

Lessons From Stanford

Law360, New York (August 23, 2011) -- Four Stanford University researchers invented a method for quantifying Human Immunodeficiency Virus (“HIV”) in human blood samples.[1] Stanford applied for, and received, three U.S. patents claiming the method (the “HIV detection patents”).[2] For nearly 20 years, Stanford University believed that it owned enforceable patent rights in the HIV detection method. Stanford was wrong.

In the mid-1990s, Roche Molecular Systems and several related entities began manufacturing HIV detection kits.[3] Today, Roche’s HIV test kits are used in hospitals and AIDS clinics worldwide.[4] Stanford sued Roche, alleging that Roche’s HIV detection kits infringe the HIV detection patents.[5] Earlier this year, the U.S. Supreme Court affirmed a lower court ruling that named inventor Mark Holodniy, a Stanford employee, had never validly assigned his ownership interest in the HIV detection patents to Stanford.[6] As a result, Stanford lacked standing to sue Roche and lost out on a chance to recover millions of dollars in royalties.[7] In retrospect, Stanford could have avoided this outcome if it had included some very simple language in its standard employee agreements.

Dr. Mark Holodniy was hired as a Research Fellow in Stanford’s Department of Infectious Disease in 1988.[8] At the outset of his employment, Dr. Holodniy signed a Copyright and Patent Agreement (“CPA”) stating that he “agree[d] to assign” to Stanford his “right, title and interest in” inventions resulting from his employment at the university.[9] Dr. Holodniy set out to develop an improved method for quantifying HIV levels in patient blood samples.[10] The method would involve the use of the polymerase chain reaction (“PCR”) to measure ribonucleic acid (“RNA”) from HIV in blood plasma.[11]

Dr. Holodniy performed some of his experiments off-site at Cetus, a California-based biotechnology company that had pioneered PCR technology.[12] As a condition of gaining access to Cetus’s facilities, Dr. Holodniy signed a Visitor’s Confidentiality Agreement (“VCA”) stating that he “will assign and do[es] hereby assign” to Cetus his “right, title, and interest in” inventions that he devised “as a consequence of” his work at Cetus.[13] With the technical assistance of several Cetus employees, Dr. Holodniy devised a method of quantifying HIV.[14]

After Dr. Holodniy concluded his work at Cetus, he and three other Stanford researchers tested and refined the HIV measurement technique.[15] Over the next several years, Stanford filed the three patent applications that led to the HIV detection patents.[16] Dr. Holodniy executed an assignment of his rights in the applications to Stanford on May 4, 1995.[17]

Roche acquired Cetus's PCR-related assets in 1991 and ultimately commercialized a method of HIV quantitation employing RNA assays.[18] Stanford sued Roche, alleging that Roche's method of HIV quantitation infringed the HIV detection patents.[19] The Federal Circuit ordered the district court to dismiss Stanford's lawsuit, finding that Stanford did not own Dr. Holodniy's interest in the HIV detection patents.[20]

The court held that Dr. Holodniy's 1988 CPA with Stanford, in which Dr. Holodniy "agreed to assign" his future inventions to Stanford, constituted a mere promise that Dr. Holodniy would assign his inventive rights to Stanford at some undetermined future time; it did not immediately transfer title to Stanford.[21] On the other hand, Dr. Holodniy's 1989 VCA with Cetus, which provided that Dr. Holodniy "does hereby assign" his future inventions to Cetus, effected a present assignment of Dr. Holodniy's future inventions to Cetus.[22]

Therefore, Dr. Holodniy retained no rights in the invention at the time of his 1995 executed assignment to Stanford, and the executed assignment had no effect.[23] Without a valid assignment of Dr. Holodniy's interest in the HIV detection patents, Stanford lacked standing to sue Roche (or anyone else) for patent infringement.[24]

Unfortunately, the pitfalls that compromised Stanford's ownership of the HIV detection patents are not unique to large research universities. Employees and contractors of corporations and small businesses frequently also develop new inventions, expressive works and trademarks related to the businesses of their employers.

Not surprisingly, businesses generally assume that they will acquire the intellectual property rights stemming from these creations. Without careful planning, however, these businesses can miss out on the benefits of such intellectual property rights. This article discusses several simple steps that businesses can take to ensure that they enjoy the patent, copyright and trademark rights arising from their investments.

