Intellectual Property & Technology Law Journal

Edited by the Technology and Proprietary Rights Group of Weil, Gotshal & Manges LLP

VOLUME 33 • NUMBER 9 • OCTOBER 2021

Federal Circuit Ruling Underscores Importance of Clear and Present Assignments of Patent Rights

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In *Omni Medsci, Inc. v. Apple Inc.*,[1] the U.S. Court of Appeals for the Federal Circuit issued an opinion highlighting the importance of clear and unambiguous language in contractual provisions, policies and bylaws relating to assignment of patent rights.

In the opinion, the Federal Circuit resolved an interlocutory appeal on the issue of whether Apple's motion to dismiss for lack of standing on the part of Omni was improperly denied by the U.S. District Court for the Eastern District of Texas.[2]

Apple originally filed its motion to dismiss claiming that Omni lacked standing to file infringement claims against it (for patented technology allegedly used in the Apple Watch[3]), because the patent rights Omni claimed had been automatically assigned to the University of Michigan ("UM") by virtue of the patent inventor's employment agreement with UM, and were therefore actually owned by UM rather than Omni.[4]

The majority of the panel, Judges Linn and Chen, affirmed the district court's denial of Apple's motion and held that the patent inventor's employment agreement did not clearly effectuate a present assignment of patent rights to UM.[5] Judge Newman dissented, arguing that the ruling was incorrect as a matter of contract interpretation and overturned long standing UM practice.[6]

BACKGROUND

In 2011, Dr. Mohammed Islam, a tenured professor of electrical and computer engineering at UM received an additional appointment to UM's medical school, for which he executed an employment agreement.[7] The agreement documented Dr. Islam's commitment to abide by UM's bylaws, including UM Bylaw 3.10 regarding assignments of property rights to faculty. Paragraph 1 of Bylaw 3.10 stated: "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

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funds, and all royalties or other revenues derived therefrom *shall be* the property of the University"[8] (emphasis added).

In 2012, Dr. Islam took an unpaid leave-of-absence during which he filed multiple provisional patent applications. After returning to UM in 2013, he filed non-provisional applications claiming priority to those provisional applications. After the patents issued, Dr. Islam assigned the patent rights to Omni on December 17, 2013.[9]

In 2018, Omni sued Apple in the Eastern District of Texas, asserting patent infringement. Apple filed a motion to dismiss for lack of standing on the grounds that UM, not Omni, owned the asserted patents based on Bylaw 3.10, which, in Apple's view, effectuated an automatic assignment of Dr. Islam's patent rights to UM and left Dr. Islam with no rights to assign to Omni.[10]

The district court ruled that Bylaw 3.10 was "not a present automatic assignment of title, but, at most, a statement of future intention to assign"[11] and concluded that dismissal was improper. After the case was transferred to the U.S. District Court for the Northern District of California, Apple filed an unopposed motion for certification of the standing question to the Federal Circuit.[12]

PANEL DETERMINES THAT PATENT RIGHTS WERE NOT AUTOMATICALLY ASSIGNED TO UM

The panel primarily considered whether paragraph 1 of Bylaw 3.10 automatically and presently assigned legal title of Dr. Islam's inventions to UM or if the clause was merely a promise to assign inventions and patents in the future.[13] In reviewing prior Federal Circuit cases, the majority noted that Bylaw 3.10's phrasing "shall be the property of the University" did not unambiguously constitute a present automatic assignment (e.g., "agrees to grant and does hereby grant") nor a promise to assign in the future (e.g., "will assign").[14]

The majority characterized the Bylaw as "a statement of intended disposition and a promise of a potential future assignment" rather than "a present automatic transfer."[15] The court examined other uses of the phrase "shall be the property of" throughout the bylaws and concluded that such uses could not be interpreted as a present automatic assignment and that the phrase should be interpreted consistently throughout the bylaws.[16]

The majority also examined the specific language and grammar of the relevant clause, noting that in prior cases where contracts were interpreted as effectuating a present, automatic assignment of intellectual property, present tense words of execution were included (e.g., "assigns," "does hereby grant and assign," "hereby conveys, transfers and assigns"). In contrast, phrases such as "will assign" or "shall be assigned" evidenced an obligation to assign rights in the future. Despite the majority's statement that the court was not looking for "magic words" to determine whether an agreement confers an assignment, the opinion suggests that the presence or absence of certain words or phrases could significantly influence a court's interpretation of an assignment clause.

Various UM IP policy documents and invention reports also played a substantial role in the majority's analysis. The majority noted UM's Technology Policy which states that the "University generally will retain ownership of Intellectual Property produced by Employees," commenting that "will retain" did not suggest an immediate transfer of rights.[17] In the majority's view, UM's Invention Report (for disclosing inventions to UM), which used "unambiguous" language of present automatic assignment (e.g., "As required, I/we hereby assign our rights in this invention and all resulting patents) undermined Apple's position that paragraph 1 of Bylaw 3.10 executed an automatic assignment and, therefore, no further acts were necessary to assign inventions to UM.[18]

The majority also distinguished cases involving the government and execution of statutory rights from the contracting rights and practices of private parties. Additionally, the majority determined that the parties' conduct did not change its interpretation of the bylaws.[19]

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In contrast, in her dissent, Judge Newman focused on the longstanding practices of universities and took a more holistic view of the intent and

conduct of parties. In Judge Newman's view, the language of the UM employment agreement necessarily applied to inventions made in the future and the usage of "shall" was a grammatical choice that should not be read as undermining the intent and purpose of UM.[20]

CONCLUSION

Based on the Federal Circuit's decision in *Omni Medsci, Inc. v. Apple Inc.,* it is prudent for parties to use clear and unambiguous language such as "hereby assign" or "is the property of" to indicate present assignments of inventions and patents, rather than more general language such as "shall be the property of" or "will be assigned," even if they seem grammatically correct, as such phrases could be interpreted and describing actions to be taken in the future.

Notes

1. Appeal No. 20-1715 (reporter number TBD).
2. The case was transferred to the U.S. District Court for the Northern District of California after the U.S. District Court for the Eastern District of Texas made its ruling in *Omni Medsci, Inc. v. Apple Inc.*, No. 2:18-cv-00134, ECF No. 276 (E.D. Tex. Aug. 14, 2019). As such, it was the Northern District of California court that granted Apple's motion for certification of the standing question to the Federal Circuit. *Omni Medsci v. Apple*, Appeal No. 20-1715 at 5.
3. Blake Brittain, Apple Must Face Apple Watch Patent Claims, Fed Circ. Affirms, Reuters (Aug. 2, 2021), *available at https://www.reuters.com/legal/transactional/apple-must-face-apple-watch-patent-claims-fed-circ-affirms-2021-08-02/*.
4. *Omni Medsci v. Apple*, Appeal No. 20-1715 at 4-5.
5. *Id.* at 2.
6. *Id.* at 18-20.
7. *Id.* at 2.
8. *Id.* at 2-3.
9. *Id.* at 3-4.
10. *Id.* at 4-5.
11. *Id. at* 5.
12. *Id.*
13. *Id.* at 7. The Federal Circuit did not consider the issue of whether Dr. Islam's patent rights did in fact arise within the scope of his employment at UM, pursuant to Bylaw 3.10. The majority noted that the Northern District of California court had expressed some reservation as to whether the present invention fell within the scope of Bylaw 3.10. *Id.* at 6.
14. *Id.* at 7.
15. *Id.*
16. *Id.* at 8-9.
17. *Id.* at 14-15.
18. *Id.* at 11.
19. *Id.* at 11-14.
20. *Id.* at 23-24.

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