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“Shall Be the Property” Language Is Insufficient to Automatically Assign Title to an Invention in a Contract

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On August 2, 2021, in *Omni MedSci, Inc. v. Apple Inc.*, No. 20-1715, slip op. (Fed. Cir. Aug. 2, 2021), a Federal Circuit panel decision, with a dissent, upheld the district court’s denial of Apple Inc.’s (Apple) motion to dismiss Omni MedSci’s (Omni) patent infringement complaint for lack of standing. At the center of the Majority’s holding was its decision that the contractual language “shall be the property of the University” did not create a present automatic assignment of title to intellectual property (IP) rights in a contract between a professor and the University of Michigan (the University). Instead, the Majority decided that this language, at most, “reflect[ed] a future agreement to assign rather than a present assignment.” *Id.* at 7. Thus, since the inventor Dr. Islam, and not the University, retained title to the asserted patents and he had assigned the rights to the patents to Omni, the Majority agreed with the district court’s decision that Omni properly had standing to sue in an infringement litigation against Apple.

As background, Dr. Islam was a tenured professor at the University of Michigan. *Id.* at 2. When Dr. Islam’s employment began in 2011, he signed an employment agreement that included a provision in which he agreed

to abide by the University of Michigan’s bylaws. Those bylaws contained the following paragraph regarding the disposition of IP:

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 ... 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.

Id. at 2–3 (emphasis in original).

In 2012, Dr. Islam filed multiple provisional patent applications during an unpaid leave-of-absence. *Id.* at 3. Those applications eventually led to issued patents, and Dr. Islam assigned the patent rights to Omni in 2013. *Id.* at 3–4. One of these patents is an ancestor of the two patents-in-suit: U.S. Patent Nos. 9,651,533 (the ’533 patent) and 9,861,286 (the ’286 patent) (collectively the “asserted patents”). *Id.* at 4–5.

In 2018, Omni sued Apple alleging infringement of the asserted patents. *Id.* Apple filed a motion to dismiss under the Fed. R. Civ. P. 12(b)(1) for lack of standing on the basis that the University of Michigan, and not Omni, owned the asserted patents. *Id.* Specifically, Apple alleged that because of the agreement that Dr. Islam signed with the University, he had automatically assigned the asserted patents to the University when the invention was conceived. *Id.* at 5. Therefore, Apple argued, Dr. Islam had no rights to the invention and he could not assign patents with the invention to Omni, which gave Omni no right to sue Apple. *Id.* The district court, however, concluded that the bylaw in the contract “was not a **present automatic assignment** of title, **but**, at most, a **statement of a future intention to assign.**” *Id.* (emphasis added). Thus, dismissal was improper because Dr. Islam owned the IP rights—and not the University—at the time that Dr. Islam assigned those rights to Omni.

Who Owned the Asserted Patents?

At issue in Apple's motion to dismiss was whether Omni had standing to sue, a question which turns on whether Omni had an exclusionary right in the asserted patents. *Id.* at 6. In particular, the issue boiled down to a legal question of contract interpretation and "whether paragraph 1 of bylaw 3.10 automatically and presently assigned legal title of Dr. Islam's inventions to [the University]." *Id.* The Majority concluded that the "shall be the property of the University" language "is most naturally read as a statement of intended disposition and a promise of a potential future assignment, not as a present automatic transfer." *Id.* at 7. The Majority stated that this was evident from two key considerations: (1) "the text of bylaw 3.10 taken as a whole"; and (2) "a comparison of the language therein to language interpreted in [Federal Circuit] precedent." *Id.* Had the contractual language been written differently, the assignment could have created an automatic transfer of rights. However, in this case the language was a mere promise to assign IP rights to the University and, since such an assignment had not occurred, the rights had not been transferred to the University.

