



Archetype IPSM

Federal Circuit Friday

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In *Omni MedSci v. Apple* (August 2), the Federal Circuit clarified the kind of language and grammar that is necessary to effect a present transfer of future patent rights – an issue that most commonly arises in connection with hiring employees and contractors to be involved in inventive activities.

Background: Facts & The Issue

On joining the faculty of the University of Michigan, Dr. Mohammed Islam agreed, among other things, to abide by the university's bylaws relating to ownership of intellectual property. Three provisions of those bylaws are relevant to this case (*italics added for key language*):

- UM Bylaw 3.10, Paragraph 1: "Patents and copyrights issued or acquired as a result of or in connection with administration, research, or other educational activities conducted by members of the University staff and supported directly or indirectly (e.g., through the use of University resources or facilities) by funds administered by the University regardless of the source of such funds, and all royalties or other revenues derived therefrom *shall be the property of the University.*"
- UM Bylaw 3.10, Paragraph 4: "Patents, copyrights, and property rights in computer software resulting from activities which have received no support, direct or indirect, from the University *shall be the property of the inventor, author, or creator thereof*, free of any limitation which might otherwise arise by virtue of University employment."
- UM Bylaw 3.10, Paragraph 5: "In cases which involve both University-supported activity and independent activity by a University staff member, patents, copyrights, or other property right in resulting work products *shall be owned as agreed upon in writing* and in advance of an exploitation thereof by the affected staff member and the Vice-Provost for Research in consultation with the Committee on Patents and Copyrights and with the approval of the University's Office of the General Counsel. It is understood that such agreements shall continue to recognize the traditional faculty and staff prerogatives and property rights concerning intellectual work products."

Dr. Islam took a sabbatical from the university to start up a biomedical laser company called Omni MedSci (herein "Omni"). A dispute arose between Dr. Islam and the university about ownership of patents and applications filed by Dr. Islam relating to his work for Omni. The university's office of technology transfer determined that the university should own the patents and applications. Dr. Islam disagreed, but did not appeal the determination within the University of Michigan system. There is no indication in the case report that the University of Michigan ever attempted to obtain assignment of the patents and applications. Accordingly, despite the disagreement, the assignment of the patents and applications to Omni that had been recorded at the US Patent & Trademark Office remained unaffected.

Later, Omni sued Apple for infringement of two of the patents. Apple moved to dismiss the case on grounds that Omni lacked "standing" to assert the patents because, per the bylaws, the University of Michigan was the true owner.¹ The trial court concluded that the bylaws did not effect a "present automatic assignment of title" and denied Apple's motion to dismiss. Apple appealed.

Background: Relevant Black Letter Law

1. Assignment of Patent Rights – Assignment of Expectant Interests (*i.e.*, before invention occurs)
 - a. Employee assignment agreements usually obligate an employee to assign inventions made during employment to the employer. Similar obligations are often placed on others, such as contractors.

¹ In fact, the defense was not about a lack of "standing," but rather about a statutory prerequisite to suing for patent infringement. See May 2020 Federal Circuit Friday and the discussion of constitutional standing versus statutory prerequisites.

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- b. A key distinction is between a present assignment of future patent rights and a mere obligation to assign at a later date (e.g., after inventive activity yields an invention).
 - i. Focus is on contract interpretation and application of a properly-construed contractual requirement to specific facts.
- c. Present assignment of future inventions.
 - i. Permissible: “If an assignment of rights in an invention is made prior to the existence of the invention, this may be viewed as an assignment of an expectant interest. An assignment of an expectant interest can be a valid assignment.”²
 - ii. Contract language:
 - 1) Where contractor agreed “to grant and does hereby grant” to the client the rights and title to any invention, “no further act would be required once an invention came into being; the transfer of title would occur by operation of law.”³
 - 2) The contract language “‘agrees to grant and does hereby grant’ constitutes a present grant of rights – albeit to future inventions, but nonetheless a present grant – that vests immediately.”⁴
- d. Agreement to assign later.
 - i. Contract language:
 - 1) Agreement that any inventions conceived during employment “shall be the property of the client, and all rights thereto will be assigned” by the contractor to the client was merely “an agreement to assign, not an assignment” such that in the absence of a separate written assignment the client lacked the requisite ownership interest to bring an infringement action.⁵
 - 2) Contract language “agree to assign” is “an agreement to assign,” requiring a subsequent written instrument to complete the transfer.⁶
 - 3) Agreement that employee “will assign to the Company all my right, title, and interest in and to any and all inventions” did not create an immediate assignment of the inventor’s rights in the invention, and was therefore not sufficient to allow the company to sue for infringement absent a separate written assignment.⁷

What Omni MedSci Adds or Changes:

The Federal Circuit explained that Omni’s right to sue for infringement “turns on a legal question of contract interpretation: whether paragraph 1 of bylaw 3.10 automatically and presently assigned legal title of Dr. Islam’s inventions to UM.” *If so*, then an analysis would be required of whether Dr. Islam’s inventions were subject to that paragraph. *If not*, then Omni meets the statutory prerequisite to sue (without further ado) and Apple’s motion to dismiss was properly denied.

