

No. 09-1159

IN THE
SUPREME COURT OF THE UNITED STATES

BOARD OF TRUSTEES OF THE
LELAND STANFORD JUNIOR UNIVERSITY,

Petitioner,

v.

ROCHE MOLECULAR SYSTEMS, INC., ET AL.

Respondents.

On Writ of Certiorari to the United States
Court of Appeals for the Federal Circuit

BRIEF FOR ALEXANDER M. SHUKH, PH.D.
AS *AMICUS CURIAE* IN SUPPORT OF
PETITIONER

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QUESTION PRESENTED

Whether a federal contractor university's statutory right under the Bayh-Dole Act, 35 U.S.C. §§ 200-212, in inventions arising from federally funded research can be terminated unilaterally by an individual inventor through a separate agreement purporting to assign the inventor's rights to a third party.

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INTERESTS OF *AMICUS CURIAE*

Dr. Alexander M. Shukh is one of the world's leading inventors and engineers of hard drive disk technology, one of the most advanced fields of scientific endeavor known to humankind.¹ He files this Brief in support of Petitioner.

He holds a Ph.D. (1983) in Physics and Mathematics with specialization in Condensed Matter Physics from the Institute of Electronics, Belarusian Academy of Sciences, Minsk, Belarus; an M.S. (1980) in Electrical and Electronics Engineering, Minsk Radio Engineering Institute, Minsk, Belarus; and a B.S. (1976) in Electrical and Electronics Engineering, Minsk Radio Engineering Institute, Minsk, Belarus.

Since October 1976, he has worked as a scientist, development engineer, manager, director and associate professor in the field of magnetic recording heads, giant magnetoresistance transducers, magnetic media, thin film and semiconductor circuits.

Either as sole or joint inventor, he has been awarded twenty United States Patents,² fifteen issued patents of the former Soviet Union, and is currently listed on

¹ Pursuant to Rule 37.6, counsel for *amicus* states that no counsel for a party authored this brief in whole or in part and no person, other than *amicus*, its members, or its counsel made a monetary contribution to the preparation of this brief. The parties have filed consents to the filing of *amicus* briefs in support of either party or no party.

² *USPTO Patent Full-Text and Image Database*, available at <http://patft.uspto.gov/netahtml/PTO/search-bool.html> (Search "Shukh" and "Choukh" in "Inventor" field).

several pending United States patent applications. He is the author of at least thirty-nine published papers, and has regularly made presentations at important conferences in his areas of research and R&D interest.

He emigrated to the United States in September 1997 under a temporary foreign worker H1-B work authorization visa when he became employed at the Bloomington, Minnesota research facility of Seagate Technology, Inc., a well-known hard disk drive manufacturer. On May 30, 2002, he received his United States Permanent Resident Card (Green Card) and became a Lawful Permanent Resident of the United States.

He was employed by Seagate from September 1997 until March 16, 2009.

His work at Seagate resulted in the issuance of numerous patents for inventions or co-inventions related to Seagate's business as a hard drive manufacturer.

He is a Member of the Seagate Inventor Hall of Fame as a result of his invention of more than ten patented inventions while at Seagate.

Nine of his inventions have been incorporated into several Seagate product lines of hard disk drives and related products and have been included into several hundred million (probably closer to 1.2 billion) hard disk drive units sold by Seagate in the national and international hard drive market. Currently, up to five of his inventions are in each disk drive unit made by Seagate.

Dr. Shukh became a United States Citizen on July

30, 2009.

He is the plaintiff in the case of *Alexander M. Shukh, Ph.D. v. Seagate Technology, LLC*, Case No. 10-cv-404-JRT-JJK (D. Minn.) (filed on Feb. 12, 2010 under seal). In part, his case involves issues related to the invention assignment provisions contained in the Employment and Invention Assignment Agreement he signed in 1997 upon his employment with Seagate. Dr. Shukh alleges that during his employment at Seagate, as a co-inventor he conceived and reduced to practice certain inventions, but that when Seagate applied for patents on those inventions, it did not disclose his co-inventorship and did not obtain and file his inventor's oath as required by Patent Act Sections 111, 115 and 116 of the Patent Act, 35 U.S.C. §§ 111, 115, 116. Nor did he give Seagate the assignment which Section 3.73 of the Patent Office's Manual of Patent Examination Procedure, 37 C.F.R. § 3.73, required be filed for Seagate to prosecute those applications. Thus, among other relief, Dr. Shukh is seeking correction of inventorship pursuant to 35 U.S.C. § 256, and a declaration of co-ownership of the patents.

The provisions in Dr. Shukh's Employment-Assignment Agreement are closely akin to those in the agreements in this case that Dr. Holodniy signed first with Stanford University and then with Cetus Corporation. His case and situation, however, do not involve the application of the Bayh-Dole Act.

Dr. Shukh wishes to provide the Court with the perspective of an inventor in the critically important and quickly evolving American computer technology industry regarding the Federal Circuit's misdirected jurisprudence about the interpretation of invention

assignment provisions in general. He is concerned that, unless corrected, the Federal Circuit rules of construction of such invention assignment provisions, especially in non-Bayh-Dole Act situations, will seriously degrade the Constitutional Purpose of the Patent and Copyright Clause of Article I, Section 8 of the Constitution, disrupt settled expectations of inventors about their rights of inventorship, annul provisions of the Patent Act and Patent Office regulations that govern the ownership of patents and the process of applying for and obtaining those patents, and thereby allow inventors to be stripped of their inventorship and ownership rights.

CONSTITUTIONAL PROVISION, STATUTE AND REGULATION INVOLVED

Dr. Shukh believes that this case also involves the following Constitutional Provision, Statute and Regulation:

United States Constitution, Article I, Section 8.

Section 261 of the United States Patent Act, 35 U.S.C. 261 “Ownership; assignment.”

Section 3.73 of the Manual of Patent Examination Procedure, 37 C.F.R. § 3.73, “Establishing right of assignee to take action.”

The text of those provisions is set out in the Appendix to this Brief.

