Inventor Rights: ***CHOU v. THE UNIVERSITY OF CHICAGO et al.***
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The Court of Appeals for the Federal Circuit has recently ruled that a putative inventor who lacks a potential ownership interest in a patent still has standing to sue for correction of inventorship of the patent based on an alleged "concrete financial interest in the patent." *Joany Chou v. The University of Chicago, et al.,* Appeal No. 00-1317 (Fed. Cir., July 3, 2001). This is an important decision for the rights of researchers, particularly non-tenured university researchers, because most universities in the United States have a patent policy similar to that of the University of Chicago.

This article reviews the key ruling on standing in the *Chou* decision, and its potential impact on universities and their researchers. This article also addresses the question left open by the appellate court in *Chou* – whether a putative inventor who alleges only a "reputational" interest has also standing to sue for correction of inventorship.

BACKGROUND

Dr. Chou was a graduate student and subsequently a post-doctoral research assistant for Dr. Roizman at the University of Chicago from 1983 to 1996. Roizman is named as the sole inventor on U.S. Patent 5,328,688 and a co-inventor on U.S. Patents 5,795,713 and 5,922,328, all of which relate to herpes simplex virus and its use in an avirulent vaccine. Roizman is also listed as an inventor on three foreign applications based on the subject matter of the U.S. Patents. Inventorship on these U.S. and foreign patent matters was in dispute.

Under the University of Chicago patent policy, inventors receive 25% of the gross royalties and up-front payments from licensing of the patents, as well as 25% of the stock of new companies that are based on their inventions. Chou allegedly told Roizman in February of 1991 that her discoveries should be patented, and he allegedly disagreed. At that time, however, Roizman had already filed the '688 patent application, which was allegedly directed to the same disputed invention, and had named himself as the sole inventor of that subject matter. During prosecution of that application, the United States Patent and Trademark Office ("PTO") cited two joint Chou-Roizman publications as prior art. In response, Roizman submitted a declaration stating that those publications were not available as prior art because he was the sole inventor of the work described therein and that she merely worked under his direction and supervision. On July 14, 1992, Roizman assigned the '688 patent application to Institut Merieux, a French company that had supported the research. Just before that assignment, however, on July 1, 1992, it appears that Aviron had received an exclusive license to the herpes simplex virus technology from ARCH Development Corporation, a wholly owned affiliate of the University established to license and commercialize the University's technology and intellectual property. Institut Merieux later assigned the patent application to ARCH, which in turn licensed Aviron. Aviron also obtained rights to the '713 and '328 patents and the foreign applications by license and assignment from ARCH. ARCH and Roizman each own Aviron stock and have received licensing revenue from NeuroVir, the sublicensee of Aviron's rights.
In 1996, Roizman asked Chou to resign, failing which he told her that he would fire her, allegedly because she would be in a stronger position to contest his inventorship if she were still conducting research at the University.

In 1999, Chou sued Roizman, the University/ARCH, and Aviron (collectively, "the defendants") for correction of inventorship under 35 U.S.C. § 256, seeking to be named as the sole inventor on the '688 patent, or, in the alternative, as a co-inventor along with Roizman. She additionally sought to be listed as a co-inventor on the '713 and '328 patents. In addition, Chou asserted, among other things, claims of fraudulent concealment, breach of fiduciary duty, unjust enrichment, breach of express and implied contract.

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The district court determined that Chou lacked standing to seek correction of inventorship under § 256 because she could claim no ownership of the patents, having surrendered all her rights to the University under an employment agreement.

The district court also dismissed under Fed. R. Civ. P. 12(b)(6) all of her state law claims except her count for conversion. It determined that Roizman had no duty as Chou's advisor and department chairman to inform Chou of the status of the patent applications, and that his opinion that some of Chou's work should not be patented, although perhaps an affirmative misrepresentation, was not fraudulent. The district court dismissed her unjust enrichment claim based on Roizman's alleged arrangement of the assignment of the '688 patent application to ARCH and then to Aviron, finding instead that Roizman assigned the application to Institut Merieux, which exercised its own "free will" to assign it to ARCH, which then licensed it to Aviron. The court similarly dismissed her claim for breach of an implied contract because Chou did not allege that Roizman and Chou had established a practice of sharing royalties for all joint inventions.

