

**Present Assignment of Future Invention Rights: Some Heretical Thoughts on the  
*Stanford Case*\***

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In my earlier article addressing the *Board of Trustees of the Leland Stanford Junior University v. Roche Molecular Systems, Inc.*, I suggested the Federal Circuit “still doesn’t get it” on how title to “subject inventions” works under Bayh-Dole. See CAFC Continues to Struggle with How Title to Subject Inventions Works under Bayh-Dole <http://ipwatchdog.com/2009/10/27/cafc-continues-to-struggle-with-how-title-to-subject-inventions-works-under-bayh-dole/id=6911/> . My original view was that the title to the “subject inventions” (i.e., those resulting from federally sponsored research) initially resided with the organization (e.g., Stanford University) which carried out the sponsored research. I now confess that I, like Stanford University, overstated how Bayh-Dole works with regard to title to “subject inventions.” In affirming the Federal Circuit, a majority of the Supreme Court (6 Justices) later ruled that Bayh-Dole “does not automatically vest title to federally funded inventions in federal contractors or authorize contractors to unilaterally take title to such inventions.” See head notes to the Supreme Court’s slip opinion.

But having discussed in the patent “blogosphere” what the Supreme Court’s decision in the *Stanford* case says and actually holds, I (like Stanford University) are not alone in “overstatements.” One of the critical issues in the *Stanford* case that is glossed over (or at least not addressed directly) by the Supreme Court majority (as well as others in the patent “blogosphere”) is what happens when you have a present assignment (or at least a contractual obligation to assign) of invention rights that don’t exist at the time of the assignment (aka “future invention rights”). Should (as the Federal Circuit held) Roche (or more appropriately its predecessor, Cetus) by using the language “I will assign and do hereby assign” (aka the “Cetus Assignment Clause”) trump what may have been an earlier obligation by a Stanford University researcher (Mark Holodniy) to assign invention rights to Stanford University (aka the “Stanford University Assignment Obligation”)? I would argue, as did Justice Sotomayor’s concurring opinion and Justice Breyer’s dissenting opinion (joined by Justice Ginsburg) that a “yes” answer to that question defies logic, reason, and prior case precedent (other than the Federal Circuit’s 1991 case of *FilmTec Corp. v. Allied Signal, Inc.* whose logic, reasoning, and adherence to prior case precedent was challenged by both Justice Sotomayor’s concurring opinion, as well as Justice Breyer’s dissenting opinion).

What plagues the Supreme Court’s decision in the *Stanford* case (and which Justice Breyer aptly notes in his dissenting opinion) is what, exactly, is the correct factual record? In particular: (1) in what chronological order did the Stanford University Assignment Obligation and the Cetus Assignment Clause occur?; (2) when did Stanford University get the federal funding for the research that Holodniy allegedly did for them, versus when were Holodniy’s research activities carried out at Cetus after he signed Cetus’ “Visitor’s Confidentiality Agreement” (“VCA”) with the Cetus Assignment

Clause?; and (3) relative to the invention rights at issue, how much were those rights based on Stanford University's federally funded research, versus how much were based on the research activities carried out at Cetus? The factual record discussed in the Supreme Court's opinion, as well as the prior Federal Circuit opinion, is complex and muddled, or at least not very clear on these three points. I, like Justices Sotomayor and Breyer/Ginsburg, also suggest that knowing the exact factual record relative to these three points is crucial in resolving (or at least addressing) the question of what happens when there are multiple assignments (or obligations to assign) future invention rights, such as the Stanford University Assignment Obligation and the Cetus Assignment Clause. (A fourth and crucial point not addressed by even Justice Sotomayor's concurring opinion, as well as Justice Breyer's dissenting opinion, whether Holodniy had the authority or at least blessing of Stanford University to sign Cetus' VCA containing the Cetus Assignment Clause.)

