

U.S. Supreme Court Holds the Bayh-Dole Act Only Lets Employers Keep What They Already Have

By Heather M. Colburn and Seth D. Levy

June 08, 2011

Earlier this week, the U.S. Supreme Court held that the University and Small Business Patent Procedures Act of 1980 (the Bayh-Dole Act), which allocates rights in a federally-funded invention between the federal government and a federal contractor, does not automatically vest title to an invention in the contractor (or authorize the contractor to unilaterally take title to the invention) when the contractor has elected to retain title to the invention under the Act. Instead, the Bayh-Dole Act merely allows the contractor to retain rights that were obtained from the inventor(s) under an assignment agreement or other applicable law. Unless such an assignment is procured or another law conveys title to the contractor, the inventor retains ownership of the invention.

In *Stanford v. Roche*, 563 U. S. ___ (2011) (found [here](#)), Dr. Mark Holodniy, a research fellow employed by Stanford University, conducted research at Cetus to develop a method of quantifying HIV levels in blood, using a Nobel Prize winning technique, a polymerase chain reaction (PCR), developed at Cetus. After developing a PCR-based HIV quantification procedure, Dr. Holodniy returned to Stanford where the technique was tested. Stanford subsequently obtained three patents for the procedure.

When Dr. Holodniy was hired by Stanford, he signed an agreement stating he “agree[d] to assign” to Stanford his “right, title and interest in” inventions resulting from his employment at Stanford. However, to gain access to Cetus, Dr. Holodniy also signed a Visitor’s Confidentiality Agreement that stated he “will assign and do[es] hereby assign” to Cetus his “right, title and interest in each of the ideas, inventions and improvements” made “as a consequence of [his] access” to Cetus. In other words, Dr. Holodniy had executed both **an agreement to assign** inventions to Stanford University resulting from his employment at Stanford University, and **an agreement presently assigning** inventions to Cetus made as a consequence of his access to Cetus.

To further complicate matters, the National Institutes of Health funded some of Stanford’s research related to the HIV quantification procedure, bringing the invention within the scope of the Bayh-Dole Act. The Bayh-Dole Act allows contractors, such as Stanford, to “elect to retain title to any subject invention” if a number of statutory requirements are satisfied. 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.” Stanford satisfied the requirements for retaining title to the HIV quantification procedure.

Roche Molecular Systems (Roche) acquired Cetus’s PCR-related assets including rights conveyed by the agreement with Dr. Holodniy. Roche subsequently began selling HIV test kits that Stanford believed infringed its patents covering the HIV quantification

procedure. Stanford sued Roche for patent infringement.

Roche responded by asserting it had obtained an ownership interest in the patents based on the agreement signed by Dr. Holodniy and therefore, Stanford lacked standing to sue Roche. Stanford countered that under the Bayh-Dole Act, the contractor owns all rights to an invention conceived or first reduced to practice with the support of federal funds and Dr. Holodniy had no rights to assign to Cetus.

The Federal Circuit had determined that Dr. Holodniy's agreement with Cetus trumped his agreement with Stanford because his agreement with Stanford was a promise to assign, while his agreement with Cetus actually assigned the invention to Cetus. Thus, Cetus had rights to the invention under contract law. While this issue was not appealed to the Supreme Court, in both the concurring and dissenting opinions, three of the nine justices expressed concern with this result, which they attributed to the Federal Circuit's decision in *FilmTec Corp. v. Allied-Signal, Inc.*, 939 F. 2d 1568 (1991). The dissenting opinion explains that before the *FilmTec* decision, a present assignment of a future invention conveyed only equitable title to the invention, not legal title. Under this rule, Stanford would have prevailed because its agreement with Dr. Holodniy was executed before the one with Cetus. However, under the holding of *FilmTec*, after the invention is made and a patent application is filed, legal title to the invention vests in the assignee. The three justices indicated that the majority opinion in *Stanford v. Roche* permitted future consideration of arguments that the *FilmTec* decision undercuts the objectives of the Bayh-Dole Act.

With the contract issue resolved by the lower court, the only issue before the Supreme Court was whether the Bayh-Dole Act automatically vested title to the inventions in Stanford, or authorized Stanford to unilaterally take title to the invention, such that Dr. Holodniy had nothing to assign to Cetus. The Supreme Court held the Bayh-Dole Act did neither.

The Supreme Court disagreed with Stanford's arguments that the Bayh-Dole Act applied to inventions made by the contractor's employees and held the Act applied instead to inventions owned by the contractor (in this case, Stanford). In its analysis, the Supreme Court stated the general rule that "rights in an invention belong to the inventor." Further, "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.'" In most circumstances, for an employer to gain rights to the invention, the employee must expressly grant those rights to the employer. Notably, the majority opinion did not mention the Supreme Court's much earlier holding in *United States v. Dubilier Condenser Corp.*, 289 U. S. 178 (1933) that an employee "employed to make an invention, who succeeds, during his term of service, in accomplishing that task, is bound to assign to his employer any patent obtained." Such employees are often referred to as having been "hired to invent" and their inventions are owned by their employers under operation of law.

The Supreme Court also concluded that while other federal statutes unambiguously divest inventors of their ownership interests, “[t]he Bayh-Dole Act does not confer title to federally funded inventions [i]n contractors or authorize contractors to unilaterally take title to those inventions; it simply assures contractors that they may keep title to whatever it is they already have.”

Several important lessons can be taken away from this decision:

1. Existing employment, consulting, and other agreements as well as faculty policies and policies in employee handbooks should be reviewed to confirm that they include provisions that **actually assign** inventions, and do not merely **promise to assign** inventions.
2. Assignments of inventions should be timely recorded in the U.S. Patent and Trademark Office to help avoid third party claims of rights in inventions, particularly in instances when the operative agreement transferring title in an invention from an inventor does not include a **present** assignment of rights.
3. Any agreements with third parties (whether directly between an employee and the third party or the employer and the third party) should be carefully reviewed to ensure that conflicting obligations to assign inventions are addressed.

This advisory is a publication of Davis Wright Tremaine LLP. Our purpose in publishing this advisory is to inform our clients and friends of recent legal developments. It is not intended, nor should it be used, as a substitute for specific legal advice as legal counsel may only be given in response to inquiries regarding particular situations.