

ClientAlert

Intellectual Property

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Supreme Court Affirms Rights of Inventors in *Stanford v. Roche*

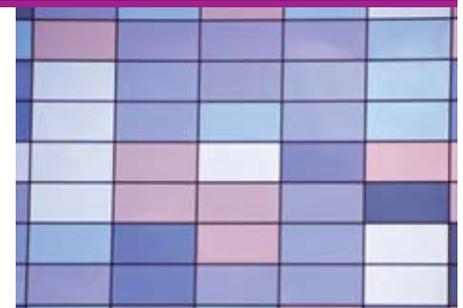
The Supreme Court has reaffirmed the “basic principle” of patent law that patent rights vest initially in the inventor and not the inventor’s employer. In *Bd. Of Trustees of the Leland Stanford Junior Univ. v. Roche Molecular Sys., Inc.*, No. 09-1159 (2011), the court ruled, 7–2, that the Bayh-Dole Act, which governs ownership of inventions made with federal funds, did not change that principle. That is, the Act does not automatically vest title to federally funded inventions in the contractors who receive government funds.

But the case might be more significant for the shadow it casts on Federal Circuit law governing assignment provisions in contracts. While the majority ignored the issue, the dissent and concurrence criticized the Federal Circuit’s licensing doctrine that a present assignment of a future invention—i.e., “I hereby assign my rights in anything I invent after this agreement”—automatically conveys legal title in the patent to the assignee upon filing of the application. The decision could have important implications for future patent ownership disputes.

Background

The patents at issue concern HIV testing methods using a polymerase chain reaction, or PCR, developed by scientists at Cetus. The controversy arose out of two competing written assignments signed by one of the inventors, Dr. Holodniy, a Stanford University researcher. Holodniy joined Stanford to work on developing an HIV test using PCR. At that time, he signed an agreement stating that he “agree[d] to assign” to Stanford his “rights, title and interest” in any inventions resulting from his research there. Holodniy then went to Cetus to learn more about PCR. As a condition of working at Cetus, he signed an agreement stating that he “will assign and *do[es]* hereby assign” to Cetus his “right, title and interest” in any inventions made as a consequence of his access to Cetus. While at Cetus, Holodniy devised a PCR-based procedure for calculating the amount of HIV in a patient’s blood. Holodniy then returned to Stanford where he and others tested and refined the technique. Stanford later obtained written assignments of rights from the Stanford employees, including Holodniy, and obtained three patents on the methods they developed.

Meanwhile, Roche acquired Cetus’s PCR-related rights, including those covered by the Holodniy-Cetus agreement, and commercialized an HIV test kit based on Holodniy’s work. Stanford sued, and Roche moved to dismiss for lack of standing. Roche argued that it was a co-owner of the patents—by virtue of the Holodniy-Cetus agreement—and that any infringement action must join all co-owners as plaintiffs. Stanford countered that its rights from Holodniy were superior to Roche’s, relying in part on the Bayh-Dole Act.



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The Bayh-Dole Act was enacted in 1980 to promote the use of inventions arising from federally funded research. As relevant here, under Bayh-Dole, a federal contractor may “elect to retain title to any subject invention,” 35 U.S.C. § 202(a), and a “subject invention” is “any invention of the contractor conceived or first actually reduced to practice in the performance of work under a funding agreement.” 35 U.S.C. § 201(e). Stanford argued that under Bayh-Dole, ownership of the patent rights vested initially in Stanford, and that Holodniy’s assignment to Cetus was ineffective because Holodniy had no rights to assign.

The District Court agreed with Stanford, but the Federal Circuit reversed on two separate grounds: (1) that Cetus acquired Holodniy’s interest in the patents as a matter of contract law because the Holodniy-Cetus agreement was a present assignment of patent rights while the Holodniy-Stanford agreement was a mere promise to assign rights in the future; and (2) that the Bayh-Dole Act does not automatically void *ab initio* the inventors’ rights in government-funded inventions, so Stanford did not automatically acquire title under Bayh-Dole.

Stanford appealed only the latter issue. Stanford did not directly challenge the Federal Circuit’s construction of Holodniy’s competing assignments, and the majority expressly declined to address the issue. Op. 5 n.2.

Patent Rights Initially Vest in Inventors

The court confined itself to determining whether the Bayh-Dole Act changed the “fundamental precept” of patent law—dating back to the first patent issued in 1790—that inventors have the right to patent their inventions. Stanford argued that Bayh-Dole did just that, because all inventions made by the contractor’s employees using federal funds are “inventions of the contractor” under Bayh-Dole. The court rejected that argument, noting that Stanford’s “reading assumes that Congress subtly set aside two centuries of patent law in a statutory definition.” Op. 9.

The court also parsed the language of the statute, in particular Congress’s choice of the term “retain,” which “confirms that the Act does not *vest* title. “You cannot retain something unless you already have it.” Op. 11. The court noted that “if Congress had intended to supplant one of the fundamental precepts of patent law, it would have said so clearly—not obliquely through an ambiguous definition of ‘subject invention’ and an idiosyncratic use of the word retain.” Op. 14. Thus, “[o]nly when an invention belongs to the contractor does the Bayh-Dole Act come into play.” Op. 12.

Because the Federal Circuit had ruled that under contract law, Roche (and not Stanford) acquired Holodniy’s interest in the patents, and because Stanford did not specifically appeal that point, the Supreme Court affirmed.

Criticism of Federal Circuit’s Licensing Doctrine

The dissent agreed with the majority that the Act does not vest ownership automatically in federal contractors. But the dissent argued that the Act should be construed to prevent an inventor from assigning an invention produced by public funds to a third party, thereby avoiding the Act’s restrictions. Essential to the dissent’s analysis is an answer to the contract law question: Which Holodniy assignment is effective to transfer legal title?

The dissent criticized the Federal Circuit’s licensing doctrine, first articulated in *FilmTec Corp. v. Allied-Signal, Inc.*, 939 F.2d 1568 (Fed. Cir. 1991), used by the Federal Circuit to construe the two assignments. That rule distinguishes between a present assignment (“I hereby assign...”) and a contingent assignment (“I agree to assign...”) of future inventions; the former operates automatically once the invention is made and the application is filed, while the latter requires a further act of assignment. Dissent 6–7.

Prior to *FilmTec*, a present assignment of a future invention conveyed only equitable, and not legal, title to the patent; conveying legal title required a further assignment. The dissent noted that under the old rule, both Stanford and Cetus had equitable, but not legal, title to the patents, and that Stanford’s equitable interests should have prevailed because Stanford’s contract came first and Stanford obtained a post-invention assignment. Dissent 7. But because the issue was not fully argued, Justice Breyer would vacate and remand to give the parties an opportunity to argue the matter more fully.

In her concurrence, Justice Sotomayor expressly noted her concerns with the Federal Circuit’s analysis of the competing assignment provisions and the *FilmTec* licensing doctrine, but agreed with the majority’s resolution and reasoning.

The Takeaway

The court affirmed the “fundamental precept” that patent rights vest initially in the inventor, not the inventor’s employer, and that the Bayh-Dole Act did not change that rule.

More interesting, however, is the court’s handling of the assignment issue and the licensing doctrine of *FilmTec*. The majority ignored the issue, choosing to focus on the narrow question before it. But three justices criticized the doctrine and all three noted that the majority opinion does not foreclose future litigants from raising the issue. This ruling suggests that the law of patent ownership is once again unsettled, and that the words of an assignment agreement—“I do assign” or “I will assign”—may not mean what the parties intended.

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