The Federal Circuit held that paragraph 1 of bylaw 3.10 “does not presently automatically assign Dr. Islam’s rights to the patent but rather, at most, reflects a future agreement to assign rather than a present assignment.” The essential rationale is as follows:

- “[B]y its own terms, bylaw 3.10 merely stipulates the *conditions* governing the assignment of property rights” and “does not purport to *effectuate* the present transfer of a present or future right.”⁸
- Looking at the bylaw as a whole (as one must always look at a contract as a whole), the language “shall be the property of” in paragraph 1 cannot be read as a present automatic assignment of a future interest because . . .

² *Filmtec Corp. v. Allied Signal*, 939 F.2d 1568, 1572-73 (Fed. Cir. 1991) (explaining also that “[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 (subject to the rights of a subsequent purchaser under Sec. 261), and the assignor-inventor would have nothing remaining to assign.”).

³ *Id.*

⁴ *Imation Corp. v. Koninklijke Philips Elecs, NV*, 586 F.3d 980, 986 (Fed. Cir. 2009).

⁵ *Arachnid, Inc. v. Merit Industries, Inc.*, 939 F.2d 1574, 1580-81 (Fed. Cir. 1991).

⁶ *IpVenture, Inc. v. Prostar Computer, Inc.*, 503 F.3d 1324, 1327 (Fed. Cir. 2007).

⁷ *Advanced Video Technologies v. HTC Corp.*, 879 F.3d 1314 (Fed. Cir. 2018).

⁸ Italics in original. Internal quotation marks omitted.

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- Consistent interpretation of that same language in Paragraph 4 would result in a requirement that “the inventor presently automatically transfer title to himself” as to inventions not involving any university support – but there is no logical reason to effectuate such an assignment since ownership vests naturally in the inventor by operation of law.
- Consistent interpretation of similar language in Paragraph 5 (“shall be owned as agreed upon in writing”) would lead to similarly illogical result because Paragraph 5 calls for a negotiation and agreement on ownership rights at a later date regarding inventions that involve “both University-supported activity and independent activity by a University staff member” – far from effectuating a present assignment, the language “shall be owned” in Paragraph 5 does not even purport to effectuate any present assignment of future patent rights.
- Thus, reading the relevant bylaw as a whole, the words “shall be owned” are “a statement of an intended outcome rather than a present assignment.”
- “[T]he language of paragraph 1 of bylaw 3.10 does not use present tense words of execution.”
 - The Court explained that “[e]ach case in which this court found a present automatic assignment [involved] contractual language with a present tense executing verb.”
 - In contrast, the cases finding no present automatic assignment all involve “passive verbs in indefinite or future tense.”
 - The language of the University of Michigan bylaw (*i.e.*, “shall be the property of”) more closely aligns with the cases involving “passive verb in indefinite or future tense.”
- The Federal Circuit distinguished cases cited by Apple in which patent ownership provisions using the word “shall” (like the University of Michigan bylaw) were interpreted as effectuating present automatic conveyances. These cases involved statutes and executive orders that “specify the initial vesting of rights in certain inventions in the government and direct the United States Patent and Trademark Office (“USPTO”) to issue patents therefor directly to the government.” Thus, in contrast to the present case Apple’s cases involved “statutory exceptions to the general rule that rights in an invention belong to the inventor” and did not concern “assignments between private parties.”

The Federal Circuit concluded that the focus “is not on any magic words, but rather on the absence of an active verbal expression of present execution in paragraph 1 of bylaw 3.10.”

Rather than changing the law, this case confirms and exemplifies existing law and the importance of care and expertise in drafting intellectual property assignment agreements. I typically like a “belt and suspenders” approach similar to the language at issue in the *Filmtec* and *Imation* cases – *e.g.*, “agree to assign and hereby do assign.” The initial promise “to assign” serves as a potentially useful hedge against changes in Federal Circuit law or unique facts that might undermine a present transfer of an expectant interest.