Patents

In general, the individual inventor who discovers a useful invention or improvement owns the right to apply for and obtain a patent on that invention.[25] This is true even when an employee (or contractor) uses the time and resources of an employer to develop the invention.[26] In the employment context, however, an employer and employee may alter this presumption by contract.[27] For example, an employee may execute an express employment contract under which the employee assigns all patent rights to the employer.[28]

Even absent an express contract of assignment, an employer may still claim title to an employee's inventive work if it can establish that the employee assigned her inventive rights to the employer in an implied-in-fact contract.[29] Such implied-in-fact contracts generally arise in cases where the employer specifically hired or directed the employee to make the invention at issue; that is, where the employee was "employed to invent." [30]

When the purpose for employment focuses on invention in this way, courts often find that the employee's salary constitutes full compensation for her inventive work and that the employee has agreed to assign her inventive rights to the employer in return for that salary.[31]

While the establishment of such an implied-in-fact contract appears simple in theory, it can present numerous pitfalls for employers. First, an employer claiming patent ownership based on an employee's "employment to invent" bears the burden of proof to establish the implied-in-fact contract.[32] Second, implied-in-fact contracts are founded upon a meeting of the minds between the two parties.[33] Thus, any evidence that the employee or independent contractor did not agree to assign her patent rights to her employer can defeat the employer's assertion that it is entitled to ownership of the patent.[34]

Given the difficulty of establishing patent ownership rights by an implied-in-fact contract under the “employed to invent” theory, employers wishing to ensure clear patent ownership rights should define their rights by express agreement with their employees. In many states, an employer can establish an “agreement to assign” by including a properly-worded provision in an employee handbook.[35]

As the Stanford case demonstrates, however, an “agreement to assign” patent rights may not always be enough. Therefore, employers should consider asking their employees to execute agreements accomplishing a present assignment of patent rights by including a statement that the employee “does hereby assign” his or her interest in inventions resulting from the employment to the employer. By implementing such agreements, an employer can ensure that it owns enforceable patent rights in inventions critical to its business.

Copyrights

In analogy to the Patent Act, the Copyright Act of 1976 vests initial copyright ownership in the author of a work.[36] In most cases, the author of a work is the person who actually created the work by “translat[ing] an idea into a fixed, tangible expression entitled to copyright protection.”[37] In the case of an employment or independent contractor relationship, however, the person for whom the work was prepared is considered the author of the work — and initial owner of the copyright — if the work qualifies as a “work made for hire.”[38]

Therefore, employers may acquire ownership of their employees’ creative works in one of two ways. The employer may establish that the work constitutes a “work made for hire,” or the employer may acquire ownership by assignment from the employee author.

The Copyright Act recognizes two classes of “works made for hire.”[39] The first class includes those works “prepared by an employee within the scope of his or her employment.”[40] To establish that an employee’s creative work qualifies as a “work made for hire” under this rubric, an employer must demonstrate that the creator of the work was an “employee,” as that term is defined by the common law of agency.[41]

The employer must also demonstrate that the work was created “within the scope of [the creator’s] employment,” again defined by reference to the common law of agency.[42] Both of these showings must generally be made in enforcement proceedings that may take place many years after the creation of a work in question. Therefore, a claim of copyright ownership based on the employee status of a work’s creator involves a great deal of uncertainty.

The second class of “works made for hire” includes certain “specially ordered or commissioned” works not prepared by employees,[43] i.e., works prepared by independent contractors at the request of the hiring party.[44] A work qualifies as a work made for hire under this rubric only if two requirements are satisfied. First, the work must fall into one of nine specified categories of subject matter.[45] Notably, literary works and pictorial works do not qualify.[46] Second, the parties must expressly agree in a written and signed instrument that the work will be considered a work made for hire.[47]

Given the uncertainty and limitations of the works made for hire doctrine, employers wishing to acquire ownership of the copyrights in their employees’ creative works should acquire such rights by written assignment. As discussed above in the context of patent assignment agreements, these assignment agreements should be drafted to accomplish a present assignment of copyright ownership.

Specifically, the agreements should provide that the employee or contractor “does hereby assign” his or her copyrights resulting from the employment or contractor relationship. By taking these simple steps, businesses can ensure that they will own the copyrights in the creative works resulting from their investments.

