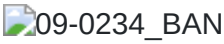
Patent Law Update: Stanford v. Roche

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Supreme Court Hears Arguments in *Stanford v. Roche*

by Steve S. Chang

Background

On February 28, 2011, the U.S. Supreme Court heard oral arguments in *Stanford v. Roche Molecular Systems, Inc.* At issue in this case is whether an inventor of an invention that arose from federally-sponsored research has the right to separately assign rights to the invention, or if ownership of those rights is automatically determined by the Bayh-Dole Act.

The Bayh-Dole Act, 35 U.S.C. §200, was enacted by Congress in 1980 to promote commercialization of inventions that arise from federally-sponsored research. Prior to the Act, the Government owned many patents on such inventions, but did not do an effective job of commercializing those inventions, and the sponsors of the Act sought to nurture and commercialize further innovation. The Act establishes a hierarchy that gives the contractor and the Government rights to claim ownership to the invention before the individual inventor. Id. §202(a)-(d).

In the instant case, a Stanford researcher (Mark Holodniy) worked on a federally-funded research project involving the Acquired Immunodeficiency Syndrome (AIDS), and received patents for his work. When he was hired, Holodniy had signed Stanford's "Copyright and Patent Agreement" (CPA), which obligated Holodniy to assign to Stanford any inventions developed in the course of his research, and when patent applications were eventually filed, he honored this obligation by executing assignments that were prepared in conjunction with his patent applications.

However, after his hire, but before his execution of the patent assignments, he was asked to become knowledgeable on a particular type of measurement technology (polymerase chain reaction – PCR) that would be used in the research project. His colleagues at Stanford arranged for him to visit a third party laboratory, Cetus, to learn about PCR. He did so regularly for a period of a few months, and in the course of his visits, he signed Cetus's "Visitor's Confidentiality Agreement" (VCA). The VCA stated that Holodniy "will assign and do[es] hereby assign to CETUS, my right, title, and interest in each of the ideas, inventions and improvements" that Holodniy may devise as a result of his work at Cetus.

Years later, the patents issued with Stanford as the assignee of record. However, when Stanford approached Roche Molecular with the patents, Roche indicated that since it had acquired Cetus, it had acquired Cetus's ownership in the inventions by virtue of the VCA. This lawsuit ensued, with Roche raising its ownership of the patents as a defense to the claim of infringement by Stanford.

The district court denied Roche's claim of ownership, partly on the grounds that, pursuant to the Bayh-Dole Act and Holodniy's obligation to assign under the CPA, Stanford was a contractor that enjoyed a right of refusal to the invention. Roche appealed this issue to the Federal Circuit.

The Federal Circuit disagreed. It determined that patent rights do not vest in anyone other than the inventor until an assignment is executed, and that the first-signed CPA with Stanford was not an actual assignment of a present interest, but rather was a promise to make a future assignment. It determined that the first executed assignment was the Cetus VCA, which included "hereby assigns" language transferring a present expectant interest. Stanford petitioned the Supreme Court for *certiorari*, with the question of whether a university's statutory right under the Bayh-Dole Act could be terminated by an inventor signing a separate assignment.

Oral Arguments

During oral arguments, counsel for Stanford argued that the Bayh-Dole Act should be interpreted as a vesting statute, in which ownership of federally-sponsored inventions automatically vests according to the Act's hierarchy (Government and contractor before the inventor). According to Stanford, the Federal Circuit's decision turns this hierarchy upside-down, frustrating the Act's purpose. Stanford also argued that by giving the inventors this right of first refusal, the predictability in the research industry would be eroded as one can no longer be certain whether ownership is trumped by a "hidden" agreement like the Cetus VCA. Stanford also cautioned that under the Federal Circuit's reading, contracting universities and inventors can easily contract around the Bayh-Dole Act's provisions, and cut the Government out of the patent rights, by simply agreeing to let the inventors retain title to the patents.

The U.S. Deputy Solicitor General supported Stanford's position, arguing that the Act's framework provided a clear disposition of the patent rights, and that ownership of patents is already subject to situations in which assignments are not necessary (referring to the ability of an assignee to take action on a patent application if an inventor refuses or is unavailable to execute an assignment, and to the existence of other vesting statutes in which patent rights automatically revert to the Government).

Roche asserted that the need for an assignment is fundamental U.S. patent practice, and that there is nothing in the Act's language or history to indicate that Congress had intended to alter the assignment requirements for federally-funded inventions. Roche argued that there are already other avenues of recourse for inventors who assign away rights in contravention of an earlier obligation (e.g., a court order requiring re-assignment), such that there is no need to interpret the Act as a vesting statute, and that the Federal Circuit properly resolved the matter on the basis of executed assignments.

Questions from the Justices suggest a concern for disturbing the traditional requirement for an assignment. Justice Scalia noted that vesting without an assignment would be a significant change from traditional patent practice, Justice Sotomayor wondered why an assignment should not be needed here when it is generally required for other transfers of ownership, and Justice Alito remarked that the historical notion that patent rights originate with the inventor was one of his primary concerns he had with Stanford's position. Counsel for Stanford responded by noting that the concept of automatic vesting is already used elsewhere in the laws, that its inclusion here would not be such a drastic change, and that it would be necessary to carry out Congress's intent in passing the Act. Roche's position was to agree that automatic vesting would be a dramatic change, and to note that other vesting statutes were clearer on their face that rights were to automatically transfer.

Several Justices asked about options that would avoid the need for automatic vesting. Justice Roberts asked whether the Government can simply require contractors to secure assignments from their employees, and Justice Scalia agreed that the Government could simply withhold funding if there was a problem getting the assignment. Justice Alito asked what other universities have been doing all this time, and counsel for Stanford remarked that other universities generally also have policies requiring employees to sign assignments.

Justice Breyer appeared to favor the option of still requiring an assignment, but deeming certain assignments void as against public policy in situations where the inventor fails to honor a prior obligation to assign to a Bayh-Dole contractor. This would allow the rights to be disposed in accordance with the Act, but without reading the Act as an

automatic vesting act. Justice Kennedy also appeared to like this approach, asking counsel for Stanford if this argument had been preserved.

Justices Ginsberg and Kennedy also appeared interested in resolving the matter on contract grounds. Justice Ginsberg remarked that the case appeared to turn on the fact that the Cetus VCA was an actual assignment ("hereby assign"), whereas the earlier-executed Stanford CPA was merely a promise to assign ("will assign"), making the Cetus VCA the first actual assignment. Justice Kennedy agreed that resolving the issue on this contractual basis appeared simpler.

Justice Kagan asked why the Act did not expressly address the execution of assignments from inventors, as that appeared to be a huge omission in an Act that dealt with ownership of patents. Counsel for Roche responded that, at the time the Act was passed, there was no need to separately mandate that in the legislation, as universities had already proven themselves well-suited to extract the necessary assignments from their employees, and the laws had provisions for dealing with employees who refused to execute assignments. According to Roche, the focus of the Act was on the relationship between the Government and the contractor; not on the relationship between the contractor and its employees.

The questions from the bench suggest that the Justices are hesitant to read the Bayh-Dole Act as a vesting statute. However, this hesitance does not automatically mean a win for Roche, as the Justices may well change their mind, and also appeared willing to consider alternative grounds.

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