STATEMENT

On June 28, 1988, when Dr. Holodniy signed the Stanford agreement that contained the “**agree to assign or confirm in writing**” language, Pet. App. 119a. (emphasis added), the inventions that are the

subject of this lawsuit had not been conceived or reduced to practice and therefore did not exist.

Likewise, those inventions did not exist, when, about seven months later, Dr. Holodniy signed the Cetus agreement containing the “*I will assign and do hereby assign*” language. Pet. App. 123a. (emphasis added.)

In fact, it was not until 1991 that the inventions at issue were conceived, reduced to practice, and therefore came into existence. Pet. App. 5a, 39a-40a.

On May 14, 1992, Stanford filed Patent Application No. 07/883,327 for those inventions. Pet. App. 3a-4a, 40a. That Application was the parent application of the three patents in suit. Pet. App. 126a, 128a, 132a.

In early March 1995, long before any of the patents issued, Dr. Holodniy and his co-inventors executed an assignment of the inventions covered by that parent application. That assignment was recorded with the Assignment Division of the Patent Office on June 9, 1995, also long before any of the patents issued. (Ex. 705 to Decl. of M. Rhyu in Support of Pls.’ Opp. to Defs.’ Mot. for Summ. J., [D. Ct. Dkt. No. 113-8]; *see also* Pet. App. 41a, 112a.)

On their face, all three patents as issued reflected that Stanford was the assignee. Pet. App. 125a, 127a, 131a.

There are no documents of title by any inventor or anyone else transferring any interest in the patents to Cetus or its successor, respondent Roche Molecular Systems, Inc.

The current online Patent Office records reflect that

Stanford, not Roche, is the assignee of the three patents at issue, although this may only be a designation of the assignee at the time the patents issued.³

SUMMARY OF ARGUMENT

There is no principled difference between assignment provisions that say “I hereby assign” or “I will assign.” They should be treated as equivalent, and should be construed to grant equitable title that must be perfected by a subsequent act transferring title.

The importance of this issue cannot be overstated, given the enormous number of patents likely affected by the court of appeals’ artificial rule, including the important patents resulting from federally funded research that are subject to the Bayh-Dole Act.

The Federal Circuit’s nonsensical “present/future” assignment dichotomy is contrary to a significant purpose of the Constitution’s Patent Clause of protecting the inventorship rights of inventors.

The Panel’s rationale is suspect on its face. Its illogical and impractical treatment of the competing equitable rights of the parties creates serious anomalies of ownership that, when extended beyond this case, will surely cloud title of a vast number of patents.

Traditional rules of equity and modern-day contract

³ *USPTO Patent Full-Text and Image Database* available at <http://patft.uspto.gov/netahtml/PTO/search-bool.html> (last visited December 21, 2010 – Search by Patent Number: 7,129,041, 6,503,705, and 5,968,730 in “Patent No.” field.)

law have always recognized that non-existent personal property cannot be automatically or immediately assigned in the present, and that at most such a purported assignment transfers only equitable title which must be perfected by a subsequent instrument transferring ownership.

Beginning with *Gayler v. Wilder*, 51 U.S. (17 Wall.) 477, 493 (1850), prior decisions of this Court reflect the common sense rule that future interests in patents can be assigned only if there is an “inchoate right” to that assignment and a “power” to enforce it.

The Federal Circuit’s strained dichotomy has grave deleterious effects on the rights of inventors, as well as competing assignees such as petitioner and respondent, simply because in balancing claims of ownership to newly created inventions, that dichotomy eliminates the consideration of the equities, including the public interest, that are likely to intervene in the period between the execution of the assignment agreement and the creation of a new invention.

There are important policy reasons supporting the construction that agreements to assign future inventions convey only equitable title which must be perfected when the invention comes into existence. This is in full accord with well-established Patent Office regulations and practice that require a patent applicant to document its ownership of an invention for which it is prosecuting a patent application.

The equitable title regime advocated by *amicus* aligns comfortably with the purpose and structure of the Bayh-Dole Act. It would be unwise to create conflicting regimes of invention assignment law, one

for the Bayh-Dole Act context, and another applicable to private invention assignment agreements.

The rule that should be adopted in this case is that no matter how worded, an assignment of a future, as yet unconceived, invention transfers only equitable title requiring an additional act to transfer legal title and ownership once the invention comes into existence.

ARGUMENT

Because of the confusion and disarray that the Federal Circuit's decision introduces into Patent Law, especially insofar as it seriously impairs the rights of inventors, this Court should step in and rationalize the rules relating to inventor assignment agreements.

A NON-EXISTENT INVENTION CANNOT BE AUTOMATICALLY OR IMMEDIATELY ASSIGNED IN THE PRESENT.

As a matter of common sense, there cannot be a present, automatic or immediate assignment of an invention that does not exist. But under the Federal Circuit's rule, when an inventor executes a "hereby assigns" agreement regarding his or her future inventions, ownership of that non-existent invention supposedly immediately transfers to the assignee.

This cannot be so.

A. The Context of this Case Extends Beyond the Important Issues of Patent Ownership Arising from Federally Funded Research.

The importance of this case extends beyond the difficult issues under the Bayh-Dole Act related to ownership of patents resulting from federally funded

research. Pet., pp. 2,4.

This case also presents critical questions about the rights of inventors to their inventions and the resulting patents, and the methods, procedures and rules by which an inventor's initial ownership should be transferred.

Therefore, the number of patents affected by the resolution of this case is enormous. Patent Office statistics show that of the 167,349 utility patents granted in 2009, only 19,894 (11.9%) were issued to individual inventors at the time of grant; the rest were granted to organizations.⁴ Indeed, it is generally accepted that "the great majority of contemporary inventors create new technologies while serving as employees, usually of large corporate entities." Roger Schechter & John Thomas, *Principles of Patent Law* (2d ed. 2004); see also *Ingersoll-Rand Co. v. Ciavatta*, 110 N.J. 609, 624, 542 A.2d 879, 886 (1988). Thus, rules of construction of invention assignment agreements between inventors and their employers reach far beyond the realm of federally funded research and the Bayh-Dole Act.

