

2017 WL 2349031

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United States District Court,  
S.D. California.

FLOWRIDER SURF, LTD., a Canadian  
corporation, and Surf Waves, Ltd., a company  
incorporated in the United Kingdom, Plaintiffs,

v.

PACIFIC SURF DESIGNS, INC., a  
Delaware corporation, Defendant.  
And Related Counterclaims.

Case No.: 3:15-cv-01879-BEN-BLM

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Signed 05/26/2017

#### Attorneys and Law Firms

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#### ORDER:

**(1) GRANTING PSD's MOTION TO DISMISS  
U.S. PATENT 6,491,589 FOR LACK OF SUBJECT  
MATTER JURISDICTION (ECF No. 102);**

**(2) DENYING PLAINTIFFS' MOTION TO  
SUBSTITUTE PARTIES (ECF No. 106);**

**(3) DISMISSING U.S. PATENT 6,491,589  
AND PLAINTIFF FLOWRIDER  
SURF, LTD. WITHOUT PREJUDICE;**

**(4) DENYING AS MOOT PSD's MOTION TO STAY  
PENDING INTER PARTES REVIEW (ECF No. 142);**

**(5) GRANTING PSD's RENEWED  
MOTION TO STAY PENDING INTER  
PARTES REVIEW (ECF No. 169); and**

#### (6) STAYING ACTION.

Hon. Roger T. Benitez, United States District Judge

\*1 This is a patent infringement action, in which Plaintiffs FlowRider Surf, Ltd. ("FlowRider Ltd.") and Surf Waves, Ltd. ("Surf Waves") allege infringement of U.S. Patent Nos. 6,491,589 (the "'589 patent") and 8,088,016 (the "'016 patent"). Presently before the Court are Defendant Pacific Surf Design, Inc.'s ("PSD") motion to dismiss the '589 patent for lack of subject matter jurisdiction (ECF No. 102, 112),<sup>1</sup> Plaintiffs' motion to substitute parties pursuant to Federal Rule of Civil Procedure 25(c) (ECF No. 106), and PSD's motion to stay pending *inter partes* review (ECF Nos. 142, 169).<sup>2</sup>

PSD's motion to dismiss and Plaintiffs' motion to substitute concern the same issue: The chain of title to the '589 patent and Plaintiff FlowRider Surf, Ltd.'s standing to bring this lawsuit. Standing is a constitutional requirement pursuant to Article III that can be raised at any time. *Abraxis Bioscience, Inc. v. Navinta LLC*, 625 F.3d 1359, 1363 (Fed. Cir. 2010). "A court may exercise jurisdiction only if a plaintiff has standing to sue on the date it files suit." *Id.* at 1364. If a plaintiff lacks standing at that time, the Court lacks subject matter jurisdiction and the case must be dismissed pursuant to Rule 12(h) (3). In patent cases, standing is a matter of who holds "all substantial rights" to the patent. *Sicom Sys., Ltd. v. Agilent Techs., Inc.*, 427 F.3d 971, 976 (Fed. Cir. 2005). Because standing is a threshold jurisdictional issue, the Court addresses FlowRider Ltd.'s standing first.

#### I. Background on FlowRider Ltd.'s Standing

In the Complaint, Plaintiffs asserted the following about FlowRider Ltd.'s ownership of the '589 patent and corresponding standing:

MYLAN - EXHIBIT 1158

Mylan Pharmaceuticals Inc. et al. v. Allergan, Inc.

On January 31, 2014, Plaintiff FlowRider acquired a license to all rights in the '589 Patent from Surf Park PTE, LTD., together with the other intellectual property rights for the underlying technology through an Intellectual Property License Agreement. Under the terms of the Agreement, Plaintiff FlowRider is the exclusive worldwide licensee of the '589 Patent and has the right to enforce the intellectual property rights, including bringing actions for past patent infringement regarding the intellectual property. Accordingly, Plaintiff FlowRider has standing to sue for infringement of the '589 Patent.