The Majority's Examples of Proper Contractual Language that Constituted Automatic Transfer

In critiquing the language in the bylaw, the Majority gave examples of wording that would have unambiguously constituted a present automatic assignment versus a promise to assign in the future. *Id.* For example, in *FilmTec Corp. v. Allied-Signal Inc.*, 939 F.2d 1568, 1573 (Fed. Cir. 1991), the court determined that the language "agrees to grant and does hereby grant" constituted a present automatic assignment of a future interest. *Omni MedSci*, slip op. at 7. In doing so, the *FilmTech* court distinguished the present automatic assignment language at issue there from one that would "merely obligate MRI to grant future rights." *Omni MedSci*, slip op. at 9. For instance, in *Arachnid, Inc. v. Merit Indus., Inc.*, 939 F.2d 1574, 1576 (Fed. Cir. 1991), the language "shall be the property of [Arachnid], and all rights thereto will be assigned by IDEA ... to [Arachnid]" was determined to be an agreement to assign rather than a present assignment. *Omni MedSci*, slip op. at 9. Similarly, in *Chou v. Univ. of Chicago*, 254 F.3d 1347, 1357 (Fed. Cir. 2001),

the following language merely obligated the inventor to assign her inventions to the University: "[e]very patentable invention ... shall be the property of the University, and shall be assigned, as determined by the University, to the University." *Omni MedSci*, slip op. at 9. Lastly, in *Regents of Univ. of New Mexico v. Knight*, 321 F.3d 1111, 1119–20 (Fed. Cir. 2003), the language "such inventions and discoveries belong to the University" only obligated the inventors to assign to the university their inventions as well as all related patents and applications. *Omni MedSci*, slip op. at 9–10. As demonstrated by these examples, the contractual language that is used may determine whether an agreement constitutes an automatic assignment of a future interest or, by contrast, a mere promise to assign.

The Content of the Bylaws as a Whole, Combined with Court Precedent, Supported the Majority's Finding that "Shall Be the Property" Is not a Present Automatic Assignment

First, the Majority posited that the terms of the bylaw "stipulate[d] the *conditions* governing the assignment of property rights"; "[i]t d[id] not purport to *effectuate* the present transfer of a present or future right." *Id.* at 7 (emphasis in original).

Second, the Majority determined that two paragraphs of the bylaw shared the same operative language, but neither could logically be read as a present automatic assignment. For instance, one paragraph stated that patents "resulting from activities which have received no support, direct or indirect, from the University, *shall be the property* of the inventor." *Id.* at 3 (emphasis in original). According to the Majority, if this were to be read as a present automatic assignment, it would require that the inventor presently automatically transfer title to himself. *Id.* at 8. Such a requirement plainly makes no sense, since such a contractual transfer of title would be unnecessary. In yet another example, the Majority noted that a different paragraph in the agreement used the following operative language: "[i]n cases which involve both University-supported activity and independent activity by a University staff member, patents ... *shall be owned as agreed upon* in writing." *Id.* at 3 (emphasis in original). The Majority found that this explicitly refers to a future determination of ownership only after negotiation between the University and the inventor. *Id.* at 8. The Majority opined that "[b]ecause the operative language

of ‘shall be the property of’ and ‘shall be owned’ cannot be a present automatic assignment,” the same language in a different paragraph also would not be a present automatic assignment. *Id.* 8–9.

Third, the Majority pointed out that the language of paragraph 1 of bylaw 3.10 did not use present tense words of execution. *Id.* at 9. This was apparently crucial to the Majority’s finding “because each [precedential] case in which this court found a present automatic assignment examined contractual language with a present tense executing verb.”¹ *Id.* The language used in these cases was contrasted by language used in other cases, which considered terms using passive verbs in indefinite or future tense, as demonstrated in the case examples above.

Fourth, the Majority contrasted the language in the bylaw with language used by the University’s Office of Technology Transfer in the Invention Report: “As required, I/we hereby assign our rights in this invention and all resulting patents ... to the Regents of the University of Michigan.” *Id.* at 11. Apple unsuccessfully argued that the Invention Report was merely confirmatory, but the Majority instead decided that the form notes that assignment is *required* as opposed to *previously executed* under the bylaw. *Id.* at 11–12.

