



# Bayh–Dole Act does not override employees' rights to unassigned inventions

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*Board of Trustees of the Leland Stanford Junior Univ. v Roche Molecular Sys., 131 S. Ct. 2188, US Supreme Court, 6 June 2011 ('Stanford III')*

## Abstract

The US Supreme Court confirms that the Bayh–Dole Act does not override employees' rights to unassigned inventions.

## Legal context

Under the Bayh–Dole Act, a federal contractor to the US Government may retain title to an invention made using US Federal Government funds so long as the contractor fulfils obligations imposed under the Bayh–Dole Act. The Federal Government may receive title to such an invention if a contractor fails to satisfy the requirements under that Act. Typical practice is that a contractor will obtain all patent rights from its employees through an assignment agreement, and in turn satisfy the requirements under the Act to perfect ownership of patent rights between the US Federal Government and the contractor. However, sometimes the typical procedures are not followed as expected, and unusual fact patterns arise. *Stanford III* presents one such unusual fact pattern.

In *Stanford III*, the US Supreme Court addressed issues relating to inventor and federal contractor rights under the Bayh–Dole Act, as well as broader issues relating to inventors rights in patented inventions. In addition to clarifying that patent rights in inventions vest in the inventors unless otherwise assigned, the concurring and dissenting opinions in *Stanford III* identify new potential challenges to another area of Federal Circuit jurisprudence: how assignments of future patent rights must be drafted.

## Facts

In 1985, a research company named Cetus began a project to develop methods for quantifying levels of human immunodeficiency virus ('HIV'), the virus that causes AIDS. In 1988, Cetus decided to collaborate with scientists at the Leland Stanford Junior University to test the



efficacy of new AIDS drugs. When Dr Mark Holodniy joined Stanford as a research fellow around that time, he signed a Copyright and Patent Agreement ('CPA') stating that he agreed to assign to Stanford his right, title, and interest in inventions resulting from his employment at the University.

Because Holodniy was unfamiliar with parts of his tasks, his supervisor arranged for him to conduct research at Cetus. To obtain access to Cetus, Holodniy signed a Visitor's Confidentiality Agreement ('VCA'). That agreement stated in pertinent part that Holodniy would assign and did thereby 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.

Holodniy conducted research at Cetus for 9 months and then returned to Stanford. Over the next few years, Stanford secured patents related to Holodniy's research. In 1991, Roche Molecular Systems, Inc. acquired Cetus' assets and commercialized the procedure related to Holodniy's research while at Cetus.

The Board of Trustees of Stanford University filed suit against Roche for patent infringement. At trial, Roche asserted that it was the co-owner of the HIV quantification procedure, based on Holodniy's assignment of his rights in the VCA. As a result, Roche argued, Stanford lacked standing to sue for patent infringement. The district court held that Holodniy could not assign the invention to Roche because the Bayh–Dole Act provides that an inventor may only exercise his patent rights for a federally funded invention after the Federal Government and federal contracting party have declined to do so: *Bd. of Trs. of the Leland Stanford Junior Univ. v Roche Molecular Sys.*, 487 F. Supp. 2d 1099, 1119 (N.D. Cal. 2007) ('Stanford I').

Roche successfully appealed to the Federal Circuit. The Federal Circuit found that Holodniy's initial agreement with Stanford in the CPA constituted a mere promise to assign rights in the future: *Bd. of Trs. of the Leland Stanford Junior Univ. v Roche Molecular Sys.*., 583 F.3d 832, 841–2 (Fed. Cir. 2009) ('Stanford II'). In contrast, Holodniy's agreement with Cetus in the VCA assigned Holodniy's rights in the invention to Cetus. Therefore, as a matter of contract law, Cetus obtained Holodniy's rights in the HIV quantification technique through the VCA. The Federal Circuit also explained that the Bayh–Dole Act does not automatically void inventors' rights in federally funded inventions.

Thereafter, Stanford successfully sought certiorari of that case to the US Supreme Court on the question of whether the Bayh–Dole Act overrides employees' rights to unassigned inventions. The Supreme Court granted certiorari.