(Compl. ¶ 11; *see also* Decl. of Justin M. Barnes In Support Of PSD's Mot. to Dismiss (“Barnes Decl.”), Ex. C, Am. Disclosure of Asserted Claims and Infringement Contentions at 9 (providing same explanation), ECF No. 112). In discovery, Plaintiffs added that chain of title passed from inventor Thomas Lochtefeld to Light Wave, Ltd. and from Light Wave, Ltd. to Surf Park PTE, Ltd. before passing from Surf Park PTE, Ltd. to FlowRider Ltd. (Barnes Decl., Ex. D, Pls.' Suppl. Resps. To Def.'s 2d Set of Interrogs. at 6-7.) PSD argues, however, that this is not the complete story.

\*2 Indeed, the picture is more complicated. PSD points to other license agreements that either break the chain of title or demonstrate that FlowRider Ltd. is not the exclusive licensee of the '589 patent rights. Because the Court must trace the chain of title to determine standing, *see Gaia Techs., Inc. v. Reconversion Techs., Inc.*, 93 F.3d 774, 777 (Fed. Cir. 1996), the Court identifies the transfers of the '589 patent below, in chronological order. The Court identifies the various entities by their full business names for clarity where necessary.

1. 2000 Assignment from Lochtefeld to Light Wave, Ltd.

Thomas Lochtefeld invented the '589 patent. (Barnes Decl. Ex. A.) In October 2000, before the patent issued, Mr. Lochtefeld assigned “the entire right, title, and interest throughout the world” in the yet-to-be-issued '589

patent to Light Wave, Ltd. (“Light Wave”), a company owned by Mr. Lochtefeld. (*Id.* Ex. B.) On December 10, 2002, the Patent and Trademark Office issued the '589 patent, with Light Wave as the assignee. (*Id.* Ex. A.)

2. 2003 License from Wave Loch, Inc. to Aquatic Development Group, Inc.

On September 26, 2003, Wave Loch, Inc., another one of Mr. Lochtefeld's companies, granted Aquatic Development Group, Inc. (“ADG”) an exclusive, “non-transferable right and license to use the [the '589 patent rights] ... to manufacture, market, sell, offer to sell and install Licensed Attractions solely in” North America, Central America and the Caribbean Islands, and South America.” (Suppl. Decl. of Justin M. Barnes In Support Of PSD's Mot. to Dismiss (“Barnes Suppl. Decl.”), Ex. Q at 3, ECF No. 131.) In the agreement, Wave Loch, Inc. represented and warranted that “it is the owner of the entire right, title, and interest in and to the Licensed Rights, with no breaks in the chain of title.” (*Id.* at 9.) The termination date of the agreement and license was January 1, 2007. (*Id.*)

3. 2006 License from Wave Loch, Inc. to Aquatic Development Group, Inc.

On November 18, 2006, Wave Loch, Inc. again licensed rights to several patents, including the '589 patent, to ADG. (Barnes Decl. Ex. I.) The language in the 2006 license is similar to that in the 2003 license. Wave Loch, Inc. granted ADG an exclusive “non-transferable right and license to use the Licensed Technology ... to manufacture, market, sell, offer to sell, and install Licensed Attractions” in Canada and the United States, with certain exclusions. (*Id.* at 2-3.) The term of the agreement and license was from January 1, 2007 to January 1, 2012. (*Id.* at 8.)

Wave Loch, Inc. again warranted that “it is the owner of the entire right, title, and interest in and to the Licensed Rights, with no breaks in the chain of title thereof.” (*Id.* at 9.) Despite this representation, Mr. Lochtefeld declares that the representations and warranties made by Wave Loch, Inc. in this license agreement with ADG were “inadvertent errors.” (Lochtefeld Decl. ¶ 8.) He attests that “[n]o party other than Light Wave and Surf Park has held title to the '589 patent.” (*Id.*) Mr. Lochtefeld's declaration does not address the 2003 license from Wave Loch, Inc. to ADG. PSD included the 2003 license

agreement in its reply brief because it obtained the agreement from third-party ADG after it filed its original motion. (Reply at 3, ECF No. 123.)

4. 2007 License from Wave Loch, Inc. to Whitewater West Industries, Ltd.