As best, all that this factual record from the Supreme Court/Federal Circuit decisions (and mainly from the Federal Circuit decision) tells us is the following: (a) the patented technology involved methods for quantifying the Human Immunodeficiency Virus ("HIV") by using polymerase chain reaction ("PCR") to measure ribonucleic acid ("RNA") from HIV in the blood plasma of infected humans who are taking drugs such as zidovudine (AZT) (hereafter referred to as the "HIV RNA assay invention") and that Holodniy was one of the inventors listed on the patents for this HIV RNA assay invention; (b) the HIV RNA assay invention was developed in the late 1980s and early 1990s by researchers at Stanford University and Cetus; (c) Holodniy joined Stanford University in 1988; (d) Holodniy signed the agreement containing the Stanford University Assignment Obligation at a time not clearly specified but which may appear to be as early as 1988 when he joined Stanford University; (e) in February 1989, Holodniy began regular visits to Cetus over several months to learn PCR and to develop a PCR-based assay for HIV and signed Cetus's VCA containing the Cetus Assignment Clause; (f) in December 1991, Roche purchased Cetus' PCR business, including Cetus' agreements with Stanford University; (g) after this purchase, Roche began manufacturing HIV detection kits employing RNA assays; (h) in May 1992, Stanford filed the patent application for the HIV RNA assay invention which resulted in the patents on which Holodniy was listed as an inventor; (i) Stanford University received government funding for its HIV research through the National Institutes of Health ("NIH"); on June 24, 1992, Stanford filed an invention disclosure for the HIV RNA assay with the NIH; and (j) on April 6, 1995, Stanford formally notified the Government that it elected to retain title under the Bayh-Dole Act to the HIV RNA assay invention described in the invention disclosure.

With this complex/muddled/unclear factual record before it, the 6 Justices of the Supreme Court agreed in *Stanford* that Bayh-Dole doesn't automatically cause a transfer of invention rights that might be based on federally funded research to the contractor/grantor (e.g., Stanford University); even those rights must be assigned (be it by written assignment, agreement to assign, or some "operation of law" other than Bayh-Dole) by the inventor/researcher to the contractor/grantor. But what those 6 Justices didn't address in *Stanford* (despite what some in the patent blogosphere might believe) is the validity of

the Federal Circuit's ruling in *FilmTec* that the "do hereby assign" language in the Cetus Assignment Clause "effected a present assignment of Holodniy's to Cetus," and which was the basis for the Federal Circuit holding in the *Stanford* case that title to the HIV RNA assay invention belonged ultimately to Roche. And no amount of "silence" on the part of those 6 Justices as the impact of this "do hereby assign" issue can necessarily be construed as an "affirmation" that the Federal Circuit "got it right" in *FilmTec*, as Justices Sotomayor and Breyer both clearly pointed out. (Sotomayor concurred with those 6 Justices solely on the basis that Stanford University, in essence, "waived" that issue.)

Even in dissent, Justice Breyer (who I will admit is one of my least favorite Justices, especially when it comes to interpreting patent law issues) said he would "likely agree" with the 6 Justices that Bayh-Dole doesn't cause an automatic transfer of invention rights to the federal contractor/grantee. But I do give him significant credit in recognizing that Bayh-Dole does evidence a "scheme," or as he calls it, "a hierarchy," for how ownership of invention/patent rights is (or should be) allocated for federally funded research: (1) first, to the funded organization; (2) next, to the federal government; and (3) last, to the employee/researcher. In other word, Bayh-Dole provides a "pecking order" for who gets the first claim to ownership of those rights, similar to a "right of first refusal" in a license agreement. (This was the same or similar position advanced by the U.S. Solicitor General in their amicus brief with regard to the "comprehensive framework" of Bayh-Dole "for disposition of rights in federally funded inventions.") In fact, Justice Breyer's dissent goes even further in saying "I cannot so easily accept the majority's conclusion-that the individual inventor can lawfully assign an invention (produced by public funds) to a third party, thereby taking that invention out from under the Bayh-Dole Act's restrictions, conditions, and allocation rules."

While this more "radical" view by Justice Breyer was obviously and expressly rejected by the 6 Justices, his further views as to the "substantive" effect of the Stanford University Assignment Obligation, versus the Cetus Assignment Clause, were not expressly rejected. These further views were directed at the Federal Circuit holding that the Cetus Assignment Clause trumped the Stanford University Assignment Obligation because of the Federal Circuit's *FilmTec* holding that the phrase "do hereby assign" "made all the difference." And I completely agree with Justice Breyer's statement that "[g]iven what seem only slight linguistic differences in the contractual language, this reasoning seems to make too much of too little." (Or as I would phrase it, we're "exalting form completely over substance.") Breyer further observed that, at the time Holodniy executed his agreement to assign in 1988 (before the *FilmTec* case), "patent law appears to have long specified that a present assignment of future inventions (as in both [Clauses] here) conveyed equitable, but not legal, title" (citing Curtis' *A Treatise on the Law of Patents*, as well as a Comment in the *Yale Law Journal*). As Breyer saw it, the Cetus Assignment Clause, as well as the Stanford University Assignment Obligation, "would give rise only to equitable interests" in the HIV RNA assay invention. And "as two claims in equity," because the Stanford University Assignment Obligation came chronologically before the Cetus Assignment Clause, and because Stanford University had subsequently obtained an assignment of the HIV RNA assay invention from Holodniy after it existed, that "should have meant that Stanford [University], not Cetus,

