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US Supreme Court Issues Decision in *Stanford v. Roche* case

June 6, 2011, the U.S. Supreme Court issued a 7-2 decision in *Stanford v. Roche,* one of the most watched cases in university jurisprudence this year. The Court ruled that title to inventions arising from federally-funded research does not automatically vest in the university under the Bayh Dole Act. The Court also confirmed that Article I, §8, cl.8 of the U.S. Constitution plainly states that inventors initially own their inventions. It is what the Supreme Court didn't rule that is important for universities grappling with how to react to the decision.

The Court did not take away any rights of universities. The Court did not say that the Bayh Dole Act, which allows universities to own federally-funded inventions, violates inventors' rights. In fact, the Court's decision in *Stanford v. Roche* is in line with the way universities, including Stanford, have behaved since Bayh Dole was enacted in 1980. In practice, universities have not presumed that title to federally-funded inventions automatically vests in the universities. Instead, universities routinely obtain written assignments of university patents from the inventors, whether the invention was supported by federal funds, industry sponsorship, university funds or gifts.

In the *Stanford v. Roche* case, inventor Mark Holodniy, a researcher at Stanford, signed not one, but two assignments in favor of Stanford. The Supreme Court did not rule on the contract-interpretation issue inherent in the case, thus leaving in place the ruling of the lower appellate court. That court, the Federal Circuit, had ruled that Holodniy's promise that he would "agree to assign" rights to his federally-funded inventions to the university could be trumped by boilerplate contractual language executed during a visit to a neighboring private, commercial laboratory, purporting to "hereby assign" certain of those inventions, even though they had not yet been conceived or reduced to practice.

Chief Justice John Roberts' majority opinion points out this fact in Footnote 2 of the Court's decision: "Because the Federal Circuit's interpretation of the relevant assignment agreements is not an issue on which we granted certiorari, we have no occasion to pass on the validity of the lower court's construction of these agreements." In other words, the Supreme Court rendered a judgment on statutory construction – it opined as to what Bayh Dole says – but it did not pass judgment on the Federal Circuit's appellate opinion on the contractual construction of the assignment documents the researcher signed.

The Federal Circuit ruled that the words "hereby assign" gave the company, Cetus (predecessor in interest to Roche), rights in Holodniy's future invention immediately. Then, when Holodniy later carried out his promise to assign to Stanford when the patent applications were filed, he had no interest remaining to assign, ruled the Federal Circuit. (Stanford has joint rights in the inventions due to the assignments to Stanford executed by the other joint inventors.)

Justice Steven Breyer (joined by Justice Ruth Bader Ginsburg) in the dissent, said he would have returned the case to the Federal Circuit for further argument. "Given what seem only slight linguistic differences in the contractual language, this reasoning makes too much of too little."

Before Congress passed Bayh Dole in 1980, title to patents vested in the federal agencies that funded the underlying research. Because each agency had its own idiosyncratic rules governing the ownership of inventions, the inventions themselves were largely unexploited. Bayh Dole changed this system with a presumption that non-profit universities, which serve as laboratories for billions of dollars of federally funded research, will acquire the title to the inventions that result from that research. The results of three decades under Bayh Dole show that the statute has achieved its desired aims in spectacular fashion. University-owned inventions have become a major engine of economic growth. Indeed, a recent report estimates that university licensing contributed between $108.5 and $457.1 billion to the U.S. economy from 1996 to 2007.

Justice Sonia Sotomayor questioned the applicability of the principles of contract law that the Federal Circuit applied to cases, like *Stanford v. Roche*, that implicate the Bayh Dole Act. Since the Court did not rule on

this issue, it left open the possibility that universities or industry might argue in a future case that title to inventions should not turn on the subtle niceties of conflicting assignment contracts.

However, the Supreme Court opinion makes clear that universities should change their invention assignment forms such that they include "hereby assign" language, pursuant to the lower appellate court's decision, a change that MIT made in 2010, after the Federal Circuit's opinion issued.

University collaborations with industry are important for both parties. Thus, this case highlights the need to be rigorous in defining rights between parties. For inventors, this case is an example of how a simple form can turn up later in litigation. Forms should not be signed without a full understanding of what they entail. The commercial value of the inventions at issue may be lost not only to the university and the public, but to the individual inventors as well.

This case demonstrates the importance of inventors understanding intellectual property issues, for the protection of U.S. taxpayers in the case of federally-funded inventions, the university and the inventor. Inventors, who may be tempted to sign without reading agreements with companies in order to gain access to certain information or facilities, should be very cautious about the agreements they sign. Obtaining the advice of the university's technology transfer office about such issues is critical.

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