In January 2007, Wave Loch, Inc. granted a Whitewater West Industries, Ltd. (“Whitewater West”) a limited “non-transferable, non-exclusive right and license to use the Licensed Rights[, defined to include the '589 patent,] to sell, and offer to sell, the Attractions ... solely in connection with their Design Build Project, and solely in” Asia, Europe, the Middle East, and Africa. (PSD’s Notice of Suppl. Evid. Ex. A at 1-3, ECF No. 159.) Unlike the 2003 and 2006 licenses, Wave Loch, Inc. did not expressly warrant that it was the title owner of the '589 patent, but it did represent that it “possesses certain international rights, technologies, intellectual property rights, [and] patents ... relating to ... the FlowRider® sheet wave ride attraction.” (*Id.* at 1.) The agreement terminated on January 1, 2008. (*Id.* at 7.)

5. 2009 License from Wave Loch, LLC to Whitewater West Industries, Ltd.

\*3 On February 20, 2009, Wave Loch, LLC entered a license agreement with Whitewater West Industries, Ltd. (Decl. of Geoff Chutter In Support Of Pls.’ Opp’n to Mot. to Dismiss (“Chutter Decl.”), Ex. 2, ECF No. 117.) In that agreement, Wave Loch, LLC purported to grant Whitewater West a “non-exclusive, non-transferable right and license to use the Licensed Technology,” including the '589 patent, throughout the world except for the United States and Canada, and a “limited exclusive right and license to use the Licensed Technology ... in Whitewater Projects in the Licensed Territory.” (*Id.* at 3-4.) The term of the agreement and license is from February 20, 2009 to February 20, 2029. (*Id.* at 13.)

Wave Loch, LLC warranted that “it is the owner of the entire right, title, and interest in and to the Licensed Rights, with no breaks in the chain of title.” (*Id.* at 15.) As to this agreement, Mr. Lochtefeld again declares that Wave Loch, LLC’s representations about its possession of rights was an “inadvertent error.” (Lochtefeld Decl. ¶ 8.)

6. 2010 License from Wave Loch, LLC to Whitewater International LLC

In October 2010, Wave Loch, LLC and Whitewater International LLC (“Whitewater International”) executed an “Equipment Purchase and License Agreement” that authorized Whitewater International’s right to use certain intellectual property rights to construct a FlowBarrel® attraction in the United Arab Emirates. (PSD’s Notice of Suppl. Evid. Ex. B.) Wave Loch, LLC granted Whitewater International “only those Licensed Rights that are necessary for [Whitewater International] to install the Attraction at the Site.” (*Id.* at 7.) The “Licensed Rights” is defined to include the “patents that cover the FlowBarrel attractions ... and *may include* one or more of the patents set forth in EXHIBIT 3.” (*Id.* at 3 (emphasis added.)) Exhibit 3 lists the '589 patent. (*Id.* at 18.)

7. 2011 Assignment from Light Wave, Ltd. to Surf Park PTE, Ltd.

On May 18, 2011, Light Wave, Ltd. assigned to Surf Park PTE, Ltd. (“Surf Park”) “any and all rights and interest in the Intellectual Property Rights in and to” the '589 patent. (Lochtefeld Decl., Ex. A at 335, 338.) Light Wave represented that it “is the owner of the entire right, title and interest in” the patent rights. (*Id.*) A public version of the assignment was executed on May 15, 2013, indicating an effective date of October 15, 2012. (Barnes Decl. Ex. E.) However, the assignment should have indicated an effective date of May 18, 2011. (Lochtefeld Decl. ¶ 5.) On July 18, 2013, Light Wave executed a corrected assignment document, identifying the effective date of May 18, 2011. (*Id.* Ex. B.) But, the incorrect May 15, 2013 assignment was recorded with the PTO on September 27, 2016. (*Id.*) The July 18, 2013 corrected assignment was recorded on December 2, 2016. (*Id.* Ex. C.)

8. 2011 License from Surf Park PTE, Ltd. to Whitewater International LLC

On May 19, 2011, a day after Light Wave assigned the patent rights to Surf Park PTE, Ltd., Surf Park granted Whitewater International an “exclusive, non-transferable, sublicensable right and license to use the Licensed Technology [, including the '589 patent,] ... to manufacture, market, sell, offer to sell, import, and install Licensed Attractions” throughout the entire world, subject to certain field of use and territory exclusions. (Chutter Decl. Ex. 3.)