⁴ Compare: U.S. Patent and Trademark Office Patent Technology Monitoring Team Statistical Reports – *Patent Counts By Class By Year – Independent Inventors*, www.uspto.gov/web/offices/ac/ido/oeip/taf/cbcbby_in.htm with *Table of Annual U.S. Patent Activity Since 1790* www.uspto.gov/web/offices/ac/ido/oeip/taf/h_counts.htm (both last visited Dec. 21, 2010). See also, *id.*, Patenting Trends Calendar Year 2009 (Apr. 16, 2010), stating percentage of all types of patents granted to individuals. www.uspto.gov/web/offices/ac/ido/oeip/taf/pat_tr09.htm (last visited Dec. 21, 2010).

Stanford is one of the world's leading research universities, and is likely a recipient of tens of millions of dollars of federal funds for research. Patent Office statistical reports show that from 2005 to 2009, 503 issued patents were assigned to Stanford.⁵ All of those patents are now at risk if its inventor assignment agreements say "agree to assign" rather than "hereby assign."

Just as seriously, this artificial dichotomy is a trap for the unwary inventor whose transfer of ownership of newly created inventions should be evaluated in terms of events, equities and rights that might arise in the gap, sometimes years in length, between the initial execution of the assignment agreement and the conception, reduction to practice, and patenting of the invention. After all, it is the inventor that is the object of the protections of the Constitution's Patent Clause.

B. The Decision Below is Suspect on its Face.

The Panel below reached back to what seems to be the first Federal Circuit decision stating the dichotomy between present and future invention assignments, and its progeny. *FilmTec Corp. v. Allied-Signal, Inc.*, 939 F.2d 1568, 1572-73 (Fed. Cir. 1991), Pet. App 12a-14a. *See also DDB Techs., L.L.C. v. MLB Advanced Media, L.P.*, 517 F.3d 1284, 1290 (Fed. Cir. 2008) ("agrees to and does hereby grant and assign" is language of present assignment); *IpVenture, Inc. v.*

⁵ *Id.*, *Patenting In Technology Classes, Breakout By Organization Count of 2005 - 2009 Utility Patent Grants*, www.uspto.gov/web/offices/ac/ido/oeip/taf/tecasg/all_tor.htm (last visited Dec. 21, 2010).

Prostar Computer, Inc., 503 F.3d 1324, 1327 (Fed. Cir. 2007) (interpreting “agree to assign” as “an agreement to assign,” requiring a subsequent written instrument); *Speedplay, Inc. v. Bebop, Inc.*, 211 F.3d 1245, 1253 (Fed. Cir. 2000) (interpreting “shall belong” as a present assignment); *Arachnid, Inc. v. Merit Indus., Inc.*, 939 F.2d 1574, 1580-81 (Fed. Cir. 1991) (holding that “will be assigned” does not create “a present assignment of an expectant interest”).

On the basis of this line of authority, the Panel held that the “hereby assign” language of the Cetus agreement “effected a present assignment of Holodniy’s future inventions to Cetus,” Pet. App. 14a, while in contrast, his agreement with Stanford was only “a mere promise to assign rights in the future, not an immediate transfer of expectant interests.” Pet. App. 13a.

Although the Federal Circuit has never explained how there can be a present assignment of future unconceived, and non-existent, inventions, that common sense difficulty obviously underlay the Panel’s somewhat circuitous terminology. As the Panel concluded, upon Dr. Holodniy’s execution of the Cetus Agreement, “Cetus immediately gained **equitable title** to Holodniy’s inventions” Pet. App. 14a (emphasis added), and that under *FilmTec*,

[o]nce the invention is made and an application for patent is filed . . . legal title to the rights accruing thereunder would be in the assignee . . . , and the assignor-inventor would have nothing remaining to assign Ordinarily, no further act would be required once an invention came into being; the transfer of title would occur by

operation of law. *Id.* (quotations and citations omitted).

But the Panel also said that “while Stanford might have gained ***certain equitable rights*** against Holodniy . . . [it] did not immediately gain title to Holodniy’s inventions as a result of the [Stanford agreement], nor at the time the inventions were created.” Pet. App. 13a (emphasis added).

The Panel did not explain what “equitable rights” Stanford “gained.” Nor did it explain how those rights differed in quantity or quality from Cetus’ later acquired “equitable title,” nor why or how those rights were trumped by Cetus’ supposed “equitable title.” Thus, the Panel did not adequately deal with another important anomaly of its reasoning—how to treat Dr. Holodniy’s contract with Stanford which obviously had to have some kind of legal effect especially given the Bayh-Dole Act, and the overwhelming equities that heavily balanced in Stanford’s favor.

Another anomaly of the decision below is its collateral treatment of ownership. Although the Panel concluded that pursuant to the “Visitor Confidentiality Agreement” Cetus and eventually its successor, respondent Roche, acquired a partial ownership in the three patents in suit, it also concluded that Roche was not entitled to a judicial declaration of that partial ownership because the applicable state statute of limitations period had run. Pet. App. 22a-27a.

Thus, as of this writing, it appears that the Patent Office assignment records, at least those available online, do not show Cetus or Roche as the assignee of

any ownership interest in the three patents.⁶ Given the Federal Circuit's refusal to declare ownership, Roche apparently can do nothing about it.

Analytically, these are especially jarring results.

