to protect any Wave Loch, Inc. confidential information."
 25 (Mem. of P. & A. in Supp. of Mot. at 11.) It is unclear how this argument relates to the
 26 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.

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

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

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

9 **C. Correction of Inventorship**

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

13 Title 35 U.S.C. § 256(a) states:

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

18 35 U.S.C. § 256(a). In cases like this one alleging misjoinder, “the burden on each party
 19 [is] to show facts supported by clear and convincing evidence that the [] person listed as
 20 an inventor had not in fact contributed to the conception of the invention.” *Thompson v.*
 21 *Haynes*, 305 F.3d 1369, 1384 (Fed. Cir. 2002). In other words, the party alleging
 22 misjoinder must show, by clear and convincing evidence, “that the persons to be removed
 23 did not contribute to the invention of any of the allowed claims.” *Univ. of Pitt. of*
 24 *Commonwealth Sys. of Higher Ed. v. Hedrick*, 573 F.3d 1290, 1297 (Fed. Cir. 2009).

26 ⁸ Defendants’ arguments for summary judgment on Plaintiff’s claims for intentional
 27 interference with contract, unfair competition and declaratory relief derive from their
 28 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

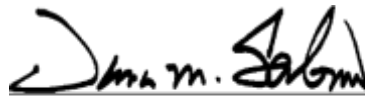
III.

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.