9. 2011 Sublicense from Whitewater West Industries, Ltd. to ADG

On November 10, 2011, “Whitewater West Industries, Ltd. and its Affiliates,” affiliates defined as any agent, representative, or subsidiary of a party to the agreement, entered into a sublicense agreement with ADG for nonexclusive use of the '589 patent and other related technology. (Barnes Decl., Ex. J). Whitewater West stated that it was the licensor of the technology by means of a worldwide exclusive license from Surf Park PTE, Ltd. (*Id.* at 1.) Whitewater West warranted that it had “the legal authority” to extend the rights granted to ADG. (*Id.* at 17.)

10. 2014 License from Surf Park PTE, Ltd. to FlowRider Surf, Ltd.

\*4 On October 16, 2013, Plaintiff FlowRider Surf, Ltd. (“FlowRider Ltd.”) was formed. (Chutter Decl. ¶3.) From the time of its creation until February 2016, Whitewater West Industries, Ltd. owned 90% of FlowRider Ltd. and Wave Loch, LLC owned 10%. (*Id.*; Chutter Decl. Ex. 1 at 1.) On January 31, 2014, FlowRider Ltd. entered into a contribution agreement with Wave Loch, LLC, in which FlowRider Ltd. purchased Wave Loch, LLC's assets. (Chutter Decl. Ex. 1.) Those assets did *not* include the '589 patent.

Rather, FlowRider Ltd. acquired the rights to the '589 patent through a license from Surf Park PTE, Ltd. (Barnes Decl. Ex. F.) Specifically, on January 31, 2014, Surf Park granted FlowRider Ltd. “an exclusive, ... sub-licensable, royalty-bearing license to use the Licensed Rights[, including the rights to the '589 patent,] for any and all purposes and without restriction.” (*Id.* at 6.) The agreement had an effective date of December 1, 2012. In the agreement, Surf Park represented that it exclusively owns the licensed rights and no third party owns or has any rights to the licensed rights. (*Id.* at 13.) Surf Park also granted FlowRider Ltd. an irrevocable, transferable, and assignable option to purchase all of Surf Park's rights, title, and interest in the licensed rights after a minimum period. (*Id.* at 16.) Concurrent with the execution of the agreement, the May 19, 2011 license that Surf Park had granted to Whitewater International LLC (which, according to the agreement, Whitewater International had assigned to Whitewater West) was terminated. (*Id.* at 17.)

11. 2014 Sublicense from FlowRider Surf, Ltd. to Whitewater West Industries Ltd.

Upon executing the license with Surf Park, on the same day, FlowRider Ltd. granted a sublicense of those rights, including the rights to the '589 patent, to Whitewater West Industries Ltd. (Chutter Decl. Ex. 5.) Specifically, FlowRider Ltd. granted Whitewater West “an exclusive, sub-licensable, royalty-bearing license to use the Licensed Rights to make, have made, use, import, sell, offer for sale, or otherwise commercially exploit the Licensed Rights” throughout the world. (*Id.* at 5.) The sublicense did not include the option. The agreement had an effective date of December 1, 2012.

12. 2014 Sublicense from Whitewater West Industries, Ltd. to FlowRider, Inc.

Upon receiving the sublicense from FlowRider Ltd., Whitewater West sublicensed the rights to the '589 patent and other intellectual property to FlowRider, Inc. (Chutter Decl. Ex. 6.) With an effective date of December 1, 2012, Whitewater West granted FlowRider, Inc. “an exclusive sub-licensable, royalty-bearing license to use the Licensed Rights to make, have made, use, import, sell, offer for sale, or otherwise commercially exploit the Licensed Rights” within the United States. (*Id.* at 6.) Whitewater West retained the right to two sales of products per year under certain conditions. (*Id.* at 5.) The agreement stated that the sublicense was subject to the terms of a future sublicense to ADG. (*Id.* at 6, 9.) The sublicense did not transfer the option.

13. 2014 Sublicense from Whitewater West Industries, Ltd. to Surf Waves Ltd.

Whitewater West also granted an “exclusive, sub-licensable, royalty-bearing” sublicense to Plaintiff Surf Waves Ltd. to use the '589 patent rights in Europe. (Chutter Decl. Ex. 7.) The sublicense did not transfer the option.

14. 2016 Amalgamation of FlowRider Surf, Ltd. into Whitewater West Industries, Ltd.