## **Analysis**

The Bayh–Dole Act was created, *inter alia*, to 'promote the utilization of inventions arising from federally supported research or development', 'ensure that inventions made by nonprofit organizations and small business firms are used in a manner to promote free competition', and 'ensure that the Government obtains sufficient rights in federally supported inventions'



(35 USC §200). The Act also provides that federal contractors may ‘elect to retain title to any subject invention’ (35 USC §202(a)). It defines subject invention as ‘any invention of the contractor conceived or first actually reduced to practice in the performance of work under a funding agreement’ (35 USC §201(e)) and work under a funding agreement as involving ‘research work funded in whole or in part by the Federal Government’ (35 USC §201(b)).

On appeal, Stanford asserted that the Act reorders the normal priority of rights in a federally funded invention when an inventor conceives or first reduces the invention to practice. According to Stanford, the Act moves inventors from the front of the line to the back by vesting title to federally funded inventions in the inventor’s employer—the federal contractor.

Seven members of the US Supreme Court decided that the Act does not automatically vest title to federally funded inventions in federal contractors and does not displace the norm that inventors or employees retain patent rights in their inventions.

The Court’s Opinion, authored by Chief Justice Roberts and joined by Justices Scalia, Kennedy, Thomas, Alito, Sotomayor, and Kagan, provides supporting rationale for the Court’s holding that the Act does not override employees’ rights to unassigned inventions. A dissenting opinion, authored by Justice Breyer and joined by Justice Ginsburg, took issue with the portion of the Federal Circuit decision that drew a distinction between contractual language that states an inventor ‘agrees to assign’ and contractual language that states an inventor ‘hereby assigns’. In her concurring opinion, Justice Sotomayor shared Justice Breyer’s concerns regarding the Federal Circuit opinion, but affirmed since the arguments were waived below.

Each of the Court’s opinions is discussed in turn.

#### **Opinion of the Court per Chief Justice Roberts**

Chief Justice Roberts, for the Court, confirmed that rights in an invention belong to the inventor and 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.

The Court summarized its holdings as follows:

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 (citing *United States v Dubilier Condenser Corp.*, 289 US 178, 189 (1933)).

The Court’s analysis began by confirming the basic principles that rights in an invention belong



to the inventor and that an inventor can assign his rights in an invention to a third party. Based on these rules, the Court stated that ‘unless there is an agreement to the contrary, an employer does not have rights in an invention’ that the employee conceived on its own. It next analysed in detail the legislative intent of the Bayh–Dole Act, concluding that Congress did not intend to displace the norm that inventors retain patent rights in their inventions and that the Act does not automatically vest title to federally funded inventions in federal contractors.

First, the Court reasoned that Congress had in the past divested inventors of their rights in inventions by providing unambiguous language that is missing from the Bayh–Dole Act. Second, the Court construed the phrase ‘invention of the contractor’ under 35 USC §201(e) to coincide with the common meaning of the term, which is those inventions owned by or belonging to the contractor. Stanford argued that ‘invention of the contractor’ meant all inventions made by the contractor’s employees. The Court rejected Stanford’s interpretation because it would mean that mere employment is sufficient for an employer to vest title to an employee’s invention and would subtly set aside two centuries of patent law. In addition, Stanford’s interpretation would render the phrase ‘of the contractor’ superfluous, which is contrary to the Court’s canons of statutory interpretation.

Third, the Court found support for its holding in the provision of the Bayh–Dole Act that states that contractors may ‘elect to *retain* title’ because it confirms that the Act does not vest title in the contractors (emphasis added by the Court). The Court rejected Stanford’s opposite conclusion that interpreted ‘retain’ to mean ‘acquire’ and ‘receive’, which do not define the common meaning of the term.

In addition, the USA, as *amicus curiae*, argued that 35 USC §210(a) displaces the basic principle that an inventor owns the rights to his invention. This provision of the Act states that it ‘take[s] precedence over any other Act which would require a disposition of rights in subject inventions ... that is inconsistent with’ the Act. In rejecting this argument, the Court reasoned that the Act only come into play when the contractor owns the invention, and therefore the Act does not displace an inventor’s antecedent title to his invention.

