Ruby Slippers?

WHAT RUBY SLIPPERS?

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In The Wizard of Oz, Dorothy is sent to get the broomstick of the Wicked Witch of the West, having first to deal with her winged monkeys, only to find out that the secret to getting home was the ruby slippers she was wearing from her past encounter with the Wicked Witch of the East. In our situation, Dorothy is Stanford, but it's not proper to make the analogy that AUTM is the winged monkeys. We know AUTM doesn't have wings.

There are two branches to the discussion of Stanford v. Roche. Only one branch is under dispute and that has to do with the standing of an employee to assign future patent rights that later become substantive in federally funded research. That's a contract issue, and what SvR is all about. And that's what CAFC got right, as far as they went, and they went only as far as they needed to. Stanford appeals to seek clear title in order to succeed in its infringement suit against Roche. What the Supreme Court is asked is whether the assignment made by Holodniy can possibly be valid. The answer again and again is yes! But that isn't the end of it, by any means.

The other branch of the discussion is just as important. It is not something the Supreme Court is asked to resolve. But maybe they will mention it anyway. In this branch, an employee does have personal invention rights under Bayh-Dole and is able to obligate them by contractual means, but in the case of federally funded research, those inventions are still subject inventions, because the definition of subject invention is a matter of federal patent law (35 USC 201(e)), not simply and only a term used within a given standard patent rights clause of a given federal funding agreement (though it is there, too, at 37 CFR 401.14(a)(a)(2)).

Subject invention carries requirements as to assignment, substitution of parties, and subcontracting. It is clear that Cetus in obtaining the present assignment of future inventions makes an unrestricted claim on those inventions, limited only by the condition that the inventions arise as a consequence of the access Holodniy has to Cetus technology and facilities. Cetus necessarily also has obtained the assignment of all those obligations that go with subject inventions. Entire right, title, and interest. Not: all that except what we later don't want. This is a proper matter of patent law. When Roche acquires all the PCR assets of Cetus, it also acquires the subject inventions assigned by Holodniy, and it necessarily acquires the obligations that go with these subject inventions. This is the consequence of an unrestricted, comprehensive, and ultimately inattentive claim to everything one can acquire–entire right, title, and interest…. Well, you got it. So much for it being a better strategy to claim everything and release later what you don't want.

The question is: what Bayh-Dole obligation does Roche now have by virtue of having properly obtained title and also all of Holodniy's right and interest in a subject invention? For that, we have to ask, what is the flow of transfer of that obligation?

One angle is, Holodniy, when his present assignment to Cetus becomes effective (upon invention, at least at the point a patent application is filed), necessarily also substitutes Cetus for his personal obligations under (f)(2)

and Cetus (and then Roche) are subject to this same (f)(2) agreement. All Stanford has to do is *require assignment* from Roche, having obtained standing to do so by electing to retain title, under the (f)(2) *federal agreement* that has both validly and necessarily been assigned by Holodniy to Cetus in the operation of the present assignment. In this development, Roche has no standing to itself to elect to retain title, because it holds only title and the transferred (f))(2) obligations.

A second alternative is that Holodniy, acting as an agent of his university employer (the CAFC found as much with regard to notice to Stanford of his obligations to Cetus), has assigned a share of Stanford's Bayh-Dole obligations to Cetus per (k)(1) of the standard patent rights clause in the Stanford funding agreement. Cetus therefore not only has Bayh-Dole obligations, but these are the Bayh-Dole obligations specific to nonprofit organizations, because that is the required form that that standard patent rights clause takes for Stanford, and that is what flows through to Cetus. In that case, even if Cetus (and now Roche) holds title to a subject invention to which Stanford cannot reach, it still has the (k) obligations that otherwise are specific only to nonprofit organizations. It owes the inventors a share of royalties, among other things.

Any of these alternatives preserves Bayh-Dole without resorting to an the argument for a secret vesting statute or that Bayh-Dole contains the power to retroactively change the scope of personal rights in inventions. Instead, one sees that it does no such thing and instead requires Bayh-Dole obligations to move when there's an assignment, substitution of parties, or subcontract–just as the Act and the SPRC provide for.