Finally, the Majority determined that although the University’s Technology Transfer Policy indicated that the University would “retain ownership of Intellectual Property produced by Employees while participating in sabbaticals,” it is silent as to *how* the university obtains the IP rights. *Id.* at 15. The Majority briefly considered the parties’ past conduct in order to try to determine the correct interpretation of paragraph 1 of bylaw 3.10, specifically the conduct of Dr. Islam and the University, but noted that such conduct “is not particularly helpful here” and that the parties’ past conduct did not change the court’s interpretation of the language of the bylaws. *Id.* For example, the court stated that “Dr. Islam’s signing of a letter agreement in 2007 to ‘reassign’ an unrelated patent back to him at the University’s request [was], at best, weak evidence of [Dr. Islam’s] understanding of the scope of paragraph of bylaw 3.10.” *Id.* at 16. The court opined further that the fact that the University “waived” rather than “reassigned” three patent applications in 2010 did not necessarily indicate that the University considered the purpose of bylaw 3.10 to *not* be automatic. *Id.* Instead, the court decided that this indicated the University was “acting under the belief that the University therefore did not have an ownership claim to the inventions, regardless of how bylaw 3.10 is read. *Id.*

In light of the foregoing, the Federal Circuit decided that because the bylaw language did not effectuate a present automatic assignment of title to the University, it did not negate Dr. Islam’s assignment of the inventions to Omni. *Id.* at 17.

Judge Newman’s Dissent: The Plain Meaning of “Shall Be the Property” Is a Present Automatic Assignment

In her dissent, Judge Newman posited that the Majority’s ruling was “not correct as a matter of contract interpretation, and overturn[ed] decades of unchallenged understanding and implementation of the University’s employment agreement and policy documents.” *Omni MedSci*, slip op. dissent at 3. Judge Newman opined that Dr. Islam did not have the right to assign the asserted patents to Omni, which would mean that Omni did not own the asserted patents and thus did not have standing to sue for infringement. *Id.* Therefore, Judge Newman opined in her dissent, the district court improperly denied Apple’s motion to dismiss for lack of standing. *Id.* at 1–2.

Judge Newman first contended that Professor Islam’s employment agreement required that the asserted patents, pursuant to bylaw 3.10, “*shall be the property of the University.*” *Id.* at 3–4 (emphasis in original). She noted that the employment agreement, which was signed by Dr. Islam, stated “I agree to abide by the University’s rules and regulations.” *Id.* at 4. Judge Newman opined that the Majority’s interpretation of these provisions “contraven[e]d these documents’ plain meaning and long-understood interpretation.” *Id.* at 5. The University’s employment agreement, which was signed when employment starts, necessarily applied to inventions made in the future. Judge Newman cited *Sanchez & Son, Inc. v. United States*, 6 F.3d 1539, 1543 (Fed. Cir. 1993), which stated that “[a] contract is read in accordance with its express terms and the plain meaning thereof.” *Id.* at 6. She opined that the plain meaning of “shall be the property of the University” was “that inventions made during employment and patents thereon shall belong to the University.” *Id.*

In addition, Judge Newman highlighted the fact that the employment agreement conformed to the University’s rules and policy, for example, provisions in the Technology Transfer Policy that addressed the granting of rights back to inventors. *Id.* at 7. She posited that the Tech Transfer policy was, as the University contended, necessary because the University had automatic ownership of employee inventions pursuant to the bylaw. *Id.* at 8. Judge Newman critiqued the Majority’s decision for failing to take into account the history that showed a consistent and undisputed interpretation and implementation of this contract. *Id.*

Next, Judge Newman pointed out that these documents all applied *only* to future inventions, “for which the future tense [wa]s appropriate usage and afford[ed] clear understanding.” *Id.* at 8–9. She contrasted this with the

Majority's finding that the fatal flaw in the University's "shall be the property of the University" language could have been avoided simply by using the present tense: "is the property of the university." *Id.* at 9 (emphasis omitted). Judge Newman noted the following argument made by Apple and the University: "the employment agreement ha[d] a long history of understanding and performance by the University and its employees, including Professor Islam." *Id.* Established precedent stated that "[c]onduct of the parties which indicates the construction that the parties themselves placed on the contract may ... be considered in determining the parties' true intent." *DDB Techs.*, 517 F.3d at 1292 (citation omitted, ellipsis in original).

