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## IP NEWS

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### FEDERAL CIRCUIT: POST-EMPLOYMENT ASSIGNMENT CLAUSE VOID UNDER CALIFORNIA LAW

On Nov. 19, 2020, a Federal Circuit panel of Judges Dyk, Moore and Taranto issued an opinion, authored by Judge Taranto, in *Whitewater West Industries, Ltd. v. Richard Alleshouse, Yong Ye, and Pacific Surf Designs, Inc.*, Nos. 2019-1852, 2019-2323 (Fed. Cir. 2020). The panel held that an assignment provision that encompassed post-employment inventions is void under California restraint-of-trade laws, reversing the opinion of the Southern District of California. Slip Op. at 2.

#### **Factual Background**

The case involves three patents — U.S. Patent Nos. 9,044,685, 9,302,189, and 9,592,433 — directed generally to improvements to water-park attractions designed

to mimic ocean waves for surfing. *Id.* at 1. The patents list two inventors, defendants-appellants Richard Alleshouse and Yong Yeh. *Id.* Alleshouse is an engineer with years of experience in the water-attraction industry. *Id.* at 3. He began working for Wave Loch, Inc. (Wave Loch), in 2007 as a field engineer where he was tasked with designing and improving water rides. *Id.*

In early July 2012, Alleshouse contacted Yeh, an attorney, and they soon discussed forming their own venture, which became defendant-appellant Pacific Surf Designs, Inc. (Pacific Surf Designs). *Id.* at 6. Alleshouse left Wave Loch on August 3, 2012. *Id.* In October 2012, the two co-inventors filed provisional applications that resulted in the three patents-in-suit. *Id.* at 6.

Plaintiff-appellee Whitewater West Industries, Ltd. (Whitewater) is the successor to Wave Loch, and brought suit asserting claims for breach of contract and correction of inventorship, claiming that Alleshouse was obligated to assign the patents to Whitewater pursuant to the terms of

his employment agreement with Wave Loch. *Id.* at 1.

Under Wave Loch's "Covenant Against Disclosure and Covenant Not to Compete," any invention that Alleshouse "conceives or hereafter may make or conceive" a) with Wave Loch's "time, materials, or facilities"; b) "resulting from or suggested by Employees' work" for Wave Loch; or c) that is "in any way connected to any subject matter within the existing or contemplated business" of Wave Loch would be assigned to Wave Loch. *Id.*

The district court held a bench trial and ruled in favor of Whitewater. *Id.* at 7. The district court held that the assignment provision was valid under California law and found that Alleshouse breached the agreement by failing to assign the patent rights at issue and that Yeh was not properly listed as an inventor. *Id.*

#### **The Federal Circuit's Analysis**

The Federal Circuit reversed, holding that the assignment provision is void under California law. Slip Op. at 3. As a result, Alleshouse could not have breached the contract and

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Whitewater lacked standing to contest inventorship.

As a preliminary matter, on appeal, the parties accepted “two important factual premises:” First, that the inventions were not conceived until after Alleshouse left Wave Loch; and second, that Alleshouse did not use any trade secret or confidential information in the development of the patented inventions. *Id.* at 9. Therefore, the question before the court was whether the agreement could assign “inventions conceived post-employment” under California law. *Id.* at 10.

Under California’s Business and Professions Code §16600, “Except 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.”

The panel held that Wave Loch’s post-employment assignment provision “has a broad restraining effect.” *Id.* at 11. The assignment obligation is “unlimited in time and geography,” and requires only that the invention be “suggested by” or “in any way connected to” his work for Wave Loch. *Id.* at 12. Given this broad scope, Alleshouse would be hamstrung from deploying the “useful, specialized knowledge” that he developed over the course of his employment at Wave Loch to any other employer in that industry. *Id.* at 12-13. “The impairment of the individual’s ability to pursue his profession, trade, or business would be significant.” *Id.* at 13.

Although the panel could not identify any California Supreme Court or state appellate court decisions that directly addressed post-employment assignments, it surveyed decisions from both California state and federal courts, which have repeatedly addressed the breadth of §16600. *Id.* at 14-19. Based on its summary of relevant caselaw, the panel found the post-employment assignment provision void, noting that “invention-assignment provisions that go beyond protection of proprietary information and ensnare post-employment inventions are to be judged under the strict §16600 standards that protect former employees.” *Id.* at 19.

Finally, the Federal Circuit rejected Whitewater’s argument that §16600 should be weakened to harmonize with California Labor Law §2870(a), which provides certain limits to assignment provisions. The panel held that §2870(a) “simply does not apply to post-employment inventions, much less affirmatively authorize all agreements that require assignment of post-employment inventions as long as they meet the ‘except for’ criteria” of that section. *Id.* at 23. Therefore, the panel found no reason to deviate from its conclusion under §16600. *Id.* at 24-26.

For those reasons, the court held that the assignment clause was void, reversed the district court’s decision, and entered judgment in favor of Allesworth and Pacific Surf Designs.

