

Bio-Rad Ruling Highlights IP Assignment Clause Limits

By **Bryan Vogel and Derrick Carman** (May 5, 2021)

Modern employment contracts routinely contain assignment clauses, in which employees agree to assign their rights in any intellectual property developed during the period of employment.

But to what extent can an employer rely on these clauses to assert an ownership interest in patents obtained after the period of employment ends?

The U.S. Court of Appeals for the Federal Circuit recently provided guidance in *Bio-Rad Laboratories Inc. v. International Trade Commission*.^[1] The court held that mere ideas are not sufficient to trigger assignment provisions where those provisions are limited to intellectual property and where the conception date of the patented invention was after the employment had ended.

Moreover, explicit temporal limitations in the contract favored finding that the assignment provision did not apply. Finally, the court stated in dicta that the applicable California laws may not allow for post-employment application of assignment clauses, even if the contract terms permitted as much.

By way of background, the inventors in Bio-Rad started working for QuantaLife Inc. in 2010. In 2011, Bio-Rad acquired QuantaLife, and the inventors each signed an agreement in which they agreed to assign:

All inventions (including new contributions, improvements, designs, developments, ideas, discoveries, copyrightable material, or trade secrets) ... conceive[d], develop[ed] or reduce[d] to practice during the period of ... employment.^[2]

In April 2012, the inventors left Bio-Rad and in July 2012, formed 10X Genomics. While at 10X, the inventors filed several patent applications that ultimately issued as U.S. Patent Nos. 9,689,024, 9,695,468, and 9,856,530. It was undisputed that the earliest conception date for the asserted patents was January 2013, approximately nine months after the inventors had left Bio-Rad.

10X filed a complaint with the U.S. International Trade Commission alleging that Bio-Rad infringed the asserted patents. The ITC found that the patents were infringed and determined that Bio-Rad had failed to demonstrate that the patents were invalid.

As an affirmative defense, Bio-Rad alleged that it was a co-owner of the patents according to the employment agreement between Bio-Rad and the inventors. According to Bio-Rad, the inventors had conceived of the ideas embodied in the patents while they were still employed at Bio-Rad. Therefore, per Bio-Rad, the patents fell within the bounds of the assignment clause in the employment agreements, and the inventors were contractually obligated to assign the patents to Bio-Rad.

The administrative law judge rejected this argument. According to the ALJ, Bio-Rad failed to show that the inventive concept of the asserted patents was conceived before the inventors



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left Bio-Rad. The ITC affirmed but strictly defined "inventive concept" to mean "the specific arrangement of elements claimed in the asserted patents."

On appeal, the Federal Circuit affirmed. The court, however, declined to explicitly adopt the ITC's use of inventive concept as the test for whether the assignment clause applied. The court first held that the most straightforward interpretation of the contractual language limited its reach to "subject matter that itself could be protected as intellectual property."^[3]

The operative question therefore became at what point a protectable intellectual property interest arose. The court answered this question by employing the familiar patent law concept of conception.

Specifically, the court held that "the pertinent intellectual property does not exist until at least conception of that invention."^[4] Because it was undisputed that the date of conception was after the inventors had left Bio-Rad, the court concluded that the assignment clause did not apply, and Bio-Rad could not claim partial ownership of the asserted patents.

The court soundly rejected Bio-Rad's arguments that the inventors' ideas were subject to the assignment clause, stating that:

Bio-Rad has not cited any decision that held a significant contribution to post-employment inventions to come within an assignment provision that was limited to intellectual property developed during the term of employment.^[5]

The court distinguished several cases cited by Bio-Rad in support of its appeal. The court further noted that California law, which applied to the contract at issue in Bio-Rad, places significant policy restraints on employment agreements that restrain former employees in the practice of their profession, including agreements that require assignment of rights in post-employment inventions.

Bio-Rad provides both employers and employees with several considerations in assessing the reach of assignment clauses in employment agreements.

The first consideration is the scope of the contractual language, itself. Under Bio-Rad, language that explicitly refers to intellectual property or IP is likely to be strictly interpreted.

In addition, the assignment provision may only apply to work and activities that meet the strictures of a given intellectual property statute. In the case of patentable inventions, that potentially means conception of the complete invention.

The second consideration is that if an employer wishes to extend the assignment provision to future inventions, then the contractual language likely should explicitly contemplate such a scenario.

The court in Bio-Rad contrasted the language at issue in that case with the language in 2009 Federal Circuit Board of Trustees of the Leland Stanford Junior University v. Roche Molecular Systems Inc. decision.^[6] In Stanford, the employee agreed to assign his right title and interest in the ideas, invention, and improvements he conceived or made as a consequence of his work.

Although the court did not go so far as to say this contractual language would have been sufficient to bind former employees as in Bio-Rad, the court did stress the fact that the

Stanford language lacked a temporal limitation in distinguishing the case.

The final consideration is choice-of-law provisions. The court in *Bio-Rad* explained in dicta that California law is particularly restrictive when attempting to put restraints on former employees. The court noted that "[t]he contract language before us does not demand a reading that would test the California-law constraints."^[7]

Thus, it is not clear whether the assignment provision would have applied even if the agreement did not include a temporal restriction or specific reference to intellectual property.

Nonetheless, employers and employees should consider the implications of choice-of-law provisions that could potentially affect how contractual language is interpreted.

Bio-Rad reinforces the importance of the specific contractual language in determining the scope of assignment provisions in employment agreements. Considerations such as temporal limitations, the definition of subject matter covered, and the limitations of choice-of-law provisions all factor into the ultimate determination of whether a given idea, invention or improvement is covered.

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[1] Appeal No. 2020-1785, slip op. (Fed. Cir. 2021).

[2] *Id.* at 8.

[3] *Id.* at 28.

[4] *Id.*

[5] *Id.*

[6] 583 F.3d 832, 837 (Fed. Cir. 2009), *aff'd* on different grounds, 563 U.S. 776 (2011).

[7] *Bio-Rad*, slip op. at 31.