Lastly, Judge Newman cited four examples of language used to transfer title in agreements. *Omni MedSci*, slip op. dissent at 10–13. For instance, in *FilmTec Corp v. Hydranautics*, 982 F.2d 1546, 1553 (Fed. Cir. 1992), the court held that a contract using the language "shall vest in the United States" meant that the ownership immediately vested in the United States. Similarly, in *Heinemann v. United States*, 796 F.2d 451, 453 (Fed. Cir. 1986), an Executive Order concerning ownership rights in inventions "creat[ed] the presumption that [the] Government shall obtain the entire, right, title and interest in the invention" if it is made by a Government employee. This same decision also held that the invention became the property of the Government despite the fact that it was not affirmatively assigned. *Id.* at 456. More similar to the issue language at issue in *Omni*, the district court in *Affymetrix, Inc. v. Illumina, Inc.*, 446 F. Supp. 2d 292, 294, 297 (D. Del. 2006), held that "shall be the property of ARI" was a "present assignment of future interests. Going further, in *Alzheimer's Institute of America, Inc. v. Avid Radiopharmaceuticals*, 2011 WL 3875341, at *7 (E.D. Pa. Aug. 31, 2011), the district court held that "is the property of the University" meant that the University's property right automatically vested when the

invention was made. Thus, Judge Newman dissented with the Majority's determination that an automatic assignment did not exist in this case.

Conclusion

This decision provides a helpful discussion about how the Federal Circuit may interpret contract provisions to determine whether they may automatically transfer title of future patented inventions. According to the Majority, "shall be the property" was not by itself clear language that would automatically assign IP rights to an invention—although Judge Newman declared otherwise in her dissent. Instead, especially in light of other provisions, the Majority viewed "shall be the property" as merely an intention to create a future agreement. Thus, when drafting such agreements, it may be a best practice for contract drafters to utilize either present tense or future tense verbs without the usage of linking verbs in order to establish an unambiguous present automatic assignment or a promise to assign in the future. Note that the Majority gave an example in which they stated, in dicta, that the following language *unambiguously* created such an assignment: "**agrees to grant and does hereby grant**" (quoting *FilmTec*, 939 F.2d at 1573 (emphasis added)). In addition, the Majority also provided several case examples that where language was deemed to *unambiguously* create a promise to assign in the future: "**will assign**" from *Arachnid*, 939 F.2d at 1580 (emphasis added); "**shall be the property of ... and shall be assigned**" from *Chou*, 254 F.3d at 1357 (emphasis added); and "such inventions and discoveries belong to the University" from *Regents of Univ. of New Mexico*, 321 F.3d at 1119–20 (Fed. Cir. 2003). Thus, the Majority's decision here provides guidance for practitioners who are drafting agreements with the intention of creating either a present automatic assignment or a promise to assign.

1. See, e.g., *SiRF Tech., Inc. v. ITC*, 601 F.3d 1319, 1326 (Fed. Cir. 2010) ("the Employee assigns all of his or her right, interest, or title in any invention to the Employer"); *DDB Techs., L.L.C. v. MLB Adv. Media, L.P.*, 517 F.3d 1284, 1290 (Fed. Cir. 2008) ("agrees to and does hereby grant and assign"); *Speedplay, Inc. v. Bebop, Inc.*, 211 F.3d 1245, 1253 (Fed. Cir. 2000) ("hereby

conveys, transfers, and assigns"); *FilmTec*, 939 F.2d at 1570 (MRI "agrees to grant and does hereby grant to the Government the full and entire domestic right, title and interest"); see also *DDB Techs.*, 517 F.3d at 1290 n.3 (holding that a contract included a present automatic assignment based on "clear language of the present, automatic assignment provision in the agreement").

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