Trademarks

Unlike patent and copyright ownership, trademark ownership almost never vests in the employee or independent contractor creating the protectable subject matter. Regardless of who conceives or invents a mark, trademark rights vest in the first party to use the mark in connection with a particular business.[48] For this reason, trademark rights generally belong to the employer who uses a given mark in connection with the sale of goods or services, not in the employee or independent contractor who created the mark.[49]

However, where the employee or contractor creating a mark uses the mark in her individual capacity before her employer uses the mark, the trademark rights may belong to the employee.[50] Thus, to establish unambiguous ownership of marks designed by employees and contractors, employers should promptly begin using such marks in connection with their businesses.

Conclusion

As discussed above, businesses can substantially strengthen their intellectual property ownership rights by employing simple business practices. First, to secure their patent and copyright ownership rights, businesses should require their employees and contractors to sign agreements providing for the present assignment of the relevant patent and copyright interests. Second, to secure their trademark ownership rights, businesses should promptly use new marks in connection with their sale of goods and services. By following these simple steps, businesses can reap the benefit of their intellectual property investments.

--By Robert K. Fergan and Joshua E. Ney, Brinks Hofer Gilson & Lione

Robert Fergan and Joshua Ney, Ph.D., are attorneys in the Ann Arbor, Mich., office of Brinks Hofer Gilson & Lione.

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[1] Bd. of Trs. of the Leland Stanford Junior Univ. v. Roche Molecular Sys., Inc., 583 F.3d 832, 837 (Fed. Cir. 2009), *aff'd*, ___ U.S. ___, No. 09-1159, slip op. (June 6, 2011).

[2] *Id.* at 837-38.

[3] *Id.* at 838.

[4] *Stanford*, ___ U.S. ___, No. 09-1159, slip op. at 3.

[5] *Stanford*, 583 F.3d at 838.

[6] *Stanford*, ___ U.S. ___, No. 09-1159, slip op. at 15.

[7] *Stanford*, 583 F.3d at 848-49.

[8] *Id.* at 837.

[9] *Stanford*, ___ U.S. ___, No. 09-1159, slip op. at 2.

[10] *Id.*

[11] *Stanford*, 583 F.3d at 837.

[12] Id.

[13] Id.

[14] Stanford, ___ U.S. ___, No. 09-1159, slip op. at 2.

[15] Id.

[16] Stanford, 583 F.3d at 838.

[17] Id. at 842.

[18] Id. at 837-38

[19] Id. at 838.

[20] Id. at 848-49.

[21] Id. at 841-42.

[22] Id. at 842.

[23] Id. at 842.

[24] Id. at 848-49.

[25] Stanford, ___ U.S. ___, No. 09-1159, slip op. at 6-8.; Banks v. Unisys Corp., 228 F.3d 1357, 1359 (Fed. Cir. 2000).

[26] Univ. Patents, Inc. v. Kligman, 762 F. Supp. 1212, 1219 (E.D. Pa. 1991).

[27] In order to protect the rights of employees, some states have passed laws limiting this freedom. See, e.g., Cal. Lab. Code § 2870; Del. Code tit. 19, § 805; 765 Ill. Comp. Stat. 1060/2; Kan. Stat. § 44-130; Minn. Stat. § 181.78; Nev. Rev. Stat. § 600.500; N.C. Gen. Stat. § 66-57.1; Utah Code § 34-39-3; Wash. Rev. Code § 49.44.140. These statutes generally provide that employer-employee agreements may not require the employee to assign the rights to inventions developed on the employee's own time without using the employer's resources, unless the inventions in question relate closely to the employer's business. Id.

[28] Teets v. Chromalloy Gas Turbine Corp., 83 F.3d 403, 407 (Fed. Cir. 1996).

[29] Id.

[30] Id. (citing United States v. Dubilier Condenser Corp., 289 U.S. 178, 187 (1933); Standard Parts Co. v. Peck, 264 U.S. 52, 59-60 (1924)).

[31] Id.

[32] See Banks, 228 F.3d at 1359 ("The general rule is that an individual owns the patent rights to the subject matter of which he is an inventor, even though he conceived it or reduced it to practice in the course of his employment.").

[33] Id.

[34] See *id.* at 1360 (holding that employee's refusal to sign employer's express invention assignment agreement created genuine issue of material fact as to whether there was a meeting of the minds sufficient to give rise to an implied-in-fact invention assignment contract).

