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SPECIAL
REPORT

U.S. SUPREME COURT HOLDS THAT THE BAYH-DOLE ACT DOES NOT AUTOMATICALLY DIVEST INVENTORS OF THEIR RIGHTS IN FEDERALLY FUNDED INVENTIONS

June 15, 2011

On June 6, the U.S. Supreme Court issued a decision in *Board of Trustees of the Leland Stanford Junior University v. Roche Molecular Systems, Inc.* The decision holds that the Bayh-Dole Act[1] does not automatically vest federal contractors with title to inventions of their employees arising from work under federal funding agreements. The decision confirms that, as with inventions not made under federal funding agreements, inventions within the scope of the Bayh-Dole Act require an assignment from the employee inventor to convey title.

Justice Sotomayor wrote a short concurring opinion. Justice Breyer, joined by Justice Ginsburg, wrote a dissenting opinion.

I. Background

Dr. Holodniy, one of the named inventors of the patents at issue, signed multiple agreements relating to his invention rights. First, upon joining Stanford University as a research fellow, he signed a "Copyright and Patent Agreement" (CPA) in which he stated that "I agree to assign" invention rights to Stanford. Second, while at Stanford but still before conception of the inventions at issue, he collaborated with Cetus, a research company, and signed a Visitors Confidentiality Agreement (VCA) stating that "I will assign and do hereby assign" to Cetus rights in inventions made as a consequence of his access to Cetus. Third, he executed assignments of his invention rights to Stanford when patent applications were filed.

Roche subsequently purchased the pertinent assets from Cetus, including rights under the VCA. Roche then began manufacturing related products, and Stanford sued Roche for patent infringement. Roche asserted that Stanford lacked standing to sue because Roche had ownership rights under the VCA, but the district court held that Roche's ownership claims were precluded by the Bayh-Dole Act. On appeal, the Federal Circuit held to the contrary that (1) Roche obtained Dr. Holodniy's invention rights by means of the VCA, (2) the earlier CPA was a mere unconsummated promise to assign that did not negate the VCA, (3) the Bayh-Dole Act did not extinguish Roche's rights, and (4) Stanford therefore lacked standing to sue.

[1] The Bayh-Dole Act is a U.S. statute promoting the use of, and governing rights in, inventions arising from federally supported research.

II. The Supreme Court's Decision

A. The Majority Opinion

Chief Justice Roberts delivered the opinion of the Court, affirming the Federal Circuit's decision that the Bayh-Dole Act did not extinguish Roche's ownership interest in the inventions. The Court pointed out that, under long-standing patent law principles, an employer does not have rights in its employee's inventions absent an agreement to the contrary. The Court further determined that the Bayh-Dole Act does not automatically vest title to federally funded inventions in federal contractors or authorize them to unilaterally take title to such inventions from their employees. Rather, "[t]he Act's disposition of rights does nothing more than 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 [by means of an assignment from employee inventors]."

The Court stated that it was not taking a position on the validity of the Federal Circuit's construction of the relevant assignment agreements, as that was not an issue as to which the Court granted review.

B. Concurring and Dissenting Opinions

Justice Sotomayor concurred in the majority's opinion, but noted that she shared the dissent's concerns regarding the principles adopted in the Federal Circuit's *Film Tec* decision (quoted in the Federal Circuit's decision below in this case),[2] and the application of those principles to agreements that implicate the Bayh-Dole Act. She also expressed her understanding that the majority opinion permits consideration of those principles in a future case.

Justice Breyer (joined by Justice Ginsburg) dissented. He opined that it was unlikely that an individual inventor can unilaterally terminate a federal contractor's rights under the Bayh-Dole Act in inventions arising from federally funded research, but stated that he would have remanded the case to the Federal Circuit for further briefing and argument. He further noted two possible "different legal routes" to a contrary result in this case (in favor of Stanford): (1) set aside *Film Tec's* distinction between "agree to assign" and "do hereby assign" when applied to pre-invention agreements,[3] or (2) interpret the Bayh-Dole Act as ordinarily requiring an assignment of patent rights by a federally funded employee to a federally funded employer.

III. Analysis and Recommendations

The Supreme Court's decision confirms that inventions within the scope of the Bayh-Dole Act, and likely many other statutes governing federally funded research, will not be automatically transferred from an employee inventor to the employer contractor. Also, although the principles adopted in *Film Tec* may be reconsidered at some point in the future, specifically in the context of their application to agreements implicating statutes governing federally funded research, *Film Tec* remains

[2] In *Film Tec Corp. v. Allied-Signal, Inc.*, 939 F.2d 1568 (Fed. Cir. 1991), the Federal Circuit held that a pre-invention assignment, as opposed to a pre-invention agreement to assign, could be effective to transfer rights in an invention and resulting patent.

[3] Justice Breyer expressed the view that, without explanation, the Federal Circuit in *Film Tec* changed pre-existing law, which had indicated that an assignment of an invention cannot be effectuated before the invention is made.

intact for now. Thus, we recommend to our clients:

1. At the outset of any employment of an employee who will be involved in research or design, including employment in connection with federally funded research, obtain the employee's agreement that any inventions arising out of the employment are owned by the employer.

2. In any pre-invention assignment agreement, including an employment agreement as discussed in recommendation no. 1 above, use the language "do hereby assign" rather than (or in addition to) "agree to assign" to avoid the pitfall of *Film Tec* and the outcome experienced by Stanford.

3. After an invention has been made, and at least by the time that a patent application is filed, have the employee sign another assignment agreement specific to that invention, again using the language "do hereby assign". Record this assignment with the USPTO to provide third parties with constructive notice of the assignment.

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