The district court dismissed all claims against Aviron because Chou did not allege that Roizman's actions came within the scope of his authority as Aviron's agent, and because "so much of what Dr. Roizman did was done before there was an Aviron that Aviron authorized none of it; it simply benefited from the acts after it was brought into existence." The court dismissed all her counts against Roizman except the conversion count. Chou then voluntarily dismissed the conversion count and stipulated to the dismissal with prejudice of all counts of her complaint against the University/ARCH to obtain a final, appealable judgment because she agreed that the reasoning of the district court's order applied with equal force to the University/ARCH. *Chou v. Univ. of Chicago*, No. 99-C4495 (N.D. Ill. Mar. 13, 2000) (stipulation of dismissal with prejudice of all claims except for Count V for conversion); *Chou v. Univ. of Chicago,* No. 99-C4495 (N.D. Ill. Apr. 5, 2000) (voluntary dismissal of Count V). Chou then appealed the district court dismissal.

THE FEDERAL CIRCUIT APPEAL

The Federal Circuit held that the district court erred in its determination that Chou did not have standing to sue for correction of inventorship under 35 U.S.C. § 256, and thus reversed the lower court judgment as to that claim. The Federal Circuit also reversed the court's dismissal of most of her state law claims against Roizman and directed the court to reinstate certain of her state law claims against the University. The Federal Circuit affirmed the remainder of district court order.

STANDING CAN BE BASED ON A "CONCRETE FINANCIAL INTEREST" A PATENT

On appeal, Chou presented three reasons why the district court erred in its conclusion that she did not have standing to bring an action under § 256 to correct inventorship: (1) she did not assign her interest in her inventions to the University; (2) she would be entitled to receive 25% of the gross royalties and up-front payments from licensing, as well as 25% of the stock of new companies based on the invention, if she were a named inventor; or (3) she has standing solely by virtue of being a true inventor under the decision in *University of Colorado Foundation v. American Cyanamid Co.,* 196 F.3d 1366, 1374, 52 USPQ2d 1801, 1806-07 (Fed. Cir. 1999).

The defendants responded that Chou lacks standing to sue for correction of inventorship under § 256 because she was obligated to assign her inventions to the University by virtue of accepting employment under the University's administrative policies. The University/ARCH also argued that it is not properly included as a defendant in her § 256 action because Chou stipulated that the district court's reasoning applied to the University/ARCH to the same extent that it applied to Roizman, and that Chou has no standing to sue Roizman under § 256 because she has no ownership interest in the patents at issue. The defendants also contended that Chou lacks standing to sue for a declaratory judgment because she had no reasonable ground to believe that the defendants would file suit to correct inventorship under § 256.

The Federal Circuit stated that as a preliminary matter, it agreed with the defendants that Chou was obligated to assign her inventions to the University. While Chou never signed a contract with the University specifically obligating her to assign her inventions to the University, the Federal Circuit stated that she accepted her academic appointment subject to the administrative policies of the University. The Federal Circuit stated that it was not persuaded by Chou's argument that the University's administrative policies do not include its patent statutes, and noted that the Faculty

Handbook refers to the patent statutes as patent policies within a section entitled "Academic Policies." The University's Patent Statute section 20 states:

> Every patentable invention or discovery that results from research or other activities carried out at the University, or with the aid of its facilities or funds administered by it, shall be the property of the University, and shall be assigned, as determined by the University, to the University, to an organization sponsoring the activities, or to an outside organization deemed capable of administering patents.

While the Faculty Handbook states "[t]he contents of this handbook do not create a contract or agreement between an individual and the University," the Federal Circuit stated that this statement must be read in light of the statement immediately following it: "The basic terms and conditions of the employment agreement are set out in the letter of appointment received from the Provost's Office." The Federal Circuit noted that Chou's letter of appointment stated that the appointment was subject to "the administrative policies of the University," which include the obligation to assign inventions to the University. The Federal Circuit held that under governing Illinois law, Chou was obligated to assign her inventions to the University even though she never specifically agreed to do so. The Federal Circuit noted that Chou accepted her appointment, thereby assuming the obligations set out in the University's policies, and that she did not dispute her obligation when she assigned to the University other inventions for which she was a recognized inventor. The Federal Circuit concluded that if Chou is indeed an inventor of the contested subject matter, she would be obligated to assign those inventions to the University.

