

ALERTS AND UPDATES

Supreme Court Rules That Federally Funded Inventions Are Not Automatically Owned by Universities

June 8, 2011

On June 6, 2011, in a case that has been closely followed by U.S. universities, the U.S. Supreme Court—in *Board of Trustees of the Leland Stanford Jr. University v. Roche Molecular Systems*¹—confirmed that rights to an invention belong to the individual inventor² and held that inventions resulting from federally funded projects are not automatically owned by the institution where the federally funded research was conducted.

The Court reasoned that the Bayh-Dole Act's (the "Act") provision that contractors may "elect to retain title" confirms that the Act does not vest title.³ In addition, the Court held that the provisions of the Bayh-Doyle Act do not usurp the inventor's rights in favor of the "contractor" and the Act is triggered only when the contractor obtains the rights to an invention.⁴

Congress enacted the Bayh-Dole Act, formally known as the University and Small Business Patent Procedures Act of 1980, to benefit the public by promoting utilization of inventions developed with federally supported research. The Act provides a framework for universities, nonprofit institutions and small businesses—described in the Act as "contractors"—to "elect to retain title" in inventions resulting from that research. The contractors are expected to seek patent protection on inventions they choose to own and to promote the commercialization of those inventions. The government retains "march-in rights." If the contractor chooses not to retain title to the invention, the government may grant requests for return of those rights to the inventor or grant a license to a third party, pursuant to the government's march-in-rights. The Bayh-Dole Act is widely credited with fostering the development of thousands of new businesses and the introduction of many new products to the public.

If the Bayh-Dole Act provides a framework for allocating patent rights, this case deals with when those rights vest. Here, Stanford researcher Mark Holodniy was under a prior contractual duty to "agree to assign" invention rights to Stanford. Holodniy then began research to develop a sensitive PCR-based blood test for the detection of HIV. His supervisor at Stanford arranged for him to carry out his research at Cetus, a biotechnology company with significant know-how in PCR technology. Holodniy then signed an agreement, stating that he "will assign and do[es] assign to Cetus" his rights in inventions made during his work there. Holodniy's research led to the successful development of a commercial assay kit for HIV detection in blood samples. Holodniy's research also led Stanford to obtain three patents on the HIV detection technology.

When Stanford sued Roche (Cetus' successor in interest) for patent infringement, Roche's defense was that it was a co-owner of the invention and could not be held liable for patent infringement. The Court of Appeals for the Federal Circuit agreed with Roche—holding that Holodniy's promise to assign rights to Stanford did not block him from actually assigning rights to Cetus and that Roche therefore held rights in the invention. The Federal Circuit's decision turned on the wording of Holodniy's assignments. The circuit court noted that the assignment to Stanford amounted to a promise to assign *future* rights (agree to assign), while the assignment to Cetus provided immediate assignment (do assign) of rights to Cetus. Stanford appealed.

In a 7–2 decision, the Court emphasized that the Act's disposition of rights "serves to clarify the order of priority of rights between the Federal Government and a federal contractor in a federally funded invention that already belongs to the contractor. Nothing more."⁵ In writing for the majority, Justice Roberts noted that "You cannot retain [title] unless you already have it." The Court refused to construe the Act such that title to an employee's inventions could vest in his or her university employer "even if the invention were conceived before the inventor became a University employee, so long as the invention's reduction to practice was supported by federal funding."⁶ The Court concluded that such an interpretation would suggest that the contractor would "obtain title to one of its employee's inventions even if only one dollar of federal funding was applied toward the invention's conception or reduction to practice."⁷

In concluding, the Court stated that if Congress had intended to change one of the fundamental tenets of patent law—thereby potentially depriving inventors of their rights to own their inventions—it would have done so very clearly and without ambiguity. Stanford had contended that to interpret the Bayh-Dole Act as not vesting title to federally funded inventions in federal contractors "fundamentally undermin[es]" the Act's framework and deeply impacts its continued "successful application." The Court disagreed, pointing to the common practice of contractors in routinely obtaining assignments from their employees. Such a practice would be unnecessary if title in the inventions were to automatically vest with the contractor.

What This Means for Universities and Nonprofits

Although this case does not alter the fundamental rights of inventors in their inventions, it highlights the significance of effective employment contracts and assignments of invention rights. These documents should contain specific and unequivocal language to guarantee the immediate transfer of rights to the employer. The ruling also underscores the need for universities and other nonprofits to prudently monitor collaborations with third parties.

For Further Information

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Notes

1. *Bd. of Trs. of Leland Stanford Jr. Univ. v. Roche Molecular Sys.*, 2011 U.S. LEXIS 4183 (U.S. June 6, 2011).
2. See, e.g., *Gayler v. Wilder*, 10 How. 477, 493 (1851) ("the discoverer of a new and useful improvement is vested by law with an inchoate right to its exclusive use, which he may perfect and make absolute by proceeding in the manner which the law requires"); *Solomons v. United States*, 137 U.S. 342, 346 (1890) ("whatever invention [an inventor] may thus conceive and perfect is his individual property"); *United States v. Dubilier Condenser Corp.*, 289 U.S. 178, 188 (1933) (an inventor owns "the product of [his] original thought").
3. 35 U.S.C. § 202(a).
4. Under the Act, a federal agency may "grant requests for retention of rights by the inventor . . . [i]f a contractor does not elect to retain title to a subject invention." *Id.* § 202(d).

5. *Bd. of Trs. of Leland Stanford Jr. Univ. v. Roche Molecular Sys.*
6. *Id.*
7. *Id.*

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