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Stanford v. Roche: The Importance of Precise Contract Drafting

The Supreme Court's recent decision in *Stanford v. Roche* draws attention to the pitfalls of imprecise contract language. The Supreme Court affirmed the ruling of the Court of Appeals for the Federal Circuit, which hung on the difference between competing assignment clauses, holding that Stanford University ("Stanford") did not possess exclusive rights to a technique for HIV testing developed by one of Stanford's research fellows.

The Competing Agreements

The assignment language of two separate agreements signed by Dr. Mark Holodniy motivated the Court of Appeals' decision. The first was a Copyright and Patent Agreement which Holodniy signed with Stanford that contained an assignment clause whereby Holodniy "agree[d] to assign" to Stanford his "right, title, and interest in" any inventions developed while at Stanford. At Stanford's request, and to further his research, Holodniy began visiting Cetus Corporation ("Cetus") [later acquired by Roche Molecular Systems ("Roche")], where he signed a Visitor's Confidentiality Agreement that contained the following assignment provision: "I will assign and do hereby assign" to Cetus the "right, title and interest in" any technology designed while with the company.

The Patent Infringement Suit

While working on site at Cetus, Holodniy developed a procedure for measuring the amount of HIV in a patient's blood. Roche later commercialized the procedure by incorporating it into HIV test kits. On that basis, Stanford sued Roche for patent infringement in the District Court for the Northern District of California (the "District Court"). Stanford argued that Holodniy had no authority to assign his patent rights to Cetus under the federal Bayh-Dole Act, which, among other things, grants universities and other federal contractors exclusive rights to inventions generated by federally-funded research. Although the District Court ruled in Stanford's favor, the Court of Appeals reversed. Subject to certain obligations, the Court of Appeals held that the Bayh-Dole Act did not automatically void Holodniy's assignment of patent rights to Cetus, which made interpretation of the underlying, competing contractual assignment language relevant.

The Importance of Carefully Drafted Contract Language

Although the assignment language of both agreements signed by Holodniy seem almost identical, the Court of Appeals focused on the distinction between the "agree to assign" and "will assign and do hereby assign" as language that sets the two contracts apart. The Court of Appeals interpreted "agree to assign" as a promise to assign rights in the future, but held that "will assign and do hereby assign" was a present assignment of Holodniy's future rights. For that reason, the Court of Appeals concluded that Holodniy's agreement with Cetus gave them (and later Roche), co-ownership of Holodniy's newly developed procedure.

Essentially, the Cetus language assigned Holodniy's rights upon creation so they were no longer Holodniy's to assign when and if Stanford had Holodniy assign his rights in the future. Stanford appealed the decision to the Supreme Court.

The subtle but important nuances between the two competing agreements Holodniy had signed were not issues before the Supreme Court. Instead, the focal point of the Supreme Court's decision was whether the Bayh-Dole Act automatically vests ownership rights in federally funded inventions to federal contractors such as Stanford. The Supreme Court affirmed the decision of the Court of Appeals, holding that patent ownership rights do not automatically vest under the Bayh-Dole Act.

Although it is commonly understood that well-drafted, carefully negotiated contracts are a key to avoiding future disputes, *Stanford v. Roche* highlights the litigious consequences subtle nuances can have. Given precedent set forth in *Stanford v. Roche*, the importance of careful contract drafting cannot be underestimated.

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