A more serious error was the Panel's failure to balance the equities between Stanford's and Roche's competing ownership claims. The Panel simply ignored or brushed aside critical facts that a court of equity would ordinarily consider, including:

- Stanford's "equitable rights" came first in time, Pet. App. 94a-95a;
- The Stanford Agreement prohibited Dr. Holodniy from entering into any agreement that created patent obligations in conflict with Stanford's rights, Pet. App. 201a;
- Only Stanford, not Cetus, received federal funding for Dr. Holodniy's research, Pet. App. 126a, 128a, 132a;
- Dr. Holodniy's work at Stanford obviously substantially contributed to the conception of these inventions and their reduction to practice, Pet. App. 34a, 95a-96a, 102a-104a;
- Stanford filed and prosecuted the patent applications practice, Pet. App. 108a;
- Cetus and then Roche never claimed ownership for 15 or more years even after they were on

⁶ *USPTO Assignments on the Web Database*, available at <http://assignments.uspto.gov/assignments/?db=pat> (last visited Dec. 21, 2010 – Search by Patent Number: 7,129,041, 6,503,705, and 5,968,730 in "Patent No." field.)

notice of Stanford's actions evidencing ownership practice, Pet. App. 41a, 109a-110a;

- Once the patents issued, Roche was chargeable with notice of Stanford's ownership practice, Pet. App. 125a, 127a, 131a;
- Stanford meticulously invoked its rights under the Bayh-Dole Act practice, Pet. App. 115a-116a;
- Stanford surely expended significant amounts of money, time and effort in developing and patenting these inventions; and
- Dr. Holodniy and his co-inventors executed a formal assignment to Stanford which was duly recorded at the Patent Office. (Ex. 705 to Decl. of M. Rhyu in Support of Pls.' Opp. to Defs.' Mot. for Summ. J., [D. Ct. Dkt. No. 113-8]; *see also* Pet. App. 41a, 112a.)

In light of the Panel's complete disregard of the equities, as well as its cavalier treatment of the rules of title and ownership imposed by the Bayh-Dole Act, its resort to this mechanistic and artificial dichotomy between present and future assignments is the more inexplicable.

The Panel's most substantive omission, however, was its complete failure to consider the public interest, which is often the most critical factor in a balancing of the equities. First the Panel failed to consider whether and how its ruling would affect the manufacture, marketing and distribution of this important medical innovation directed at diagnoses critical to the treatment of HIV-AIDS; how its rule would generally affect innovation in other areas of scientific and

technical endeavor; and how its ruling would “promote Science and the Useful Arts” and protect the inventor’s innovation that the Patent Clause is intended to encourage and safeguard. In the context of the Bayh-Dole Act, this failure is especially important because of the Act’s specifically announced purposes of promoting “the utilization of inventions arising from federally supported research or development . . . [and]] protect[ing] the public against nonuse or unreasonable use of inventions” 35 U.S.C. § 200.

C. A Critical Purpose of American Patent Law Is the Protection of the Inventor’s Ownership Rights.

Article I, Section 8 of the United States Constitution gives Congress the power “To promote the Progress of Science and useful Arts, by securing for limited Times to . . . Inventors the exclusive Right to their respective . . . Discoveries”

This clause “is both a grant of power and a limitation.” *Bilski v. Kappos*, 130 S. Ct. 3218, 3252 (2010) (quoting *Graham v. John Deere Co. of Kansas City*, 383 U.S. 1, 5 (1966)). It “reflects a balance between the need to encourage innovation and the avoidance of monopolies which stifle competition without any concomitant advance in the ‘Progress of Science and useful Arts.’ ” *Bilski*, 130 S. Ct. at 3252 (quoting *Bonito Boats, Inc. v. Thunder Craft Boats, Inc.*, 489 U.S. 141, 146 (1989)).

“This is the standard expressed in the Constitution and it may not be ignored.” *Bilski*, 130 S. Ct. at 3252 (quoting *Graham*, 383 U.S. at 6 (in turn quoting *Great Atlantic & Pacific Tea Co. v. Supermarket Equipment*

Corp., 340 U.S. 147, 154 (1950) (Douglas, J., concurring) (emphasis deleted))).

As *Bilski* notes, patent “laws which are passed to give effect to this [constitutional] purpose ought, we think, to be construed in the spirit in which they have been made.” 130 S. Ct. at 3252 (quoting *Grant v. Raymond*, 31 U.S. (6 Pet.) 218, 241-42 (1832)).

Thus, it has long been the view of the Court that “the primary purpose of our patent laws is not the creation of private fortunes for the owners of patents but is ‘to promote the progress of science and useful arts.’” *Motion Picture Patents Co. v. Universal Film Mfg. Co.*, 243 U.S. 502, 511 (1917). The Court emphasized this rule in *Quanta Computer, Inc. v. LG Electronics, Inc.*, 553 U.S. 617, 626 (2008), and then again last Term in *Bilski*, 130 S. Ct. at 3252.

Therefore, “[i]t is a bedrock tenet of patent law that ‘an invention presumptively belongs to its creator,’ ” that is, the inventor. *Israel Bio-Engineering Project v. Amgen Inc.*, 475 F.3d 1256, 1263 (Fed. Cir. 2007) (quoting *Teets v. Chromalloy Gas Turbine Corp.*, 83 F.3d 403, 406 (Fed. Cir. 1996)).

This is so even if the inventor works as an employee for someone else and invents something during his term of employment.⁷ *Hapgood v. Hewitt*, 119 U.S. 226

⁷ An important exception to that rule is that a person employed to invent must assign to the employer all rights to the invention and resulting patent. *Standard Parts Co. v. Peck*, 264 U.S. 52 (1924). However, it is important to note the exception to that exception arising from the
(continued...)

(1886); *Dalzell v. Dueber Watch Case Mfg. Co.*, 149 U.S. 315, 320 (1893). “[D]ue to the peculiar nature of the act of invention,” the courts have been reluctant “to imply or infer an agreement by the employee to assign his patent.” *United States v. Dubilier Condenser Corp.*, 289 U.S. 178, 187 (1933).⁸

Therefore, a critical focus of American Patent Law is on the protection of the inventor’s rights.

These are the fundamental Constitutional principles to be applied in deciding this case.

⁷(...continued)

statutes enacted by several states providing that employee assignment agreements do not apply to inventions developed on an employee’s own time with the employee’s own resources. Cal. Lab. Code § 2870 (Deering 2010); Del. Code Ann. tit. 19, § 805 (2010); 765 Ill. Comp. Stat. § 1060/2 (2010); Kan. Stat. Ann. § 44-130 (2009); Minn. Stat. § 181.78 (2010); Nev. Rev. Stat. § 600.500 (2009); N.C. Gen. Stat. § 66-57-1 (2009); Utah Code Ann. § 34-39-3 (2010); Wash. Rev. Code § 49.44.140 (2010).