The Court found additional support under 35 USC §202(d), which states that 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’. The Court reasoned that if an employee inventor never had title to his invention because title vested in the contractor by operation of law—as Stanford submits—it would be odd to allow the Government to grant ‘requests for retention of rights by the inventor’. Section 202(d) assumes that the inventor had rights in the subject invention at some point, undermining the notion that the Act automatically vests title to federally funded inventions in federal contractors.

The Court also found support for its holding in the Act’s procedural protections. For instance, the Act ‘expressly confers on contractors the right to challenge a Government-imposed impediment to retaining title to a subject invention’. However, it did not contain a single procedural protection for third parties and inventors to contest a claim to a subject invention. Such lack of procedural protection would make sense if the Act applied only when a federal



contractor has already acquired title to an inventor's interest, where there would be no need to protect the inventor because the only rights at issue are those of the contractor and the Government.

Finally, if Congress intended to change a fundamental precept of patent law by depriving inventors of the rights to their inventions, then it would have done so expressly and not under such 'unusual terms'. An effective assignment between employees and universities regarding federally funded inventions brings the Act into play and the statute works the way Stanford says it should. Since the Court affirmed the Federal Circuit's holding that Stanford did not obtain a proper assignment from Mr Holodniy because Cetus' agreement trumped Stanford's agreement, the Act did not come into play—which allowed Mr Holodniy to retain his patent rights and properly assign his invention to Cetus.

#### **Justice Sotomayor's concurrence**

Justice Sotomayor, concurring, joined the majority in full but wrote separately to note that she shared Justice Breyer's concerns (discussed below) regarding the Federal Circuit's distinction between contractual language that states an inventor 'agrees to assign' and contractual language that states an inventor 'hereby assigns'. Since Stanford failed to challenge the Federal Circuit decision on those grounds, Justice Sotomayor affirmed it. The majority opinion did not address this issue for the same reason stated by Justice Sotomayor.

#### **Justice Breyer's dissent**

Justice Breyer, in a dissenting opinion joined by Justice Ginsburg, wrote separately to state their view that a federal contractor's statutory right in a federally funded invention cannot be terminated unilaterally by an inventor through a separate agreement assigning the inventor's rights to a third party. The dissent reached this conclusion in two ways.

First, the dissent took issue with the portion of the Federal Circuit decision that drew a distinction between contractual language in the CPA that states an inventor 'agrees to assign' and contractual language in the VCA that states an inventor 'hereby assigns'. The Federal Circuit found that the former language in the Stanford agreement constituted a mere promise to assign rights in the future, whereas the latter language in the Cetus agreement operated on the invention automatically, meaning that the Cetus agreement trumped the Stanford agreement. The dissent would vacate this holding because, given the slight difference in contractual language, this reasoning makes 'too much of too little'. The dissent argued that Stanford, not Cetus, ought to receive its contract rights because Stanford's contract came first and the university thus obtained a post-invention assignment.

Second, the dissent states that the Act assumes, and thereby requires, an assignment of patent rights by the federally funded employee to the federally funded employer. To support this view, the dissent reviewed the background against which Congress passed the Bayh–Dole Act, and found that the Act reflects an effort to assure that rights to inventions for which the public has paid are 'used in ways that further specific important public interests'. The dissent states that the Bayh–Dole Act assumes that a federal contractor will possess rights to its



employee's inventions so that it may commercialize those inventions 'that otherwise might not realize their potentially beneficial public use'.

## Practical significance

Whether the holding of *Stanford III* will have much impact on federal procurement practice in the USA, only time will tell. In most instances, the unique factual circumstances presented in this case can be avoided with modest changes in standard assignment practice. However, the likely impact of *Stanford III* may be more far-reaching in future challenges to the practice developed by the Federal Circuit to draw technical distinctions for slight linguistic differences in agreements to 'hereby assign' future patent rights rather than 'agree to assign' such future rights. After the US Supreme Court's decision in *MedImmune, Inc. v Genentech, Inc.*, 549 US 118 (2007), the Federal Circuit understood similar types of criticisms contained in footnote 11 of that decision to cause it to reject its unique standard for Declaratory Judgment jurisdiction. The similar criticism in *Stanford III* might compel the Federal Circuit to abandon its practice to draw technical distinctions in nearly similar contractual language. Therefore, practitioners should keep their eyes open to see if a similar change in jurisprudence involving patent assignments will result from *Stanford III*.

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