

The Perils Of One Wrong Word In A Contract

Law360, New York (June 8, 2011) -- In *Board of Trustees of the Leland Stanford Junior University v. Roche Molecular Systems Inc.*, the U.S. Supreme Court granted certiorari to determine ownership rights pertaining to federally funded inventions.[1] On June 6, 2011, the Supreme Court provided guidance on this matter via Chief Justice John G. Roberts' opinion.

The court held that a federally funded invention does not automatically vest ownership of the invention to a federal contractor or authorize a federal contractor to unilaterally take title to the invention.[2]

The question presented in the case is: “whether a federal contractor has statutory rights under the University and Small Business Patent Procedures Act of 1980[3] in inventions arising from federally funded research that may be terminated by an inventor through a separate agreement assigning their rights to a third party.”

The determinative factor of the case boils down to the contract language in an assignment grant. In the present situation, Dr. Mark Holodniy joined Stanford University as a research professor. He executed Stanford's standard agreement with regard to inventions that stated, in part, that he “agree[d] to assign” to Stanford his “right, title and interest in” inventions resulting from his employment with Stanford.[4]

At a later time, Dr. Holodniy executed an agreement with Cetus, a small California research company, that stated in part that he “will assign and do[es] *hereby* assign” to Cetus his “right title and interest in ... the ideas, inventions and improvements” made “as a consequence of [his] access” to Cetus.[5]

This matter raises two issues. The first issue is whether Dr. Holodniy could legally assign his rights to an invention when federal funds are utilized in the development of the invention. The second issue is the interpretation of the contract language highlighted above, i.e., argue *to* assign vs. does *hereby* assign.

Turning to the first issue, the Supreme Court was quite clear in its analysis of long-standing patent principals of ownership of patent rights: “[w]hoever invents or discovers any new and useful process, machine, manufacture or composition of matter ... may obtain a patent therefor.”[6] Thus, initial ownership resides with the inventor. An inventor may transfer ownership via an assignment of rights by an instrument in writing.[7] This ownership right does not automatically transfer to an employer without an express assignment of his rights to his employer.[8]

Therefore, Dr. Holodniy is recognized as both the inventor and the owner of the patent rights in question. This would seem to be the logical conclusion and is consistent with long-standing case law, as well federal guidelines.[9] In fact, the NIH, the funding agency in the present situation, has stated that “[b]y law an inventor has initial ownership of the invention” and that contractors should therefore “have in place employee agreements requiring an inventor to assign or give ownership of an invention to the organization upon acceptance of federal funds.”[10]

Stanford did have an employment policy in place, which they believed accomplished this goal. The Supreme Court held that the Bayh-Dole Act, inter alia, defines the relationship between the contractor and the government. It does not change this basic and long-standing tenant of ownership residing with the inventor.[11]

Regarding the second issue, the Supreme Court was silent.[12] But it can be interpreted that the court did not question the decision of the Court of Appeals for the Federal Circuit on this matter since neither the opinion nor the dissent questions the conclusion of the lower court.[13]

The CAFC concluded that Dr. Holodniy’s initial agreement with Stanford constituted a mere promise to assign rights in the future. Thus, the language “agree[d] to assign” is future promise. The agreement with Cetus utilizes the language “do[es] hereby assign,” which is an actual transfer of rights. The CAFC held that, as a matter of contract law, Cetus obtained Holodniy’s rights in the invention before Stanford.

The immediate impact of this decision is that universities will be held to the well-known standards of contract law. In addition, the Bayh-Dole Act does not save a university from poor drafting of assignment documents.

This decision will have much broader ramifications in the university and government contractor environments since it will require tighter contracts between employees and employers, as well as diligent monitoring of employees for potential conflicts that may arise from their inadvertent execution of documents with third parties. In a conventional business environment, safeguards are in place to prevent such outcomes. In a university environment, each university will have to address the specific culture in the university and determine a meaningful approach to address this issue.

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[1] 562 U.S. ____ (2010).

[2] 563 U.S. ____ (2011).

[3] 35 U.S.C. §§ 200-212. This act is commonly referred to as the Bayh-Dole Act.

[4] App. To. Pet. For Cert. 118a-119a

[5] App. To. Pet. For Cert. 122a-124a.

[6] 35 U.S.C. § 101; Gayler v. Wilder, 10 How. 477, 493 (1851); Solomons v. United States, 137 U.S. 342, 346 (1890); and United States v. Dubilier Condenser Corp., 289 U.S. 178, 188 (1933).

[7] §§151, 152, 261.

[8] United States v. Dubilier Condenser Corp., 289 U.S. 178, 187 (1933).

[9] NIH Policies, Procedures and Forms.

[10] Id.

[11] 563 U.S. ____ (2011).

[12] The Supreme Court explicitly states that since the CAFC interpretation of the relevant assignment agreements is not an issue on which certiorari was granted, they will not pass on the validity of the lower court's construction of the agreements.

[13] 583 F. 3d 832, 841-842 (2009).