⁸ In this situation, the employer is still entitled to a non-transferable “shop right” to practice the invention, *Dubilier Condenser*, 289 U.S. at 196, although the employee/patentee remains free to license or assign the patent to others including competitors of the employer.

D. Under Traditional Rules of Equity, as Well as Modern Contract Law, Future Inventions Cannot be Transferred in the Present and Are Subject Only to the Transfer of Equitable Title.

1. Equity long recognized that non-existent personal property could not be assigned in the present, and that contracts purporting to do so merely conveyed equitable title, enforceable by the courts of equity, requiring a subsequent act of transfer of legal title once the property came into existence.

Although at common law, mere expectancies or possibilities were not assignable, by the mid-19th Century, that rule was “much relaxed, or almost disregarded by the courts of equity.” *Hinkel v. Wanzer*, 58 U.S. (17 Wall.) 353, 367 (1855).

Early commentators noted that various statutes abrogated the common law rule in particular contexts, so that contingent future interests, even possibilities, were assignable in law “*when coupled with an interest.*” 3 *Pomeroy on Equity Jurisprudence* § 1287, at 3094 (4th ed. 1918) (“*Pomeroy*”) (emphasis in original).

But, such statutes did not make future non-existent things immediately assignable at law because it was well accepted that “possibilities not coupled with an interest—*mere* possibilities or expectancies” were assignable only in equity. *Pomeroy*, § 1287, at 3095. It was deemed “elementary” that at law a contract for the sale of a chattel that a seller did not own did not pass legal title to the buyer without some new act by the seller after the property was acquired. *Id.*, § 1288, pp. 3098-99. But, the doctrine of equity was different. The

assignment of personal property to be acquired at a future time operated only as an equitable assignment, vesting equitable ownership in the purchaser when the property was acquired by the vendor. This ownership right was fully protected by the equity courts upon suit by the equitable assignee. *Id.*

In truth, although a sale . . . of property to be acquired in the future does not operate as an immediate alienation at law, it operates as an equitable assignment of the *present possibility*, which changes into an assignment of the *equitable ownership* as soon as the property is acquired by the vendor. *Id.*, pp. 3103-04 (emphasis in original).

Because this ownership was equitable only, only a court of equity could turn it into “legal property, accompanied by possession.” *Id.*, p. 3104.

The rule announced by Justice Story was the same. At law, an assignment of personal property was valid only if the *res* had an “actual or potential existence” at the time of the assignment. 2 *Joseph Story, Equity Jurisprudence*, § 1040, p. 407 (6th ed. 1853).

Courts of Equity will support assignments . . . of things which have no present actual or potential existence, but rest in mere possibility; not indeed as a present positive transfer operative *in presenti*, for that can only be of a thing *in esse*, but as a present contract, to take effect and attach as soon as the thing comes *in esse*. *Id.*

Thus, until the property comes into existence, the assignee “has nothing but the contingency, which is a very different thing from the right immediately to

recover and enjoy the property.” *Id.*, § 1040*b*, p. 411. “It is not an interest in property; but a mere right under the contract . . . for in the contemplation of Equity, it amounts, not to an assignment of a present interest, but only to a contract to assign when the interest becomes vested.” *Id.*

2. Modern contract law has taken up the same common sense principle that a present assignment of personal property to be created or acquired in the future operates merely as a contract to assign. An assignment of “a truly future claim or interest” cannot work as a “present transfer” because “no property yet exists.” Such a purported transfer is treated as “merely an agreement or promise to transfer when the capacity to transfer arises.” *Stathos v. Murphy*, 26 A.D.2d 500, 503, 276 N.Y.S.2d 727, 730 (1966), *aff’d*, 19 N.Y.2d 883 (1967). *See also Ingersoll-Rand*, 110 N.J. at 624, 542 A.2d at 886 (involves post-employment inventions but discusses development and scholarly treatment of doctrine).

This principle is reflected in Section 2-105(2) of the UCC, including the version in effect in California, where the events in this case occurred:

Goods must be both existing and identified before any interest in them can pass. Goods which are not both existing and identified are “future” goods. A purported present sale of future goods or of any interest therein operates as a contract to sell. Cal. U. Comm. Code § 2105(2) (Deering 2010) (emphasis added).

Citing that UCC section, *Williston on Contracts* teaches that “a present assignment in gross of a patent

and all future patents on improvements on the device operates as a contract to assign such future patents.” 6 Richard A. Lord, *Williston on Contracts* § 13:17, at 756 (4th ed. 2006).⁹

Corbin on Contracts is to the same effect: “Courts recognize assignments of interests that do not exist [are but] mere expectancies and therefore take effect as ‘equitable assignments’ when the right assigned comes into existence.” 9 John E. Murray, Jr., *Corbin on Contracts* § 50.2, at 229 (rev. ed. 2007).¹⁰

The conclusion of ancient and modern law is the same: there cannot be a present assignment of a non-existent invention; all that can be conveyed is an equitable right to an assignment when the invention comes into existence.

⁹ *Williston* also explains that “legal title to chattels subsequently to be acquired cannot be transferred without further action of the parties.” 29 *Williston* § 74:15, at 327.

¹⁰ As *Corbin* notes, *id.* at 229-30, the treatment of this problem by the *Restatement (Second) of Contracts* is wholly inadequate and inconsistent. This is so even though Comment d to Restatement Section 321 states that the effect of “a purported assignment of a future right . . . is that the assignee has enforceable rights against the assignor only to the extent that contractual remedies are available, as in the case of a promise to make a future assignment.” *Restatement (Second) of Contracts*, § 321, cmt. d (1981).

E. Under this Court’s Interpretations of the Predecessor of Section 261 of the Patent Act, Future Interests in Patents Can Be Assigned Only If There Is an “Inchoate Right” to That Assignment and a “Power” to Enforce It.

Those principles of equity and law are fully reflected in this Court’s early patent law jurisprudence.

Section 261 of the Patent Act states that “patents shall have the attributes of personal property”¹¹ and that “patents, or *any interest therein, shall be assignable in law* by an instrument in writing.” 35 U.S.C. § 261 (emphasis added).

