When "Shall" Does Not Do

Omni MedSci, Inc. v. Apple Inc., No. 2020-1715 (Fed. Cir. August 2, 2021)

By: Ifti Zaim & Andy Himebaugh | August 9, 2021

On August 2, 2021, the Court of Appeals for the Federal Circuit ("CAFC") held that an employment agreement stating that an employee's future patents "shall be the property of the University [of Michigan]" did not create a present automatic assignment of the asserted patents to the University. Thus, the Court held that the plaintiff corporation, Omni MedSci, an entity formed by the inventor, Dr. Muhammad Islam, had standing to bring the lawsuit enforcing the patents. This case underscores the meticulousness required of patent assignment provisions and should prompt employers to revisit their employees' contracts to ensure those contracts achieve the desired allocation of rights.

Dr. Islam joined the University of Michigan faculty in 1992 as an assistant professor of engineering and computer science. At around that time, he executed an employment agreement wherein he agreed to abide by the University's rules and regulations. These included Bylaw 3.10, which provided in relevant part:

> Patents … 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 . . . and all royalties or other revenues derived therefrom, ***shall be*** the property of the University.

Order, at 2 (emphasis added). The patents-in-suit originated from provisional applications Dr. Islam filed while on an unpaid leave of absence from the University in 2012 and assigned to Omni in 2013, notwithstanding continuing disagreement with the University over who rightfully owned them. Then, in 2018, Omni brought the lawsuit at issue against Apple in the Eastern District of Texas.

Apple moved to dismiss the action for lack of standing on the basis that Dr. Islam's employment agreement effectuated a present automatic transfer of rights in the invention to the University, instantly transferring ownership of the patents-in-suit to the University upon issuance and thus invalidating their assignment to Omni. Omni argued that the invention was outside the scope of the assignment obligation altogether. The Eastern District of Texas did not adjudicate that question, but denied the motion, finding that Bylaw 3.10 was "at most, a statement of future intention to assign." Following transfer to and rehearing by the Northern District of California, that court upheld the denial. Apple filed an interlocutory appeal.

The CAFC agreed with the district courts, holding the Bylaw to be "a statement of an intended outcome rather than a present assignment." The Court noted that, by its own terms, the Bylaw "stipulate[d] the *conditions* governing the assignment of property rights," similar language had been held to denote an obligation to assign rather than an assignment in and of itself. In essence, the UM contract lacked a ***present-tense active verb*** that would have effectuated the assignment automatically. In light of this decision, it would be in businesses' interest to revisit their employment agreements and ensure they allocate rights in the manner intended.