would receive the [invention] rights.” (It’s not exactly clear from Justice Breyer’s dissent whether he was postulating this statement based on the Stanford University Assignment Obligation being “factually” first in time, or “theoretically” first in time, relative to the Cetus Assignment Clause).

Justice Breyer also characterized the Federal Circuit holding in *FilmTec* as “adopting the new rule” such that “Cetus must win.” He also noted that the Federal Circuit “provided no explanation for what seems a significant change in the law” in *FilmTec*, and also “did [not] give any explanation for that change” in the *Stanford* case. Instead, Justice Breyer saw the Federal Circuit’s *FilmTec* rule as “undercut[ting] the objectives of Bayh-Dole” and “remain[ing] a technical drafting trap for the unwary” (views with which I also completely agree).

I would further add that the Federal Circuit’s “formalistic” *FilmTec* rule (as applied by them in the *Stanford* case) in allocating invention rights between competing ownership claims (one of which is by a university subject to Bayh-Dole obligations) is also inconsistent with (or at least potentially frustrates) other provisions of Bayh-Dole. That’s not a new view by me, but one previously expressed in my earlier article cited above, in particular with respect to frustrating what is obviously intended by 35 USC § 202(c)(7). 35 USC § 202(c)(7) expressly prohibits a nonprofit organization, like Stanford University, from assigning rights in federally sponsored research to third parties (like Cetus or Roche) without approval of the respective federal agency. But the “formalistic” *FilmTec* rule now “opens the door” to “sham” transfers of invention rights in federally funded research by universities to entities which are otherwise prohibited by 35 USC § 202(c)(7) without prior federal agency approval.

Some will say that such a “sham” transfer may be challenged by affected third parties. But I suggest that such “sham” transfers likely cannot be challenged by third parties, even if the federal agency later discovers the “sham” transfer, but chooses to do nothing about it. Why do I say that? Because the Federal Circuit’s 2007 decision in *Central Admixture Pharmacy Services, Inc. v. Advanced Cardiac Solutions, P.C.* basically says that, when the provisions of Bayh-Dole are violated, only the appropriate federal agency involved (in its complete discretion) may challenge such violations. Put differently, if the appropriate federal agency chooses not to challenge such a “sham” transfer, I don’t see how even an affected third party can do so in view of the holding in *Central Admixture*.

Besides 35 USC § 202(c)(7), what the “formalistic” *FilmTec* rule (as applied by the Federal Circuit in the *Stanford* case) also potentially undermines is the funding federal agency’s stake in any invention rights created by that federally funded researched. In particular, under 35 USC § 202(c)(4), if the contractor/grantor elects to take title to invention rights created by federally funded researched, the federal agency gets (at minimum) “a nonexclusive, nontransferable, irrevocable, paid-up license to practice or have practiced for or on behalf of the United States any subject invention throughout the world.” But under application of the “formalistic” *FilmTec* rule according to the Federal Circuit in the *Stanford* case, even when the contractor/grantor does get an obligation to assign those invention rights to itself (as it must do to “elect title” under Bayh-Dole), the

federal agency's potential "nonexclusive license" in those rights is now squarely in jeopardy.

Admittedly, the factual situation in the *Stanford* case of competing claims to ownership in invention rights where one of the competing parties is (like the Stanford University) is basing that claim on federally funded research may not be typical and may be somewhat unusual. After all, Bayh-Dole has existed for over 30 years and only one other instance (noted in my article cited above) like the *Stanford* case has occurred. But the mere possibility of the application of the "formalistic" *FilmTec* rule is causing some extreme "angst" among many universities who have existing contractual clauses (or policies) which create (similar to the Stanford University Assignment), at most, a present obligation to assign future invention rights. And contrary to what others have said, think or believe, the question of the continuing validity of the "formalistic" *FilmTec* rule remains open for challenge before the Supreme Court. The Supreme Court has yet to squarely rule on whether the Federal Circuit "got it right" in *FilmTec*.

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