Under the predecessor to that section, this Court ruled that when a party acquires “an inchoate right to [a patent], and the power to make that right perfect and absolute at his pleasure, the assignment of his whole interest, whether executed before or after the patent issued” falls within the statute. *Gayler v.*

¹¹ The description of patents as “personal property” was first inserted in the Patent Law by the Patent Act of 1952, Pub. L. No. 82-593, 66 Stat. ch. 590, 792, 810 (1952). The Revision Notes of the Senate Report state that this provision “is new but is declaratory only.” S. Rep. No. 82-1979 at 27 (1952), *reprinted in* 1952 U.S.C.C.A.N. 2394, 2420. Declaratory of the common law no doubt. Cf. *Taylor v. Crain*, 224 F.2d 237, 240-41 (3d Cir. 1955) (a right of common law nature further embodied in statutory terms exists as an enforceable right exclusive of the statute declaratory of it). See also, 1A Norman J. Singer and J.D. Shamblé Singer, *Sutherland on Statutory Construction* §§ 26:1 - 26:7 (7th ed. 2009).

Wilder, 51 U.S. (17 Wall.) 477, 493 (1850) (interpreting assignment language of Section 11 of the Patent Act of 1836, Act of July 4, 1836, ch. 357, § 11, 5 Stat. 121). *See also Railroad Co. v. Trimble*, 77 U.S. (10 Wall.) 367 (1870) (assignment of patent extension); *Nicolson Pavement Co. v. Jenkins*, 81 U.S. (14 Wall.) 452 (1872) (assignment of reissued patent).

Thus, *Gayler* recognizes that an assignment of a patent must be preceded by and based upon a prior “inchoate right” and “the power to make that right perfect.” *Gayler*, 51 U.S. at 493.

The conclusion to be drawn from the confluence of traditional rules of equity, modern contract law, and this Court’s patent assignment jurisprudence is clear: there is no difference between Stanford’s “will assign” and Cetus’ “hereby assign” language. Because both simply reflect a present intention to assign non-existent unconceived inventions, they can only have created competing equitable assignments. *See Pomeroy* § 1290, at 3110 (language of present transfer or showing a present intention to make a future transfer are equivalent and merely create equitable assignments).

That should be the rule here: notwithstanding the narrow differences between the words, the Stanford and Cetus agreements should be treated as equivalent, passing only equitable title, thus requiring an additional act of transfer when the invention came into existence.

As Petitioner points out, federal courts hearing patent cases sit as courts of equity. Petitioner’s Brief, p. 58 n.23. Thus the equitable title rule *amicus*

proposes will allow these courts of equity to balance the competing equitable rights that even the Federal Circuit recognized arose for both Stanford and Cetus from the fact that Dr. Holodniy executed both agreements before his inventions came into existence.

F. Important Policy Reasons, Which Are in Complete Harmony with the Bayh-Dole Act, Support the Construction of Assignments of Future Inventions to Convey Only Equitable Title.

1. Chief Justice Taney's common sense construction of assignment clauses, supported as it is by ancient rules of equity and modern contract law, is highly desirable because it allows for the consideration of competing equities based on events occurring between the execution of the assignment agreement and the creation of the invention.

In this case, there were years of intervening events which should have been considered and balanced in reaching an equitable decision: Stanford's investment of time, expense and effort; Dr. Holodniy's contract with Cetus and the work he did there; Stanford's perfection of its rights under the Bayh-Dole Act; Cetus' and then Roche's delay in acting once on notice of Stanford's assertion of ownership; Stanford's reliance on that inaction; and so on.

Such intervening equities are also painfully relevant to the protection of the rights of inventors. If "hereby assign" language operates as an immediate assignment to an inventor's employer, what happens when the employer violates the employment agreement in some material regard? What if the employer violates the law

of patenting a newly conceived invention by failing to include the identity of the true inventor in the patent applications, as Sections 111, 115 and 116 of the Patent Act expressly require? Indeed, the Patent Act requires that the true and original inventor file the patent application under oath, notwithstanding any assignment to any other person or entity. *Id.*

This latter hypothetical is not at all fanciful given the rising number of serious cases involving inventors fraudulently omitted from patent applications filed by their employers or other putative assignees.¹² It is also precisely Dr. Shukh's situation. More seriously, such misconduct constitutes *per se* inequitable conduct or fraud on the Patent Office that will invalidate a patent in derogation of an inventor's rights of inventorship.¹³ A rule that would prevent an inventor from asserting claims based on such misconduct is ridiculous.

¹² See, e.g., *Stark v. Advanced Magnetics, Inc.*, 119 F.3d 1551 (Fed. Cir. 1997); *Chou v. Univ. of Chi. & Arch Dev. Corp.*, 254 F.3d 1347 (Fed. Cir. 2001); *Shum v. Intel Corp.*, 499 F.3d 1272 (Fed. Cir. 2007); and *Larson v. Correct Craft, Inc.*, 569 F.3d 1319, 1327 (Fed. Cir. 2009).

¹³ *Advanced Magnetic Closures, Inc. v. Rome Fastener Corp.*, 607 F.3d 817, 828 (Fed. Cir. 2010) (failure to disclose true inventor is inequitable conduct); *Frank's Casing Crew & Rental Tools, Inc. v. PMR Techs., Inc.*, 292 F.3d 1363 (Fed. Cir. 2002) (same); *PerSeptive Biosystems, Inc. v. Pharmacia Biotech, Inc.*, 225 F.3d 1315, 1321 (Fed. Cir. 2000) (same); *In re Spalding Sports Worldwide, Inc.*, 203 F.3d 800, 807 (Fed. Cir. 2000) (explaining difference between inequitable conduct and fraud on the Patent Office) (quoting *Nobelpharma AB v. Implant Innovations, Inc.*, 141 F.3d 1059, 1069-70 (Fed. Cir. 1998)).

In those situations, there are grave considerations of the public interest regarding the integrity of Patent Office proceedings that should be balanced in determining competing rights of ownership. Those rights are as serious in principle as the considerations of the public interest in this case regarding the marketing of this deeply important medical diagnostic tool.

