A fundamental understanding shared by both new recipients of federal research and development funds and some of its most experienced grant recipients and contractors is that if the Government pays for the development of the know-how, it owns it. For technical data and computer software developed using federal funds (terms which are broadly defined in Section 2.101 of the Federal Acquisition Regulation (“FAR”) as, respectively, recorded information of a scientific or technical nature and computer programs and recorded information that enable the program to work), this canard is unquestionably not true. Rather, the applicable data rights clauses (including those in the FAR and its agency supplements) do not address whether the Government gets title to such information, but rather provide for a license to use. Under these clauses, as a general rule, the contractor owns technical data and computer software produced with federal funds, and the Government gets a royalty-free nonexclusive license, unlimited in scope, to use it.

The Special Rule for Inventions — Under Bayh-Dole, Contractor Can Elect Title.

Inventions conceived or reduced to practice in the performance of a government contract, grant or cooperative agreement (collectively “funding agreements”), are treated differently. By statute, the Department of Energy (“DOE”), the National Aeronautics and Space Administration (“NASA”) and the Nuclear Regulatory Commission (“NRC”) are given title, i.e., ownership, to any inventions developed under funding agreements between large for-profit businesses and those agencies, and any patents on such inventions are to be issued to the United States. See 42 U.S.C. § 5908, 51 U.S.C. § 20135(b), and 42 U.S.C. § 2182. Since 1980, with the passage of the Bayh-Dole Act, 35 U.S.C. §§ 201 et seq., small businesses and nonprofit entities, including universities and research institutions, have been given the right to retain title to inventions developed under Government funding agreements (including DOE, NASA, and NRC funding vehicles), with the Government getting a nonexclusive, irrevocable, paid-up license to practice or have practiced on its behalf the invention throughout the world. A 1983 Presidential Memorandum extended this allocation of rights to large businesses and for-profit organizations not subject to the statutory mandates governing DOE, NASA, and NRC funding agreements. For federal government contractors, this policy is now codified in the FAR patent rights clause (FAR 52.227-11). Under Bayh-Dole and the regulations and clauses promulgated under Bayh-Dole and the 1983 Presidential Memorandum, title can revert to the Government if the contractor fails to disclose the invention, fails to elect to retain title or fails to file and prosecute a patent application within certain prescribed time periods. If the contractor fails to disclose, the contractor may lose all rights in the invention; if the contractor fails to elect title, it still retains a license to the patent.

The Supreme Court Throws a Curve Ball — The Government Can Pay for It, The Contractor Can Elect Title, But the Employee Inventor Can Trump Them Both.

In Board of Trustees of the Leland Stanford Junior University v. Roche Molecular Systems, Inc., 563 U.S., 180 L. Ed. 2d 1, 2011 U.S. Lexis 4183 (June 6, 2011), the Supreme Court inserted the inventor into this allocation scheme, putting a cloud on both the rights of a contractor/grantee and the Government to inventions arising under federal funding vehicles. Boiled down to its essence, the case involved an invention by a Stanford researcher, Dr. Mark Holodniy, of a procedure for calculating the amount of HIV in a patient’s blood, which was funded, at least in part, by a grant from the National Institutes of Health (“NIH”). Holodniy worked on the invention at Stanford and then to Cetus. Pursuant to the Bayh-Dole provisions of its grant agreement, Stanford disclosed the invention, elected to retain title, prosecuted and obtained patents for the invention. Holodniy, the inventor, however, had signed two different forms stating “I agree to assign . . . to Stanford . . . that right, title and interest in . . . ideas . . . inventions.” The Federal Circuit thus held, and the
Supreme Court did not dispute, that Cetus, and not Stanford, as a matter of contract, held rights in the invention. The question presented to the Supreme Court was whether title should nevertheless go either to the Government or Stanford (if Stanford had properly perfected its rights to title under Bayh-Dole) because the invention was at least in part paid for by the Government.

Citing basic precepts of patent law grounded in the Patent Act (now codified at 35 U.S.C. §§ 101 et seq.), the Court (in a 7-2 decision authored by Chief Justice John Roberts) opined that the inventor Holodniy — not his employer — owned and had exclusive rights to the patent, which the inventor was free to convey to his employer or a third party by contract. Construing the language of Bayh-Dole, the Court held that Stanford’s right to “retain title” (and by implication the Government’s reverter rights) did not apply to inventions which had not been properly assigned by Holodniy to Stanford. More specifically, the Court held that the Bayh-Dole allocation scheme applied only to “subject inventions” — a term defined in the statute (and, e.g., in FAR 52.227-11) as an “invention of the contractor.” The Court opined that under U.S. patent law, a contractor (unless the contractor is an individual) has no rights to an invention unless those rights are assigned to it by the individual inventor working for the contractor. Thus, even if Holodniy’s invention was conceived or reduced to practice using government funds, under Bayh-Dole, neither the Government nor Stanford got any rights, unless Holodniy assigned those rights to Stanford.

Importantly, the Court contrasted inventions falling under the DOE, NASA and NRC statutory schemes, where the express language of those statutes vest in the United States exclusive title inventions paid for by federal funds. The Court found no bar in the precepts of patent law to the Government getting exclusive title to inventions arising under these contracts, finding the exclusive grant of title in the statute to “expressly deprive[] [inventors] of their interest.” As noted above, the Bayh-Dole Act effectively amended the DOE, NASA and Atomic Energy Commission statutes by permitting small and non-profit businesses receiving funds from those agencies to get title to inventions supported by those funds. The Supreme Court’s opinion in Stanford thus leads to the anomalous result of the Government getting clear and exclusive title to inventions developed under DOE, NASA and NRC funding agreements with large for-profit businesses, but no opportunity for the contractor or the Government to get title in DOE, NASA and NRC funding agreements with nonprofits or small businesses unless the employee inventor has clearly assigned his rights to the contractor or grantee.

What Is to Be Done?

So what is to be done by federal contractors, universities and research institutions seeking to commercialize inventions funded by the federal government? How can such institutions ensure that the representations and warranties they are making to purchasers, investors and would-be acquirers that their rights in federally funded inventions are valid?

1. Ensure that all employees have signed agreements requiring them to give up ownership of an invention to the organization upon acceptance of federal funds. As the Supreme Court in Stanford pointed out, NIH’s own policies and procedures provide such guidance.

2. Make sure the employee assignments pass the FilmTec Federal Circuit test: they must assign rather than agree to assign. To quote Justice Stephen Breyer in his dissenting opinion, these “slight linguistic differences” ultimately determined whether Stanford, Holodniy’s first assignee, or Cetus, Holodniy’s second assignee, got the patent rights. The lesson here: run the proposed language by a lawyer who knows what he or she is doing.

3. Require employee inventors to disclose any and all prior assignments (which could be buried in confidentiality agreements, non-compete agreements or other seemingly routine forms passed between employer and employee), and bar those employees from making any future assignments to employers.

4. Require its subcontractors/sub-grantees to obtain the same agreements and undertake the same due diligence with respect to their employees.

With these simple steps, contractors and grant recipients can take full advantage of the policy underlying Bayh-Dole — allowing and encouraging the development and commercialization of discoveries made by the contracting and grant community with federal funds.