However, the Federal Circuit stated that this ruling does not defeat Chou's standing to sue for correction of inventorship under 35 U.S.C. § 256, which provides:

> The error of omitting inventors or naming persons who are not inventors shall not invalidate the patent in which such error occurred if it can be corrected as provided in this section. The court before which such matter is called in question may order correction of the patent <u>on notice and hearing of all parties concerned</u> and the Director shall issue a certificate accordingly. [Emphasis added by the Federal Circuit].

The Federal Circuit stated that the district court is indeed a court before which the matter was called into question, and notice and an opportunity for a hearing were provided. Further, the Federal Circuit stated that Chou, as a party "concerned," is clearly within the purview of the statute, but she must meet constitutional standing requirements in order to invoke it. In other words, the Federal Circuit stated Chou must show that she has suffered an injury-in-fact, that the injury is traceable to the conduct complained of, and that the injury is redressable by a favorable decision.
The Federal Circuit noted that the district court determined that Chou did not have standing to sue for correction of inventorship on the basis of "[t]he principle that one who claims no ownership of the patent has no standing to seek relief under § 256." In so holding the district court relied on *Kucharczyk v. Regents of the Univ. of Cal*., 48 F. Supp. 2d 964, 974-975 (N.D. Cal. 1999).

The Federal Circuit stated that the question whether a putative inventor who is obligated to assign her invention to another is entitled to sue for correction of inventorship under § 256 action is one of first impression for the court, notwithstanding the parties' arguments to the contrary.

The Federal Circuit noted that in *Kucharczyk,* the district court held that plaintiffs relinquished their right to sue to correct inventorship to delete an inventor when they executed an assignment of their ownership interest. *Kucharczyk,* 48 F. Supp. 2d at 974-975. The Federal Circuit also noted that an Ohio district court has taken a similar position. *See E.I. Du Pont de Nemours & Co. v. Okuley,* No. C2-97-1205, 2000 WL 1,911,430, *12 (S.D. Ohio Dec. 21, 2000) (stating that only an assignee has standing to challenge inventorship, citing *Kucharczyk* and *Chou*).

However, the Federal Circuit stated that it was not bound by the decisions of district courts, and that it did not agree with the district court decisions relied upon by the defendants. Rather, the Federal Circuit stated that "an expectation of ownership of a patent is not a prerequisite for a putative inventor to possess standing to sue to correct inventorship under § 256." The Federal Circuit stated that the statute imposes no requirement of potential ownership in

the patent on those seeking to invoke it. The Federal Circuit also stated that § 256 has previously been interpreted broadly as a "savings provision" to prevent patent rights from being extinguished simply because the inventors are not correctly listed, and that the same considerations applied in the Chou case.

The Federal Circuit held that Chou should have the right to assert her interest, both for her own benefit and in the public interest of assuring correct inventorship designations on patents. The Federal Circuit further stated that the interest of both inventors and the public are thus served by a broad interpretation of the statute.

The Federal Circuit stated that it did not need to decide the issue of whether a "reputational interest" alone is enough to satisfy the requirements of Article III standing, because Chou had asserted a "concrete financial interest in the patent, albeit an interest less than ownership." Chou had claimed that the University is obligated to provide "[f]aculty, student and staff inventors . . . 25% of the gross royalties and up-front payments from licensing activities." She also claimed the right to receive rights to 25% of the stock of new companies based on their inventions. Thus, the Federal Circuit noted, if Chou has indeed been deprived of an interest in proceeds from licensing the invention and in stock ownership by the conduct that she alleges, then she will have suffered an injury-in-fact, *i.e.,* the loss of those benefits. The Federal Circuit also stated that the loss would be directly traceable to Roizman's alleged conduct in naming himself as the sole inventor of discoveries that she at least partly made, and it would be redressable by an order from the district court to the Director of the PTO to issue a certificate naming Chou as an inventor, which would entitle her under the University's policy to a share of the licensing proceeds and stock already received by Roizman. Thus, the Federal Circuit concluded that Chou is entitled to sue for correction of inventorship under § 256.

