



Intellectual Property NewsFlash

www.mmmlaw.com

June 2011

SUPREME COURT RULES THAT INVENTORS INITIALLY OWN THEIR PATENTS, NOT THEIR EMPLOYERS

Bayh-Dole Act Did Not Change This Long-Standing Principle - Stanford University Loses Argument That It Owned Collaborative Faculty Invention

Employers Should Be Careful To Avoid Conflicting IP Assignment Rights When Employees Work in Collaborative Ventures or Research

Under long standing principles of U.S. patent laws going back to the 1790's, patents are initially awarded to inventors, and not to their employers. It is and has been customary for employers to obtain assignments (and "agreements to assign") of inventions from their inventive employees. A patent application must be initially filed in the name of the actual inventor, but can be assigned to an employer immediately upon filing.

The U.S. Supreme Court held on June 6, 2011, that the Bayh-Dole Act (35 U.S.C. § 200) did not operate to grant title to an invention of a faculty member of Stanford University, in a circumstance where an employment agreement with Stanford and a "visitor's agreement" with a California research company called Cetus conflicted as to who owned the patent rights. *Board of Trustees for Leland Stanford Junior University v. Roche Molecular Systems, Inc.*, U.S. No. 09-1959.



As is customary for research institutions, Stanford University obtained a conventional "agreement to assign" inventions from one its researchers, Dr. Holodniy. This agreement arguably gave the university the right to own any inventions he came up with while employed by Stanford. Dr. Holodniy, however, was sent to work with Cetus on an HIV testing technology. At Cetus, he signed a "visitor's agreement" that gave Cetus rights in any inventions made as a consequence of his collaboration with Cetus. The agreement with Stanford was fundamentally in conflict with the agreement with Cetus.

Stanford filed and obtained patents for the HIV testing technology, and even obtained formal assignments of the inventions from Dr. Holodniy. Stanford later sued Roche Molecular Systems for infringing these patents. Roche had earlier acquired Cetus's assets, including any technology obtained through

agreements such as the visitor's agreement. Roche responded to the lawsuit by asserting that it was a co-owner of Dr. Holodniy's HIV testing technology based on the assignment of rights in the visitor's agreement.

Stanford then attempted to argue that it owned the exclusive rights in the patents by virtue of operation of the Bayh-Dole Act (35 U.S.C. § 200), which was enacted by Congress in 1980 to promote the utilization of inventions arising from federally-funded research. Under the Baye-Dole Act, Stanford argued that it was allowed to "retain" rights in Dr. Holodniy's patents because his work had involved some amount of federal funding. The Supreme Court held that the language in Bayh-Dole about "retaining" rights did not operate to vest those rights in Stanford in the first instance.

The Supreme Court held that where an employee assignment was ineffective (as in the conflict between Stanford's agreement and the Cetus visitor's agreement), the Bayh-Dole Act did not automatically vest patent title for work done by its employee on a federally funded project. It rejected Stanford's argument that the statutory phrase "invention of the contractor" at 35 U.S.C. 201(e) includes all inventions made by the contractor's employees with the aid of federal funding. The Court noted that the U.S. patent law has always been different: "We have rejected the idea that mere employment is sufficient to vest title to an employee's invention in the employer."



As a result of the conflicting assignment agreements, and because of Bayh-Dole Act did not provide any relief, Stanford University was deprived of its exclusive ownership of a very valuable technology.

The case highlights a significant issue in invention assignment scenarios with inventive employees. The common "agreement to assign" inventions clause in many employment agreement may not be strong enough to overcome a later, conflicting agreement, especially if that later agreement contains affirmative assignment language "does hereby assign" instead of "agrees to assign." The Supreme Court expressly stated that it did not interpret the relevant assignment agreements, because a lower court (the Court of Appeals for the Federal Circuit) had done that, and the issue was not before the Supreme Court.

Indeed, a dissenting opinion by Justice Breyer addressed the question of whether "agreement to assign" language trumps "does hereby assign" language, and the case of *FilmTec Corp. v. Allied Signal, Inc.*, 939 F.2d 1568, 1572 (Fed. Cir. 1991), which held that it does. But because this issue was not before the Supreme Court, we are left with the situation that "some patent assignment clauses are better than others."

Because many, if not most, employees have not yet invented anything when they go to work for their employers, it is conventional to have new inventive employees sign an agreement to assign their inventions to the company (or university). This is an “agreement to assign,” and not necessarily an outright assignment. The Cetus visitor’s agreement, however, contained language that the visitor (Dr. Holodniy in this case) “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. Unless and until another case comes along to force revisiting of the question of some assignment clauses trumping others, users of invention assignments must be very careful to monitor for their employees entering into conflicting ownership or assignment situations when and if they collaborate on research.

The Supreme Court’s ruling highlights the risk that an “agreement to assign” may give way to assignment language that affirmatively “assigns” patent rights — even if these rights do not yet exist. This can be problematic to employment agreements in a collaborative research context. Research universities and technology companies whose employees may have occasion to collaborate with other entities must now take great care to assess patent and IP assignment rights before any collaborative venture, or face the risk that its invention assignment clauses will be deemed merely “agreements to assign” and not outright affirmative “assignments.”



For further information about these issues, contact the author.

John R. Harris
jharris@mmmlaw.com, 404.504.7720

NOTE: This article represents the views of the author and does not necessarily represent the views or positions of the firm or of any of its clients. The information contained herein is of a general nature and is not intended to provide legal advice to or address the circumstances of any particular individual or entity. Although we endeavor to provide accurate and timely information, there can be no guarantee that this information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on this information without appropriate professional advice after a thorough examination of the particular situation.

The information presented and contained within this document are provided by MMM as general information only, and do not, and are not intended to constitute legal advice.

Any opinions expressed within this document are solely the opinion of the individual author(s) and may not reflect the opinions of MMM, individual attorneys, or personnel, or the opinions of MMM clients.

This document is Copyright ©2011 Morris, Manning & Martin, LLP, All Rights Reserved worldwide.

1600 Atlanta Financial Center - 3343 Peachtree Road, NE - Atlanta GA 30326 - 404.233.7000