Bayh-Dole doesn't care who particularly within the standard patent rights clause makes any such assignment, substitution of parties, or subcontract. Under Bayh-Dole it appears that when such a transfer of title takes place, the receiving party potentially *becomes a party to the funding agreement* (see the definition at 35 USC 201(b)) and comes within the standard patent rights clause of that funding agreement. What vests, if anything can be said to vest, is the standard patent rights clause in *that funding agreement* however it may be tailored per the requirements at 37 CFR 401.3 and 401.5

The ruby slipper in all of this is that for all of Stanford's legal arguments about wanting clear title, it has failed simply to *request that title* from Roche per (f)(2)! The request would go something like this:

"Dear Roche:
You are the assignee of the entire right, title, and interest in the subject invention and related patents (#s) from our man Holodniy. Stanford has elected to retain title in said inventions. Pursuant to the standard patent rights clause set forth at 37 CFR 401.14(a), our man Holodniy has certain obligations under paragraph (f)(2) which as a matter of federal contracting and the operation of the present assignment of future inventions, and your acquisition of all of Cetus's PCR assets are now assigned to you.

Pursuant to our authority under 35 USC 202, and subject to federal regulations to which you are subject by virtue of the assignment you claim from our man Holodniy, we hereby require assignment of title in said invention, subject to our obligations to you as properly substituted for Holodniy pursuant to the standard patent rights clause in grant (#, agency). Thank you for your prompt attention to this matter.

Yours truly,
Stanford

PS, if you wish to settle now, have your people contact our people."

Oddly, if it goes this way, then Stanford would obtain title by force of federal agreement, would then perhaps have standing to sue Roche (as it would any of its own employees out infringing), but would also *owe Roche* under its own royalty sharing policy what it would otherwise *owed Holodniy*. So then Stanford might succeed in its infringement suit, but would get a bit less, since Roche holds Holodniy's entire Bayh-Dole interest by way of assignment, including the (k)(2) obligation to share royalties with the inventors. Holodniy assigned away *that interest* also. And under the SPRC, that's something Stanford cannot ask for under an (f)(2) request.

If Roche can resist the (f)(2) demand for title (that is, Roche successfully argues that (f)(2) only covers rights to the government, or that Stanford failed to require the (f)(2) agreement of Holodniy and therefore it was not assigned in the operation of the present assignment), then we are back to the fact it's a subject invention, and Roche has got it by chain of some assignment or substitution of parties or subcontract or license, and has got BD obligations for it, and these are *Stanford's* obligations under *Stanford's* standard patent rights clause.

There are differences in these obligations based on pathway. The pathway is going to be circumstance dependent. But if the invention is a subject invention, we can be assured there is a pathway. We might say, title does not vest. It is managed in the conventional way under the Patent Act. What does vest are the Bayh-Dole obligations that go with title, and these vest one way or another whenever an invention meets the definition of subject invention in the Patent Act.

Could this be a subcontract under SPRC (g)? Not likely, because that would involve a flow down of funds, and that didn't happen. Would it be an assignment under (k)(1)? Could be. Holodniy was held by the CAFC to be an agent of the university for purposes of notice of his present obligation. The CAFC could be directed to find Holodniy an agent of the university for the purposes of an assignment of his personal interest in the subject invention, which would act as a valid assignment of the university's prospective interest in that part of title. Roche then would also have the obligations under (k) of the Stanford SPRC, and would be required to share royalties with inventors, among other things. Stanford might not get anything, but the government would have its compliance, and the inventors (with the possible exception of Holodniy) would get a share–perhaps even the share Stanford's policy offers them). That might be an even bigger sum than they would get going through Stanford!

Whether royalties includes any benefit derived by Roche from exploiting the subject invention, or whether royalties must mean only that income realized in exchange for a patent license, I don't know. I could see an argument that Roche's financial gain amounts the same thing as royalties, because Roche is a substituted party and therefore the analysis has to follow what would be shared had Stanford been selling the same product. A reasonable portion (a constructed royalty rate) is ascribed to the patent, and that's the amount due the inventors (perhaps less Holodniy, who did his deal upfront and got his share in the form of access to technology, data, and facilities).

Finally, could it be a simple assignment by Holodniy under by which Roche (eventually) becomes a party to the funding agreement (by substitution of parties as a consequence of such assignment), and has all of the same obligations that Stanford has, under Stanford's SPRC? Perhaps.

That's the shape of this line of reasoning, which is an express part of Bayh-Dole. This line of reasoning does put into perspective the particular effort by AUTM to make Bayh-Dole out to be a vesting statute when there are other much better alternatives for either Stanford or for the inventors–other than perhaps for Holodniy, who in any of these alternative scenarios really did assign away his Bayh-Dole obligations and with them apparently his share of royalties. Perhaps the other inventors, if they indeed get a windfall from this line of reasoning, would share theirs with Holodniy, given he played an important part in getting PCR technology into the federally funded research to enable the invention in the venue at Stanford.