2. Given this important context, the Federal Circuit's rule of construction completely divests inventors of important rights guaranteed them by the Patent Act, especially by Section 256 for the correction of inventorship. Based in large part on its artificial dichotomy, the Federal Circuit is developing a body of law to the effect that an inventor who has assigned his inventions to an employer does not have Article III standing to sue for the correction of inventorship under Section 256 because the inventor no longer has a stake in the inventions. *See, e.g., Larson*, 569 F.3d 1319; *Jim Arnold Corp. v. Hydrotech Systems, Inc.*, 109 F.3d 1567, 1571-72 (Fed. Cir. 1997).

Thus, under this supposed rule of standing, if "hereby assign" language of an employment agreement operates as an immediate assignment of future inventions, then an inventor whose rights have been violated by the employer may lack standing to sue notwithstanding the employer's intervening misconduct, inequitable acts, and failure to live up to its obligations under the agreement. Indeed, in that situation, an inventor who is fraudulently omitted by the employer from a patent application in violation of Sections 111, 115, and 116 does not have standing to seek redress for that illegal conduct by suing to correct inventorship under Section

256 of the Patent Act. 35 U.S.C. § 256. Such a rule is nonsensical and substantially contrary to the policy behind the Patent Clause of the protection of inventors.

3. On the other hand, the rule of equitable assignments advocated by Dr. Shukh will not interfere with the rights of employers to their employees' inventions. Once an invention comes into existence, employers merely need to obtain a formal assignment from the employee as originally agreed.

This is nothing new. In fact, Rule 3.73 of the Patent Office's Manual of Patent Examining Procedure (MPEP), 37 C.F.R. § 3.73, requires any patent applicant to establish the right to prosecute the patent application by submitting sufficient documentary proof of ownership including "[d]ocumentary evidence of a chain of title from the original owner to the assignee (e.g., copy of an executed assignment)." 37 C.F.R. § 3.73(b)(1)(i).¹⁴ This is the usual custom and practice for employee inventions and patenting as shown by the language of the Stanford Agreement and Dr. Holodniy's execution of the actual assignment that conveyed title and ownership and was recorded at the Patent Office.

Therefore, all contract provisions requiring the assignment of future inventions – whether they say "hereby assign" or "will assign" – should be treated as

¹⁴ "Although, the MPEP 'does not have the force of law or the force of the rules of Title 37 of the Code of Federal Regulations,' MPEP Foreword (8thed., Jul. 2010 rev.), it 'is made available to the public and . . . describe[s] procedures on which the public can rely.'" *In re Skvorecz*, 580 F.3d 1262, 1268 (Fed. Cir. 2009).

equivalent. This will merely require an employer to obtain a formal assignment when the invention is conceived and reduced to practice, something the employer must already do under Patent Office practice and procedure. If any intervening equities arise that might nullify such an assignment, the inventor still has a remedy to invoke those equities and protect his or her inventorship rights. This rule of fundamental fairness imposes no hardship on either an employer or an inventor, and still preserves the rules of equity and of contract law.

4. The equitable title rule advocated by Dr. Shukh would be fully consistent with a construction of the Bayh-Dole Act that protects the rights of institutional assignees when, during the course of federally funded research, its employees conceive and reduce to practice inventions that are then patented. This is especially important because the Bayh-Dole Act must be harmonized with Section 261 that allows the assignment of patents and any interest therein. 35 U.S.C. § 261.

The relationship between an employer and an inventor working on such a federally funded project is akin to that of an inventor who is “employed to invent” but who is under no contractual obligation to assign his inventions or patents. In the latter situation it is well accepted that the employer has an enforceable equitable right to require an employee to assign any inventions and patents. *Standard Parts*, 264 U.S. at 58; *see also*, Argument, *supra*, n.7, p. 16 and accompanying text.

For one thing, unlike this case, it must often be the case that inventors sign assignment agreements with

no advance intention of working in federally funded programs that might result in Bayh-Dole Act patents.¹⁵ Therefore, ownership rights between an inventor and his employer and any third party to any future inventions must be subject to the usual default rules described above. *See* Argument, *supra*, p. 16 & n. 7.

Thus, the Bayh-Dole Act rules cannot kick in until an invention is created from federally funded contracts or research. Only at that point does the Act alter the usual rules of title by establishing a conditional hierarchy of ownership rights.¹⁶ Once the Act's rules of ownership priority do attach, all the three affected participants – the institution, the Government, and the inventor – have conditional “inchoate” rights. The institution has the right to “retain title,” but only if it follows a strict set of procedures designed to effectuate the public purposes of the Act – notice, prompt prosecution of the patent and so on. 35 U.S.C. § 202(a) & (c).¹⁷

¹⁵ In this case, when Dr. Holodniy joined Dr. Merrigan's lab, the work he got involved in was funded by NIH. JA 95, 98.

¹⁶ Although, as the Panel below noted, the primary purpose of the Bayh-Dole Act is to regulate relationships of federal funds grantees with the Government, not the relationship between the inventor and the grantees, 583 F.3d at 845 (citing *Fenn v. Yale Univ.*, 393 F. Supp. 2d 133, 141 (D. Conn. 2004), *aff'd on other grounds*, 184 Fed. Appx. 21 (2d Cir. 2006), there can be no question that the Act controls the sequence of ownership rights of the institution, the Government and the inventor.

¹⁷ Subsection 202(a) expressly makes the institution's
(continued...)

Similarly, the Government's right to title is conditional at least in part on the failure of the institution or contractor to perfect its rights. If the institution or contractor fails to follow the prescribed steps to perfect title, the Government can then step in and take title. *Campbell Plastics Eng'g & Mfg. v. Brownlee*, 389 F.3d 1243, 1247 (Fed. Cir. 2004). Likewise, the inventor's rights are conditioned on the institution's election not to retain title and the Government's consideration of "requests for retention of rights by the inventor." 35 U.S.C. § 202(d).