The Federal Circuit also held that parties with an economic stake in a patent's validity may be subject to a § 256 suit, and all of the defendants in this case such an economic stake in the validity of the patents involved, and the benefits enjoyed by the defendants would be jeopardized by a determination that the patents are invalid for improper inventorship.

The decision in *Chou* does not place an unfair burden on universities. If a university seeks to profit from the licensing of inventions and provides incentives to researchers to patent their inventions and assign those inventions to the university, then researchers should have the ability to seek relief when the university does not properly recognize them as inventors. If universities want to avoid lawsuits, they can include binding arbitration in their employment agreements with researchers as a way of resolving inventorship disputes.

Further, since research is frequently published, universities and their counsel can easily compare the named authors with the named inventors to identify any differences. A university can and should advise authors who are not named inventors that they are not listed as inventors and resolve with them soon as possible whether they are or are not also inventors. The defendant university in *Chou* did not follow this approach.

A PUTATIVE INVENTOR SHOULD HAVE STANDING TO SUE FOR CORRECTION OF INVENTORSHIP UNDER § 256

As noted above, the Federal Circuit left open the question of whether a "reputational interest" in patent alone gives a putative inventor standing to sue for correction of inventorship under 35 U.S.C. § 256. It is the view of this author that a reputational interest alone should give a putative inventor standing to sue for correction of inventorship.

First, the statute does not differentiate between putative inventors having a "concrete financial" interest in a patent, and putative inventors that do not. A court can order correction of the patent "on notice and hearing of all parties concerned."

Second, it would seem that a reputational interest in being recognized as an inventor is just as important, if not more important, than any financial interest in a patent. "A good name is better than riches." Cervantes, Don Quixote, pt. II [1615], bk. II, ch. 33. The Federal Circuit itself noted that Chou's argument that a reputational interest alone is enough to satisfy the requirements of Article III standing "is not implausible." The Federal Circuit recognized in *Chou* that "being considered an inventor of important subject matter is a mark of success in one's field, comparable to being an author of an important scientific paper." Thus, when a patent assignee refuses to name a putative inventor of an invention, there is no question that the putative inventor has suffered an injury-in-fact directly traceable to the assignee

and which can be remedied by a court decision.

Further, some patents describe and claim inventions that are "ahead of their time" and/or do not give rise to a "concrete financial interest" at the time an inventorship dispute arises. It would seem to be unfair to treat putative inventors who cannot point to a concrete financial interest in a patent from putative inventors who can.

Also, as the Federal Circuit further noted in *Chou*, "[p]ecuniary consequences may well flow from being designated as an inventor." However, pecuniary consequences may not be determinable at the time an inventorship dispute arises. The fact that pecuniary consequences cannot be determinable at the time an inventorship dispute arises should not be grounds for denying a putative inventor standing to correct inventorship. Indeed, allowing a putative inventor to claim inventorship could reduce, if not eliminate, future adverse pecuniary consequences to inventors.

Notably, permitting a putative inventor standing to correct inventorship is not contrary to the district court holding in *Kucharczyk*. In *Kucharczyk,* the district court held that the plaintiffs relinquished their right to sue to correct inventorship to delete an inventor when they executed an assignment of their ownership interest. *Kucharczyk*, 48 F. Supp. 2d at 974-975. Thus, the *Kucharczyk* plaintiffs were already listed as inventors, and they had previously filed declarations under oath that another individual was their co-inventor. As such, the plaintiffs in *Kucharczyk* were not seeking to protect their reputational interest as inventors when they later sought to remove the other individual as their co-inventor. In *Chou*, the plaintiff was seeking to protect her reputational interest as an inventor when she sought to have her name added as an inventor.

CONCLUSION

The *Chou* case is an important precedent in the protection of researchers, particularly university researchers. Prior to *Chou*, researchers had little if any recourse if a university refused to recognize them as inventors. Under Chou, researchers can seek correction of inventorship to get themselves named as inventors if they can also allege a "concrete financial" interest in the patent, such as through university licensing of the patent that inures to the financial benefit of inventors. Most universities in the United States have a patent policy that provides financial benefits to inventors. In any event, researchers should be permitted to seek correction of inventorship, even if all they allege is a reputational interest.