FlowRider Surf, Ltd. and Surf Waves, Ltd.<sup>3</sup> commenced this action against PSD on August 24, 2015. (Compl., ECF No. 1.) On February 1, 2016, FlowRider Ltd. and Whitewater West “amalgamated as one company” under Canadian law in the name of Whitewater West

Industries, Ltd. (Barnes Decl. Ex. G.) By operation of Canadian law, on the date of the amalgamation, all of FlowRider Ltd.'s assets became the property of Whitewater West. *See* Canada Business Corporations Act, R.S.C. 1985, c. C-44, § 186 (“On the date shown in a certificate of amalgamation ... the property of each amalgamating corporation continues to be the property of the amalgamated corporation.”). Therefore, on February 1, 2016, FlowRider Ltd.'s remaining ownership interest to the '589 patent under its license with Surf Park, including the irrevocable option to purchase title, transferred to Whitewater West.

## II. Law Regarding Standing to Sue for Patent Infringement

\*5 Standing to sue is a threshold requirement in every federal action. *Sicom Sys., Ltd.*, 427 F.3d at 975. The plaintiff bears the burden of establishing that it has standing at the time it files suit. *Id.* In addition to Article III standing, a plaintiff in a patent infringement action must possess standing as defined by the Patent Act. *Drone Techs., Inc. v. Parrot S.A.*, 838 F.3d 1283, 1292 (Fed. Cir. 2016). Under the Patent Act, only “patentees” may bring an action for infringement. 35 U.S.C. § 281. Patentees include “not only the patentee to whom the patent was issued but also the successors in title to the patentee.” § 100(d).

There are two types of “successors in title” that may have standing to sue on their own. The first are assignees. An assignment transfers title to the patent. *Minco, Inc. v. Combustion Eng'g, Inc.*, 95 F.3d 1109, 1116 (Fed. Cir. 1996). The second are exclusive licensees holding “all substantial rights” to the patent. *Prima Tek II LLC v. A-Roo Co.*, 222 F.3d 1372, 1377 (Fed. Cir. 2000). When a patent owner grants an exclusive license that transfers “all substantial rights” to the patent, the license is tantamount to an assignment and the “exclusive licensee has sole standing to sue those suspected of infringing.” *Alfred E. Mann Found. v. Cochlear Corp.*, 604 F.3d 1354, 1359 (Fed. Cir. 2010). “[W]here an exclusive license transfers less than ‘all substantial rights’ in the patents to the exclusive licensee, the exclusive licensee may still be permitted to bring suit against infringers, but the patent owner is an indispensable party who must be joined.” *Id.* Nonexclusive licensees have no standing to sue or even join a suit with the patentee because they suffer no legal injury from infringement. *Id.* at 1360; *Sicom Sys.*, 427 F.3d at 976.

To determine whether a license agreement conveys all substantial rights in a patent, and thus constitutes an assignment for standing purposes, a court “must ascertain the intention of the parties [to the license agreement] and examine the substance of what was granted.” *Id.* State law governs the interpretation of contracts generally. *DDB Techs., L.L.C. v. MLB Adv. Media, L.P.*, 517 F.3d 1284, 1290 (Fed Cir. 2008). The Federal Circuit has identified certain rights that should be examined to determine whether a licensor transferred away sufficient rights to render an exclusive licensee the owner of a patent. *Mann Found.*, 604 F.3d at 1360-61. Those rights include:

- (1) The exclusive right to make, use, and sell products or services under the patent;
- (2) The scope of the licensee's right to sublicense;
- (3) The nature of the license provisions regarding reversion of rights to the licensor following breaches of the license agreement;
- (4) The right of the licensor to receive a portion of the recovery in infringement suits brought by the licensee;
- (5) The duration of the license rights granted to the licensee;
- (6) The ability of the licensor to supervise and control the licensee's activities;
- (7) The obligation of the licensor to continue paying patent maintenance fees;
- (8) The nature of any limits on the licensee's right to assign its interests in the patent; and
- (9) The nature and scope of the exclusive licensee's purported right to bring suit, together with the nature and scope of any right to sue purportedly retained by the licensor.

*Id.* This last factor “is the most important consideration.” *Id.* at 1361.

A patent may not have multiple separate owners for purposes of determining standing to sue. *Id.* at 1359.<sup>4</sup> “Either the licensor did not transfer ‘all substantial rights’ to the exclusive licensee, in which case the licensor remains the owner of the patent and retains the right to sue for

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