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FEATURE

Are Patents Property That Is Protected by the U.S. Constitution?

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For over 100 years, patents have been considered personal property entitled to full protection under the U.S. Constitution. The U.S. Supreme Court so held in many cases. For example, in an 1876 case, the Court stated, "A patent for an invention is as much property as a patent for land. The right rests on the same foundation, and is surrounded and protected by the same sanctions."[1]

A few years later, in 1882, the Court followed that with:

> That the government of the United States when it grants letters-patent for a new invention or discovery in the arts, confers upon the patentee an exclusive property in the patented invention which cannot be appropriated or used by the government itself, without just compensation, any more than it can appropriate or use without compensation land which has been patented to a private purchaser, we have no doubt. . . . The government of the United States, as well as the citizen, is subject to the Constitution; and when it grants a patent the grantee is entitled to it as a matter of right, and does not receive it, as was originally supposed to be the case in England, as a matter of grace and favor.[2]

Moreover, 35 U.S.C. § 261 provides: "[P]atents shall have the attributes of personal property."

Against this background, the Federal Circuit ruled in 1985 that "[i]t is beyond reasonable debate that patents are property [that is protected by the Constitution]."[3]

With this understanding, patent owners have asserted that legislation allowing the U.S. Patent and Trademark Office (USPTO) to take a "second look" at patents and take back what it had previously granted as property of the patent owner, such as in ex parte reexamination[4] and inter partes review (IPR),[5] is unconstitutional. The patent owners asserted that, under the Constitution, only the courts have the ability to invalidate issued patent claims. These constitutional attacks have all failed.[6]

For the first time, however, two of the lower courts in those challenges held that patents are not protected property for the takings protection of the Fifth Amendment. Specifically, the U.S. Court of Federal Claims held that "patent rights are not cognizable property interests for Takings Clause purposes."[7] In so holding, it relied on the discussion of patents' constitutional status in the 2018 *Oil States* Supreme Court case, which held that patents are a special kind of property that can be treated differently than other types of property for some constitutional protection.[8]

Oil States

In *Oil States*, the patent owner sued for infringement in district court. Near the end of discovery, the defendant petitioned the USPTO to commence an IPR. The USPTO did so, and the two proceedings proceeded in parallel. The district court made a claim construction that foreclosed the defendant's position challenging validity. However, the USPTO later issued a final decision that the claims were unpatentable. This USPTO decision was affirmed by the Federal Circuit.

The claims in the Supreme Court were that IPRs were unconstitutional for being in violation of Article III (judicial power resides in the federal courts) and the Seventh Amendment (right to a jury trial). The Court rejected both arguments. In so doing, it found that patents were a particular kind of property: a public franchise.

As for the Article III argument, the Court started by recognizing that Article III vests judicial power in the Supreme Court and such inferior courts as Congress may from time to time establish. It then said that whether a proceeding involves an exercise of Article III power depends on whether a public or private right is involved. It held that if public rights are involved, Congress has significant latitude to assign adjudication of such rights to other than Article III courts.

The Court then said that it had never definitively explained the distinction between public and private rights. But it said that it was not required to do so here either because:

> Our precedents have recognized that the doctrine covers matters "which arise between the Government and persons subject to its authority in connection with the performance of the constitutional functions of the executive or legislative departments." In other words, the public-rights doctrine applies to matters "arising between the government and others, which from their nature do not require judicial determination and yet are susceptible of it." Inter partes review involves one such matter: reconsideration of the Government's decision to grant a public franchise.[9]

Since the Court found that there is no dispute that the grant of a patent involves public rights, it found that so too does reconsideration of that grant. The Court explained:

> Inter partes review falls squarely within the public-rights doctrine. This Court has recognized, and the parties do not dispute, that the decision to *grant* a patent is a matter involving public rights—specifically, the grant of a public franchise. Inter partes review is simply a reconsideration of that grant, and Congress has permissibly reserved the PTO's authority to conduct that reconsideration. Thus, the PTO can do so without violating Article III. . . . Thus, inter partes review involves the same interests as the determination to grant a patent in the first instance.[10]

The Court further explained that its previous holdings that patents are constitutionally protected property are not inconsistent with its holding in this case.[11] As a public franchise, a patent can only confer rights that the statute provides. The Court noted that many of its older cases involved the Patent Act of 1870. That act did not provide for any second-look proceedings by the USPTO.[12]

It also noted that the current statute, which provides that patents shall have the attributes of personal property, qualifies any property rights by also providing that they are "subject to the provisions of this title."[13] The current statute provides for a second-look proceeding, while previous statutes involved in earlier decisions did not.

