

Even Under Bayh-Dole, Employee Inventor Has First Dibs

June 7, 2011

The Supreme Court of the United States recently delivered a blow to the university technology transfer world by holding 7-2 that federal contractors do not have an automatic right to claim title to inventions. Because all ownership rights stem initially from the inventor, even in the case of federally funded research, the inventor's ownership rights trump the Bayh-Dole vesting provision.

In its second [affirmance of a U.S. Court of Appeals for the Federal Circuit decision](#) in the span of two weeks, the Supreme Court of the United States, in a blow to the university technology transfer world, held (7-2) that federal contractors do not have an automatic right to claim title to inventions. The statutory rights of the inventor, even in the case of federally funded research, trump the Bayh-Dole vesting provision. *Stanford Junior University v. Roche Molecular Systems*, Case No. 09-1159, 563 U.S. ____ (June 6, 2011) (Roberts, Chief Justice) (Sotomayor, Justice, concurring) (Breyer, Justice, dissenting).

The Bayh-Dole Act dates back to 1980 and is largely responsible for the vast increase in university licensing of the fruits of federally funded research. In the present case, the issue is raised as to whether the patent rights ownership provision of Bayh-Dole immediately vests ownership in a federally funded invention in the contractor, in this case Stanford University (See Cert Alert; *IP Update*, Vol. 13, No. 11). On June 6, the Supreme Court answered it does not. While Bayh-Dole clarifies the priority of allocation of rights as between the government and the contractor—all ownership rights stem initially from the inventor.

Background

Stanford sued Roche for infringement of three patents that claim methods for using the polymerase chain reaction (PCR) to measure the amount of HIV in blood samples and using those measurements to infer the effectiveness of antiretroviral drugs.

The standing question arose because Mark Holodniy, one of the named inventors of the patents, "signed multiple contracts defining his obligations to assign his invention rights." First, upon joining Stanford, Holodniy signed a Copyright and Patent Agreement (CPA) in which he agreed "to assign or confirm in writing to Stanford and/or Sponsors that right, title and interest in" any inventions he conceived of or first reduced to practice. At the behest of Stanford, however, Holodniy also visited Cetus Corp., a company collaborating with Stanford, to acquire background knowledge about PCR technology. In doing so, Holodniy signed a Visitor's Confidentiality Agreement (VCA) with

Cetus, which stated: “I will assign and *do hereby assign* to CETUS, my right, title, and interest in each of the ideas, inventions and improvements” (emphasis added).

In 1991 Roche purchased Cetus’s PCR business, including its agreements with Stanford and its researchers, and began making HIV detection kits. In 1992 Stanford filed the patent application to which the three patents-in-suit claim priority. After extensive negotiations between the two entities, Stanford filed suit against Roche in 2005. In its defense, Roche alleged, *inter alia*, that it possessed ownership rights in the patents-at-issue and, as a result, Stanford lacked standing. In response, Stanford argued that it was a *bona fide* purchaser and that the Bayh-Dole Act superseded any transfer of rights from Holodniy to Cetus.

The Federal Circuit Decision

The Federal Circuit found that Stanford did not possess standing to sue for infringement of the patents-in-suit because the CPA between Stanford and Holodniy was merely a promise to assign, while the VCA was a present transfer of Holodniy’s future inventions to Cetus. (*IP Update*, Vol. 12, No. 10). Thus, according to the Federal Circuit, “Cetus immediately gained equitable title to Holodniy’s inventions” and any subsequent assignment to Stanford was negated. The Federal Circuit also dismissed Stanford’s claim that it was a *bona fide* purchaser. Because “[a]n organization can be charged with notice of its employees’ assignments” the court found that “Stanford had at least constructive or inquiry notice of the VCA.” Therefore, Stanford did not qualify as a *bona fide* purchaser. Finally, the Federal Circuit rejected Stanford’s argument that “the Bayh-Dole Act negated Holodniy’s assignment to Cetus because it empowered Stanford to take complete title to the inventions.” Rather, the Federal Circuit concluded that while Bayh-Dole empowers the government to take title to certain inventions under specified circumstances, it neither “automatically void[s] *ab initio* the inventors’ rights in government-funded inventions” nor “voids prior contractual transfers of rights.” Similarly, “claiming title under Bayh-Dole does not override prior assignments.”

