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Supreme Court Reminds Us Why Carefully Drafted Intellectual Property Provisions Are So Important

Board of Trustees of the Leland Stanford Junior University v. Roche Molecular Sys., Inc., No. 09-1159; decided June 6, 2011

WHY THE CASE MATTERS

Research partnerships are a common method used to share knowledge and defray the costs associated with advanced research. Ownership of the valuable intellectual property created from these partnerships, however, can be a contentious issue if not clearly addressed before collaboration begins. Often the most complicated of these partnerships are ones involving federal contractors (i.e., entities that receive federal research funds), such as universities.

The Bayh-Dole Act allocates between the federal contractor and the federal government the ownership of, and certain rights to, any inventions created by federal contractors. This case addresses the act's impact on inventors' rights to inventions that they create.

TAKEAWAYS FROM THE CASE

1. The rule that individual inventors own their inventions is not altered by the Bayh-Dole Act.
2. To be effective, intellectual property assignment provisions must show a present intent to assign inventions, not merely a promise to assign inventions in the future.

BACKGROUND AND ANALYSIS

Dr. Mark Holodniy was a researcher at Stanford University. As a condition of his employment, he signed a Copyright and Patent Agreement stating that he "agree[d] to assign" to Stanford his "right, title and interest in" inventions resulting from his employment at Stanford.

Cetus Corporation is known for the creation of a DNA extraction technique called polymerase chain reaction (PCR). Stanford wanted to use PCR in connection with HIV testing, but Dr. Holodniy had limited PCR experience. Dr. Holodniy's supervisor arranged for him to conduct research at Cetus to help him learn the technique. To gain access to Cetus, Dr. Holodniy was required to sign a Visitor's Confidentiality Agreement, which stated that Dr. Holodniy "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.

Over the next nine months, Dr. Holodniy and Cetus employees created a PCR-based procedure for calculating the amount of HIV in a patient's blood. He then returned to Stanford, where he and other Stanford employees tested and validated the technique. Stanford filed several patent applications and secured written assignments from its employees involved in the process, including Dr. Holodniy. Stanford eventually secured three patents on the technique.

Cetus's PCR-related assets, including all rights obtained through Dr. Holodniy's Visitor's Confidentiality Agreement, were acquired by Roche Molecular Systems in 1991. Roche thereafter successfully commercialized the HIV quantification method developed at Cetus. Roche's HIV test kits are now sold worldwide.

Stanford sued Roche for patent infringement, alleging that the HIV test kits infringed on Stanford's patents.

In response to the suit, Roche argued that it was a co-owner of the patented invention based on Dr. Holodniy's assignment of his rights under the Visitor's Confidentiality Agreement. As a co-owner, it had the right to exploit the inventions. Stanford, therefore, lacked standing to sue it for patent infringement.

The lower courts accepted this argument and found that, on a purely contractual basis, the terms of the Visitor's Confidentiality Agreement effectively trumped Stanford's claims to the inventions. The key was that Roche had a present assignment of Dr. Holodniy's rights while Stanford's Copyright and Patent Agreement was only a promise by Dr. Holodniy to assign his rights in the future. By including the phrase "and do hereby assign" in its Visitor's Confidentiality Agreement, Roche immediately gained equitable title to any rights that Dr. Holodniy held to future inventions.

Stanford's only remaining argument was that the assignments were unnecessary because ownership of the inventions vested directly with Stanford, not Dr. Holodniy, under the Bayh-Dole Act (officially titled the University and Small Business Patent Procedures Act of 1980).

Generally speaking, the Bayh-Dole Act gives federal contractors, not the federal government, control over inventions that result from federal funding. A federal contractor may elect to retain title to an invention and, subject to certain procedural mechanisms, receive title to any patents flowing from the invention. The federal government, however, receives a nonexclusive, nontransferable, irrevocable, paid-up license to practice the invention. Stanford believed that the Bayh-Dole Act trumped the invention assignment, giving Roche title to the inventions. Dr. Holodniy, therefore, had no rights to assign to Roche because any such rights would have vested in Stanford upon their creation.

The Supreme Court rejected Stanford's interpretation of the Bayh-Dole Act as running counter to the long-standing principle that ownership of an invention vests with the inventor unless

there is an agreement to the contrary. The Court found that the Bayh-Dole Act "does not confer title to federally funded inventions on 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." Since Stanford's Copyright and Patent Agreement was ineffective at conferring any ownership rights to Stanford, the Bayh-Dole Act was not implicated.

As this case shows, parties must be diligent in obtaining proper assignments for inventions—even those created by employees. A simple drafting error can undermine your claim to ownership. In addition, special care must be paid to invention assignment provisions when purchasing intellectual property assets to be sure that the intellectual property rights have not been assigned to a third party.

If you have any questions about this case or your policies and procedures, please contact [Jacqueline Pennino Scheib](mailto:Jacqueline.Pennino.Scheib@robinsonecole.com) at 860-275-8285 or [Brendan J. Witherell](mailto:Brendan.J.Witherell@robinsonecole.com) at 860-275-8377.

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