## **FEDERAL CIRCUIT: NO NEW TRIAL FOR IMPROPER “PENNIES ON THE DOLLAR” RHETORIC**

On Nov. 19, 2020, a Federal Circuit panel of Chief Judge Prost and Judges Bryson and Wallach issued an opinion, authored by Judge Bryson, in *Vectura Limited v. GlaxoSmithKline LLC and Glaxo Group Limited*, No. 2020-1054 (Fed. Cir. 2020). The panel rejected each of four arguments raised by defendant-appellant GlaxoSmith Kline LLC and Glaxo Group Limited (GSK) to overturn the judgment, entered following a jury trial, that GSK infringed U.S. Patent No. 8,303,991 (the ‘991 Patent) and that the patent was not invalid. Slip Op. at 2.

The ‘991 Patent is directed to the production of “composite active particles” used in inhalers to promote dispersion and delivery of the active ingredient. *Id.* Plaintiff-appellee Vectura Limited (Vectura) alleged that GSK’s ELLIPTA® inhalers infringed the ‘991 Patent. *Id.* at 3. At trial, the jury found GSK’s infringement willful and awarded GSK damages of over \$89 million, based on a 3% royalty rate on \$2.99 billion in U.S. sales. *Id.* at 5.

On appeal, GSK raised four issues, two relating to infringement and two concerning damages. *Id.* at 6. GSK first argued that Vectura relied on a defective scientific test to prove that GSK’s additive improved the dispersion of the active ingredient in GSK’s inhalers. *Id.* at 7. The panel was unpersuaded: Although acknowledging that

Vectura's study was "not a perfect model for GSK's commercial products," the panel found that the jury "could reasonably have extrapolated those results" based on other evidence in the record. *Id.* at 8-9. Further, the panel surveyed other evidence in the trial record that supported Vectura's infringement position, leading to the conclusion that "substantial evidence supported the jury's implied finding that the accused inhalers" infringe the '991 Patent. *Id.* at 11.

Second, GSK argued that the district court erred in construing the claim term "composite active particles." *Id.* Specifically, GSK contended that the court should have construed the term to encompass the "high-energy milling" process described in the specification and the prosecution history. *Id.* The panel disagreed. As claim 1 of the '991 Patent is an apparatus claim, the "process steps can be treated as part of the product claim if the patentee has made clear that the process steps are an essential part of the claimed invention." *Id.* at 12 (quoting *Continental Circuits LLC v. Intel Corp.*, 915 F.3d 788, 799 (Fed. Cir. 2019)). Here, although the specification "contains a few statements suggesting that its high-energy milling is required," the panel held that "those statements are outweighed by the numerous statements indicating that high-energy milling is merely a preferred process." *Id.* at 13. Nor was the panel persuaded by the prosecution history, in which the applicants distinguished prior art

"based on the unique structure of the claimed composite particles, not the disclosed milling method." *Id.* at 14-15. For those reasons, the panel rejected GSK's challenge to the district court's claim construction.

Next, the panel turned to GSK's arguments for a new trial on damages. GSK first argued that Vectura's damages expert improperly calculated reasonable royalty damages in violation of the "entire market value rule." *Id.* at 15. Generally, "an entire-market value royalty base is appropriate only when the patented feature creates the basis for consumer demand or substantially creates the value of the component parts, and apportionment is required when an entire-market-value royalty base is inappropriate." *Id.* at 17 (citing *Vernetx, Inc. v. Cisco Sys., Inc.*, 767 F.3d 1308, 1326 (Fed. Cir. 2014)). At trial, Vectura used GSK's total sales as the royalty base without showing, according to GSK, that the patented dispersion technology drove consumer demand. *Id.* at 16. However, the panel held that this case presented the "unusual circumstance" where the basis for the royalty rate — here, prior licenses between the parties — featured "built-in apportionment." *Id.* at 17. In such circumstances, "a party relying on a sufficiently comparable license can adopt the comparable license's royalty rate and royalty base without further apportionment." *Id.* at 17-18. Because Vectura introduced evidence that the prior licenses covered "roughly very similar

technologies" and addressed the differing economic circumstances between the prior licenses and the present dispute, the district court did not abuse its discretion in denying GSK's motion for a new trial on damages. *Id.* at 18-19.

Finally, GSK argued that it is entitled to a new trial based on Vectura's improper argument that Vectura's requested royalty rate is "pennies on the dollar." *Id.* at 20. In reviewing the record, the panel noted that, in at least three places, Vectura made improper arguments "unnecessarily emphasizing GSK's billion-dollar sales." *Id.* at 23. However, other references to GSK's total U.S. sales were proper in the context of calculating the royalty damages or analyzing the comparable prior licenses in the context of the *Georgia Pacific* factors. *Id.* at 23-24. The district court had held that the improper remarks were "not so prejudicial as to require a new trial," and the panel found "no basis to second-guess the judgment of the experienced trial judge in this regard." *Id.* at 25. For that reason, the panel affirmed the denial of a new trial on this basis.