The Supreme Court

In affirming the Federal Circuit, Chief Justice Robert, writing for the majority, explained that since its genesis, U.S. patent laws have “operated on the premise that rights in an invention belong to the inventor” and that Bayh-Dole does not “displace” that norm and “automatically” vest title to federally funded inventions in federal contractors.

Specifically, the Supreme Court rebuffed the argument posed by Stanford (and supported by the United States as *amicus curiae*) that Bayh-Dole reorders the normal priority of rights in an invention conceived or first reduced to practice in the course of federally funded research by vesting title in such inventions to the federal contractor, *i.e.*, the inventor’s employer. As concluded by the Supreme Court, “nowhere in the Act are inventors deprived of their interest

in federally funded inventions. Instead the Act only provides that contractors *may elect* to retain title to any subsection invention” (emphasis added).

According to the provision of Bayh-Dole, granting a right to “elect” confirms that the act does not vest title. Rather, as explained by Chief Justice Roberts, at the time of conception, rights to an invention lie with the inventor.

Although much in intellectual property law has changed in the 220 years since the first Patent Act, the basic idea that inventors have the right to patent their inventions has not. Our precedents confirm the general rule that rights in an invention belong to the inventor. It is equally well established that an inventor can assign his rights in an invention to a third party. Thus, although others may acquire an interest in an invention, any such interest – as a general rule – must trace back to the inventor.

In accordance with these principles, we have recognized 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.’ Such an invention ‘remains the property of him who conceived it.’ In most circumstances, an inventor must expressly grant his rights in an invention to his employer if the employer is to obtain those rights.

Dissent and Concurrence

Justice Breyer, joined by Justice Ginsburg, dissented. Quoting the order granting cert, Justice Breyer noted “the question presented is whether rights in inventions arising from federally funded research can be terminated unilaterally by an individual inventor through a separate agreement purporting to assign the inventor’s rights to a third party.”

In the view of the dissent, “the answer to this question is likely no. But because that answer turns on matters that have not been fully briefed (and are not resolved by the opinion of the Court) [Justice Breyer] would return this case to the Federal Circuit for further argument.”

The dissent explained that Congress enacted Bayh-Dole “against a background norm that often, but not always, denies individual inventors patent rights growing out of research for which the public has already paid. This legal norm reflects the fact that patents themselves have both benefits and costs.” Citing back to the letters of founding fathers Jefferson and Madison to the effect that patent monopoly was a “compensation” for the “community benefit” that a patent bestowed, Justice Breyer explained “the importance of assuring this community ‘benefit’ is reflected in legal rules that may deny or limit the award of patent rights where the public has already paid to produce an invention, lest the public bear the potential costs of patent protection where there is no offsetting need for such protection to elicit that invention. Why should the public have to pay twice for the same invention?”

Justice Sotomayor agreed with the majority because Stanford didn't raise the issues raised in the dissent, but noted her understanding that "the majority opinion [would] permit consideration of these arguments in a future case."

The material in this publication may not be reproduced, in whole or part without acknowledgement of its source and copyright. On the Subject is intended to provide information of general interest in a summary manner and should not be construed as individual legal advice. Readers should consult with their McDermott Will & Emery lawyer or other professional counsel before acting on the information contained in this publication.

© 2010 McDermott Will & Emery. The following legal entities are collectively referred to as "McDermott Will & Emery," "McDermott" or "the Firm": McDermott Will & Emery LLP, McDermott Will & Emery/Stanbrook LLP, McDermott Will & Emery Rechtsanwälte Steuerberater LLP, MWE Steuerberatungsgesellschaft mbH, McDermott Will & Emery Studio Legale Associato and McDermott Will & Emery UK LLP. McDermott Will & Emery has a strategic alliance with MWE China Law Offices, a separate law firm. These entities coordinate their activities through service agreements. This communication may be considered attorney advertising. Previous results are not a guarantee of future outcome.