These are all "inchoate rights" and all three participants have, to varying degrees, "the power to make th[ose] right[s] perfect" by taking various steps and doing various things.¹⁸

Thus, for example, by the terms of the Bayh-Dole Act, even if Dr. Holodniy had *not* executed an assignment agreement, Stanford would have been vested with equitable "inchoate right" to his future inventions resulting from federal funding. Once the inventions came into existence, Stanford had "the power to make that right perfect" by following the Bayh-Dole Act procedures and then requiring him to provide a formal assignment.

¹⁷(...continued)

election to retain title "subject to" the steps outlined in subsection 202(c).

¹⁸ This view is also confirmed by the implementing regulations, 37 C.F.R. § 401.1, *et seq.*, esp. § 401.14 (specifying procedures for the implementation of the Act's conditional rights and procedures to perfect them). See Petitioner's Brief, pp. 15-16.

And, that's precisely what happened: the University perfected its Bayh-Dole Act rights to retain title by giving the required notice, applying timely for the patents, and so on. *See* Petitioner's Brief, p. 21. To close the loop of title, it also obtained an instrument of assignment from Dr. Holodniy that was recorded at the Patent Office. (Ex. 705 to Decl. of M. Rhyu in Support of Pls.' Opp. to Defs.' Mot. for Summ. J., [D. Ct. Dkt. No. 113-8]; *see also* Pet. App. 41a, 112a.)

As the Federal Circuit correctly noted in *Univ. of Rochester v. G.D. Searle & Co.*, 358 F.3d 916, 929 (Fed. Cir. 2004), the Bayh-Dole Act did not relax the statutory requirements for patent ability under Section 112 of the Patent Act. 35 U.S.C. § 112. Nor should it alter the statutory requirements of Section 261, the traditional rules of equity, the modern doctrines of contract law, or this Court's jurisprudence regarding the assignment of interests in future inventions and future patent rights.

Moreover, even with these clear rules under the Bayh-Dole Act, Cetus must have had some kind of rights arising from its contract with Dr. Holodniy. For example, what if Stanford and the Government had decided not to take title, the Government allowed him to retain title, but then he decided he wanted to keep the invention despite his agreement with Cetus? Cetus clearly would have some kind of colorable rights under its agreement.

What if the dispute between Stanford and Cetus concerned whether the invention in fact resulted from federally funded research? If it were found that no federal funding was involved in the invention, what rules would pertain to decide the dispute about

ownership between Stanford and Cetus? This situation has already arisen and seems likely to reoccur. *Ciba-Geigy Corp. v. Alza Corp.*, 804 F. Supp. 614, 627 (D.N.J. 1992).

Thus, it is clearly inadvisable to give the Bayh-Dole Act a guillotine effect of cutting off the rights of everyone except the institution receiving the federal funding. Because of these overlapping rights, it is also not advisable to decide this case under the Bayh-Dole Act based on an assignment regime different than that applicable to purely private, non-Bayh-Dole Act situations. After all, Section 261 says that patents and all interests in them are assignable, so that must include patents covered by the Bayh-Dole Act after its procedures are exhausted.

If this Court leaves the Federal Circuit's artificial dichotomy intact, by ruling that it is irrelevant to ownership of Bayh-Dole Act patents, it is sure that the two conflicting assignment doctrines will eventually collide and introduce even more uncertainty into an area of great importance – the intersection between science and technology, on the one hand, and business and the law, on the other.

CONCLUSION

The judgment of the court of appeals should be reversed and the case remanded for further proceedings.

Respectfully submitted,

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APPENDIX

**APPENDIX OF CONSTITUTIONAL,
STATUTORY AND REGULATORY PROVISIONS**

The Constitutional Provision, Section of the Patent Act, and Patent Office Regulation believed by *amicus* to be involved herein are as follows:

United States Constitution, Article I, Section 8.

The Congress shall have the Power To promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries.

35 U.S.C. § 261 Ownership; assignment.

Subject to the provisions of this title, patents shall have the attributes of personal property.

Applications for patent, patents, or any interest therein, shall be assignable in law by an instrument in writing. The applicant, patentee, or his assigns or legal representatives may in like manner grant and convey an exclusive right under his application for patent, or patents, to the whole or any specified part of the United States.

* * *

An assignment, grant, or conveyance shall be void as against any subsequent purchaser or mortgagee for a valuable consideration, without notice, unless it is recorded in the Patent and Trademark Office within three months from its date or prior to the date of such subsequent purchase or mortgage.

37 C.F.R. § 3.73 Establishing right of assignee to take action.

(a) The inventor is presumed to be the owner of a patent application, and any patent that may issue therefrom, unless there is an assignment. The original applicant is presumed to be the owner of a trademark application or registration, unless there is an assignment.

(b)(1) In order to request or take action in a patent or trademark matter, the assignee must establish its ownership of the patent or trademark property of paragraph (a) of this section to the satisfaction of the Director. The establishment of ownership by the assignee may be combined with the paper that requests or takes the action. Ownership is established by submitting to the Office a signed statement identifying the assignee, accompanied by either:

(i) Documentary evidence of a chain of title from the original owner to the assignee (e.g., copy of an executed assignment). . . . For patent matters only, the submission of the documentary evidence must be accompanied by a statement affirming that the documentary evidence of the chain of title from the original owner to the assignee was or concurrently is being submitted for recordation pursuant to § 3.11; or

(ii) A statement specifying where documentary evidence of a chain of title from the original owner to the assignee is recorded in the assignment records of the Office (e.g., reel and frame number).

(2) The submission establishing ownership must show that the person signing the submission is a person authorized to act on behalf of the assignee by:

(i) Including a statement that the person signing the submission is authorized to act on behalf of the assignee; or

(ii) Being signed by a person having apparent authority to sign on behalf of the assignee, e.g., an officer of the assignee.

(c) For patent matters only:

(1) Establishment of ownership by the assignee must be submitted prior to, or at the same time as, the paper requesting or taking action is submitted.

(2) If the submission under this section is by an assignee of less than the entire right, title and interest, such assignee must indicate the extent (by percentage) of its ownership interest, or the Office may refuse to accept the submission as an establishment of ownership.