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A Cautionary Tale for Assignment of Rights in U.S. Patents

Charlotte Jacobsen (Gibson, Dunn & Crutcher LLP) and Filko Prugo, Sarah Del Ciello (Ropes & Gray LLP) · Tuesday, August 17th, 2021

In *Omni MedSci, Inc. v. Apple Inc.*, ___ F.4th ___, Nos. 2020-1715, -1716 (Fed. Cir. Aug. 2, 2021), the U.S. Court of Appeals for the Federal Circuit held that the University of Michigan's technology transfer bylaws did not constitute an automatic assignment of a professor's patent rights. This decision has important implications for the drafting of employee agreements as they relate to the ownership of inventions, which in the U.S. vest initially in the inventors.

Background

In 2012, Dr. Islam, a tenured professor at University of Michigan ("UM"), took an unpaid leave-of-absence in order to start a new company, Omni. During his leave, Dr. Islam filed several provisional patent applications that he expected to form the backbone of the IP portfolio for the new company. In 2013, after resuming work at UM, Dr. Islam assigned the issued patents to Omni.

Omni subsequently brought suit against Apple for infringement of two patents descended from the provisional applications filed by Dr. Islam during his leave. Apple moved to dismiss alleging that Omni lacked standing because UM was the real patent owner. Apple argued that UM's bylaws automatically transferred legal title to the patents to UM, leaving Dr. Islam with no rights to assign to Omni. The district court rejected Apple's arguments and denied the motion; in a split decision, the Federal Circuit affirmed.

Did UM's Bylaws Effectuate an Automatic Assignment?

Like all professors at UM, Dr. Islam signed an employment agreement when he was first hired in 1995 in which he agreed to abide by UM's bylaws. Those bylaws provided that patents "resulting from activities which have received no support … from the University shall be the property of the inventor," whereas patents based on activities supported by the University "shall be the property of the University." The question for the court was whether the bylaws created an obligation to assign or constituted an automatic assignment of the patents at issue, which would have automatically transferred title to UM and left Dr. Islam with no rights in the invention to assign to Omni.

The distinction between automatic assignments and obligations to assign is nicely illustrated by the *Stanford v. Roche* case. There, Professor Holodniy, a Stanford professor, conducted research at Cetus pursuant to a confidentiality agreement. After his return to Stanford, Professor Holodniy assigned the resulting patent applications to Stanford. When Stanford subsequently sued Roche, Roche raised an ownership defense based on the language in the confidentiality agreement with

Cetus. The Cetus agreement stated that Holodniy "will assign and do[es] hereby assign" his rights to Cetus for inventions made "as a consequence of [his] access" to Cetus. By contrast, Holodiny's employment agreement with Stanford stated that he "agree[d] to assign" rights in inventions resulting from his employment. The Federal Circuit held that the Cetus contract, by virtue of its present-tense "do[es] hereby assign" language, automatically assigned rights to Cetus, but the Stanford contract's future-tense language did not.

In *Omni*, the Federal Circuit observed that UM's bylaws did "not unambiguously constitute either a present automatic assignment or a promise to assign in the future." The express purpose of the bylaws was, however, to determine under which conditions employees were obliged to assign their inventions to UM and when they would own it themselves. Moreover, after disclosing an invention to the Office of Technology Transfer, employees at UM were asked to sign an Invention Report, which referenced the bylaws and provided: "As required, I/we hereby assign." The Federal Circuit contrasted the "unambiguous present assignment" in the Invention Report with the language in the bylaws, noting that "[e]ach case in which [the] court found a present automatic assignment examined contractual language with a present tense executing verb. Such present-tense active verbs effectuate a present action." Thus, the Federal Circuit concluded that the bylaws were "most naturally read as a statement of intended disposition and a promise of a potential future assignment, not as a present automatic transfer."

Takeaways: How to Play it Safe

While the Federal Circuit noted that there are no "magic words," the following language has been held to constitute an automatic assignment: "the Employee assigns all of his or her right, interest, or title in any invention to the Employer" (*SiRF Tech v. Int'l Trade Comm'n*); "agrees to and does hereby grant and assign" (*DDB Techs.*); "hereby conveys, transfers, and assigns" (*Speedplay v. Bebop*); and "agrees to grant and does hereby grant" (*FilmTec Corp. v. Allied-Signal*). By contrast, passive verbs in indefinite or future tense are less likely to effectuate a present assignment. Indeed, agreements providing that an invention "shall be the property of … and all rights thereto will be assigned" to an employer have been held not to be an automatic assignment, but rather, an obligation to assign in the future. By following the language of these precedents, employers and employees can ensure their agreements provide for the desired ownership of inventions.

Concluding Remarks

In dissent, Judge Newman argued that the holding "overturns decades of unchallenged understanding and implementation of the University's employment agreement and policy documents." Whether or not this is true, institutions and corporations would be well-advised to review the language used in their employment agreements to ensure it achieves the intended purpose.

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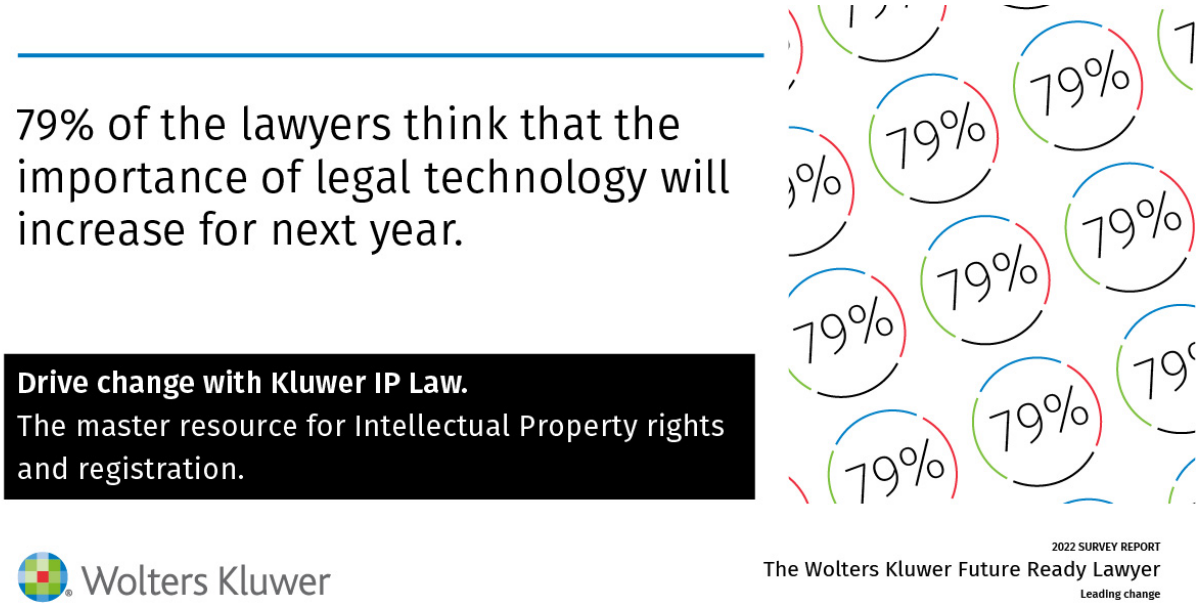

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