[35] See, e.g., *Univ. of W. Va. v. VanVoorhies*, 278 F.3d 1288, 1298 (Fed. Cir. 2002) (holding that graduate student was required to assign patent application to university under university's patent policy); *Chou v. Univ. of Chicago*, 254 F.3d 1347, 1356-57 (Fed. Cir. 2001) (holding that graduate student was required to assign inventions to university under terms of university's Faculty Handbook even though student had never specifically agreed to do so). But see *Univ. Patents*, 762 F. Supp. at 1220-21 (holding that university's patent policy and assignment agreement did not constitute an express contract of assignment between professor and university because professor never executed agreement); *Liggett Group, Inc. v. Sunas*, 113 N.C. App. 19, 26, 437 S.E.2d 674, (N.C. Ct. App. 1993) (holding that employee handbook did not constitute express contract of assignment requiring employee to assign patent rights to employer because handbook was implemented after employee began work, and the employee never agreed to its terms).

[36] See 17 U.S.C. § 201(a).

[37] *Cnty. for Creative Non-Violence v. Reid*, 490 U.S. 730, 737 (1989).

[38] 17 U.S.C. § 201(b).

[39] 17 U.S.C. § 101 (definition of "work made for hire").

[40] 17 U.S.C. § 101(1).

[41] See *Reid*, 490 U.S. at 741.

[42] See *Avtec Systems, Inc. v. Peiffer*, 21 F.3d 568, 571 (4th Cir. 1994).

[43] 17 U.S.C. § 101(2).

[44] *Playboy Enters., Inc. v. Dumas*, 53 F.3d 549, 562 (2d Cir. 1995).

[45] *Id.* (providing that a specially ordered or commissioned work qualifies as a work made for hire only if it falls into one of the following categories: (1) a contribution to a collective work; (2) a part of a motion picture or other audiovisual work; (3) a translation; (4) a supplementary work; (5) a compilation, (6) an instructional text; (7) a test; (8) answer material for a test; or (9) an atlas); *Lulirama, Inc. v. Axxcess Broad. Servs., Inc.*, 128 F.3d 872, 877 (5th Cir. 1997) ("A work created by an independent contractor can constitute a work for hire only if it fits one of the nine narrowly drawn categories of works delineated in the second part of § 101's definition of 'works made for hire.'").

[46] *Id.*

[47] *Id.*

[48] *United Drug Co. v. Theodore Rectanus Co.*, 248 U.S. 90 ("[T]he right to a particular mark grows out of its use, not its mere adoption."); *Sengoku Works v. RMC Int'l*, 96 F.3d 1217, 1219 (9th Cir. 1996) ("To acquire ownership of a trademark it is not enough to have invented the mark first or even to have registered it first; the party claiming ownership must have been the first to actually use the mark in the sale of goods or services."); *Homeowners Group, Inc. v. Home Mktg. Specialists, Inc.*, 931 F.2d 1100, 1105 (6th Cir. 1991) ("[Trademark] ownership rights flow only from prior appropriation and actual use in the market.").

[49] See, e.g., *Malibu, Inc. v. Reasonover*, 246 F. Supp. 2d 1008, 1014-15 (N.D. Ind. 2003) (holding that corporation, not president and majority shareholder of corporation, owned rights in trademark, where president designed mark but never personally used mark in connection with sale of goods or services); *Arvelo v. Am. Int'l Ins. Co.*, 875 F. Supp. 95, 101-02 (D.P.R. 1995) (holding that trademark rights in name of insurance policy belonged to insurance company selling policy, not to contractor hired by insurance company produce name and advertising campaign for policy); *G's Bottoms Up Soc. Club v. F.P.M. Indus., Inc.*, 574 F. Supp. 1490, 1495 (S.D.N.Y. 1983) (holding that trademark rights in bar's name and logo belonged to owner and operator of bar, not bar manager who conceived of name and design while employed by bar and who later sought to use name and design in connection with competing bar); *Daytona Auto. Fiberglass v. Fiberfab, Inc.*, 475 F. Supp. 33, 36 (W.D. Pa. 1979) (holding that inventor of mark obtained no assignable interest in mark where mark was used in connection with sale of goods by business owned by inventor's husband).

[50] See *In re New York City Shoes, Inc.*, 84 B.R. 947, (Bankr. E.D. Pa. 1988) (holding that employee owned assignable interest in trademark where employee conceived mark and sold goods bearing mark before beginning employment with employer).