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# Employment Law Update - August 2011 Supplemental

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On June 6, 2011, the U.S. Supreme Court issued its decision in the case of Stanford Univ. v. Roche Molecular Sys., Inc., No. 09-1159. While the primary issue in the case involved patent rights for inventions developed by federal funding, the decision, written by Chief Justice John G. Roberts, sends a message to employers who want to make sure they have rights in the inventions created by their employees.

The case involved a researcher, Dr. Mark Holodniy, who joined Stanford University in 1988 and signed an agreement stating that he agreed to assign to the university his rights, title and interest in any inventions resulting from his employment with the school. Stanford collaborated with a small California research company called Cetus to develop methods for quantifying blood-borne levels of HIV. In connection with his employment at Stanford, Holodniy conducted research with Cetus and, as a condition to gain access to the company, signed an agreement with it stating that he "will assign and do[es] hereby assign" to Cetus his right, title and interest in the inventions made as a consequence of his access.

Working with Cetus employees, Holodniy devised a procedure for measuring the amount of HIV in a patient's blood. At Stanford, he and other university employees tested the procedure. Stanford obtained three patents based on the procedure. Thereafter, Roche Molecular Systems acquired Cetus and commercialized Holodniy's procedure, which is used today in HIV test kits worldwide. Stanford filed suit against Roche, claiming that Roche's HIV test kits infringed Stanford's patents.

The U.S. Court of Appeals for the Federal Circuit held that Holodniy's duty to assign rights to Stanford did not prevent him from actually assigning rights to Cetus, and, therefore, Roche held the patents. Based on the language of his agreement with Stanford, Holodniy agreed to assign all right, title and interest in and to inventions to Stanford. Based on the language in his contract with Cetus, he actually did assign all such right, title and interest. On appeal to the U.S. Supreme Court, Stanford argued that the contractual rights did not matter, because it had a statutory right to the invention under the federal Bayh-Dole Act, which allocates rights in federally funded inventions. The Supreme Court disagreed and upheld the decision of the Federal Circuit.

While much of the high court's discussion addresses the application of the Bayh-Dole Act, the opinion itself highlights the importance of employers carefully wording assignment language in employment agreements with their employees. The court emphasized the well-settled precedent that rights in an invention belong to the inventor. Thus, unless there is an agreement to the contrary, an employer does not have rights in an invention created by its employee. However, employees can contract away their rights to inventions.

In this case, the language in Stanford's contract with Holodniy had him agreeing to assign his patent rights at a later date, rather than assigning any patent rights in inventions – past, present or

future – at the time he executed the agreement. Had the contract included the latter language, the outcome may have been different.

Employers should consider drafting invention assignment language in their employment agreements to include an automatic assignment that occurs constructively at the moment of invention rather than a promise by the employee to assign his rights at a later date. In the event the employee claims rights in patents created as part of his or her employment, the former clause gives the employer the right to claim ownership of the patent, while the latter may only give the employer a breach of contract claim.