Information Memo

Intellectual Property Law

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Bd. of Trs. of the Leland Stanford Junior Univ. v. Roche Molecular Sys., Inc.: *The Bayh-Dole Act Does Not Automatically Vest Title to Federally Funded Inventions*

On June 6, 2011, the Supreme Court of the United States held that the Bayh-Dole Act does not automatically vest title to federally funded inventions in federal contractors or authorize contractors to unilaterally take title to such inventions. Instead, the Court held, "[o]nly when an invention belongs to the contractor does the Bayh-Dole Act come into play."

The Federal Circuit Decision

In 2005, the Board of Trustees of the Leland Stanford Junior University filed suit against Roche Molecular Systems, Inc., alleging that Roche's HIV detection kits (based on PCR technology purchased from a California biotechnology company called Cetus in 1991) were infringing the three patents-in-suit. Roche argued that it had acquired rights to the patents when it purchased Cetus.

The case rose to the Court of Appeals for the Federal Circuit, and in October 2009 the Court held that Cetus (and therefore Roche) had in fact acquired rights to the three patents-in-suit. One of the inventors of the patents, Mark Holodniy, who was also a Stanford employee, signed a "Copyright and Patent Agreement" ("CPA") which stated that he "agree[d] to assign or confirm in writing to Stanford and/or Sponsors that right, title and interest in . . . such inventions as required by Contracts or Grants." Citing two prior Federal Circuit cases, the court held that the language "agree to assign" was merely a promise to assign his invention rights to Stanford at some undetermined future point, not a transfer of an expectant interest. Not only did the CPA not transfer rights, but when Holodniy signed the contract Stanford's Administrative Guide to "Inventions, Patents, and Licensing" stated that: "[u]nlike industry and many other universities, Stanford's invention rights policy allows all rights to remain with the inventor if possible."

Shortly after signing the CPA, Holodniy began visiting Cetus to learn PCR and work on an HIV assay. Holodniy signed a "Visitor's Confidentiality Agreement" ("VCA") with Cetus that stated: "I will assign and do hereby assign to CETUS, my right, title, and interest in each of the ideas, inventions and improvements." The Federal Circuit interpreted the contract language "do hereby assign" to be "a present assignment of Holodniy's future inventions to Cetus," thereby giving Cetus immediate equitable rights in Holodniy's future invention.

Since the transfer of title to an invention occurs by operation of law once the invention comes into being, Cetus's equitable rights to Holodniy's invention vested no later than the date the parent application was filed (May 14, 1992). By the time Holodniy executed an assignment to Stanford three years later, his rights had already transferred to Cetus and the subsequent assignment was void.

Stanford also argued that it had a "right of second refusal" to the patents subject to the Government's right of first refusal, under 35 U.S.C. § 202(d) of the Bayh-Dole Act, which provides:

> "If a contractor does not elect to retain title to a subject invention in cases subject to this section, the Federal agency may consider and after consultation with the contractor grant requests for retention of rights by the inventor subject to the provisions of this Act and regulations promulgated hereunder."

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The Federal Circuit disagreed, holding that the Act does not void an otherwise valid prior transfer of rights. As a result, Stanford was entitled to only those rights that remained after the Government declined to exercise its option.

The Supreme Court Decision

On appeal to the Supreme Court, Stanford argued that section 202(a) of the Bayh-Dole Act – which gives contractors the right to "elect to retain title to any subject invention" (where "subject invention" is defined as "any invention of the contractor conceived or first actually reduced to practice in the performance of work under a funding agreement") – includes "all inventions made by the contractor's employees with the aid of federal funding."

The Supreme Court disagreed with Stanford's interpretation:

> Stanford's reading of the phrase "invention of the contractor" to mean "all inventions made by the contractor's employees" is plausible enough in the abstract; it is often the case that whatever an employee produces in the course of his employment belongs to his employer. No one would claim that an autoworker who builds a car while working in a factory owns that car. But, as noted, patent law has always been different: We have rejected the idea that mere employment is sufficient to vest title to an employee's invention in the employer. Against this background, a contractor's invention — an "invention of the contractor" — does not automatically include inventions made by the contractor's employees.

In support of its holding, the Court cited case law and treatises reaching as far back as 1851 holding that rights in an invention belong to the inventor, and that "unless there is an agreement to the contrary, an employer does not have rights in an invention which is the original conception of the employee alone."

Additionally, the Court held that "[t]he Bayh-Dole Act's provision stating that contractors may 'elect to *retain* title' confirms that the Act does not *vest* title." Instead of automatically vesting title, the provision notes that contractors "may keep title to whatever it is they already have." Indeed, "[o]nly when an invention belongs to the contractor does the Bayh-Dole Act come into play."

Here, since Roche had an ownership interest in the invention that predated Stanford's interest, the Bayh-Dole Act did not "come into play" to grant Stanford rights that it did not already have.

Practical Implications

The Supreme Court's decision echoes the practical implications set forth following the Federal Circuit's holding in *Stanford v. Roche*. Accordingly, it is clear that assignment clauses should be drafted with language that creates an immediate transfer of intellectual property rights in future works or inventions rather than a mere promise to assign rights in the future. Indeed, this case arose because Stanford's CPA contained the phrase "agree to assign" rather than the phrase "I…do hereby assign," which was in the Cetus agreement. Additionally, employees should consult with their employer or at least be made aware of the relevant assignment issues before entering into third-party confidentiality agreements.

If you have any questions, please contact George R. McGuire, Chair, Intellectual Property Practice Group, at 315.218.8515 or gmcguire@bsk.com.