As to the Seventh Amendment right to a jury trial, the Court said its rejection of the Article III challenge resolved this as well. Relying on past precedents, it said that when Congress assigns a

matter to a non–Article III tribunal, the Seventh Amendment poses no independent bar to adjudication of that action by a non-jury fact finder.[14]

However, in affirming IPRs' constitutionality from the Article III and Seventh Amendment challenges, the Court was careful to advise of the narrowness of its holding as to patents' constitutional status as property. It stated:

> We emphasize the narrowness of our holding. We address the constitutionality of inter partes review only. We do not address whether other patent matters, such as infringement actions, can be heard in a non–Article III forum. . . . Moreover, we address only the precise constitutional challenges that Oil States raised here. Oil States does not challenge the retroactive application of inter partes review, even though that procedure was not in place when its patent issued. Nor has Oil States raised a due process challenge. Finally, our decision should not be misconstrued as suggesting that patents are not property for purposes of the Due Process Clause or the Takings Clause.[15]

Christy

The first Claims Court case to find that patents are not property under the Fifth Amendment's takings protection is *Christy*. The Claims Court in *Golden* later found the same. The *Christy* court distinguished private and public rights, relying on the *Oil States* case:

> The Supreme Court observed that its longstanding precedent teaches that "the decision to *grant* a patent is a matter involving public rights—specifically, the grant of a public franchise," and noted that the franchise "is a 'creature of statute law.'" It emphasized that "[p]atent claims are granted subject to the qualification that the [Patent and Trademark Office] has 'the authority to reexamine—and perhaps cancel—a patent claim' in an inter partes review" and that "franchises can be qualified in this manner."[16]

Based on its analysis of the *Oil States*, older Supreme Court, and Federal Circuit cases, the *Christy* court held that

> modern invention patents are distinguishable from land patents because the Patent and Trademark Office exercises continuing authority over invention patents, whereas the government generally cedes "all authority or control" over the land in question when it

> issues a land patent. In short, patents are public franchises, not private property. Because "[a] taking compensable under the Fifth Amendment inherently requires the existence of 'private property,'" patent rights are not cognizable property interests for Takings Clause purposes.[17]

Golden

Golden was a complicated procedural case.[18] The Claims Court granted the government's motion to dismiss. According to the Federal Circuit, the lower court adopted the Claims Court's language in *Christy* that "patent rights are not cognizable property interests for Takings Clause purposes."[19]

On appeal, Golden claimed an unconstitutional taking on three grounds: (1) the government's infringement of his patents, (2) the institution of an IPR, and (3) the Claims Court's dismissal of his causes of action relating to patent claims that were "unjustly cancelled in the IPR."[20] He also argued that there were "several breaches of implied-in-fact contracts" by the government.[21]

On the infringement issue, the Federal Circuit found that 28 U.S.C. § 1498 is the sole remedy for infringement of a patent by the government. There is no independent claim for an improper taking.

On the takings claim based on the IPR, the Federal Circuit found no standing to appeal. Here, the government was the petitioner. The Supreme Court had recently held that the government could not do that under the statute because it was not a "person." So the court recognized that cancellation of claims in this situation could be a taking. However, the plaintiff did not appeal the USPTO's rejection of the claims at issue. Rather, he voluntarily canceled these claims for the amended claims that were ultimately rejected in the IPR. Therefore, the court found no standing on this takings claim as well.

On the takings claim based on actions of the Federal Circuit and Claims Court and the implied-in-fact contract claims, the court found that these two courts both adjudicate patents, and on the contract claim, the reasoning on the takings issues applied to this as well. Because the argument was raised for the first time on appeal, it too was nonjusticiable.

The *Golden* court explained that "the decision to *grant* a patent is a matter involving public rights —specifically the grant of a public franchise."[22] The Federal Circuit said further that the Supreme

Court "emphasize[d] the narrowness of [its] holding" in *Oil States* and explained that it was addressing "only the precise constitutional challenges" raised in that case.[23] It noted that the Supreme Court admonished that its "decision should not be misconstrued as suggesting that patents are not property for purposes of the Due Process Clause or the Takings Clause."[24] Despite the Claims Court's express finding on the status of patent rights under the Fifth Amendment, the Federal Circuit stated, "[W]e decline to address that question here, however, because, even if Golden's patents are his private property for Takings Clause purposes, under *Celgene*, cancellation of patent claims in *inter partes* review cannot be a taking under the Fifth Amendment."[25]

Conclusion

In the *Golden* and *Christy* appeals, the Federal Circuit did not consider the question of a patent's constitutional status. So these two Claims Court decisions stand for the proposition that patents are not property protected by the Fifth Amendment, apparently based on changed case law from 1985 when the Federal Circuit found in *Patlex* that "[i]t is beyond reasonable debate that patents are property [that is protected by the Constitution]."[26]

So this is the current state of the law: Two lower court opinions (*Christy* and *Golden*) have found that patents are not property that is protected by the Fifth Amendment, which were both affirmed on appeal without addressing this issue; two earlier Federal Circuit opinions (*Patlex* and *Joy*) have found that patents are protected property under the Fifth Amendment; and the Supreme Court (*Oil States*) has held that patents are a particular type of property, but it has not decided whether or not that type of property is protected under the Fifth Amendment takings prohibition.

Endnotes

1. Consol. Fruit-Jar Co. v. Wright, 94 U.S. 92, 96 (1876).

2. James v. Campbell, 104 U.S. 356, 357–58 (1882).

3. Patlex Corp. v. Mossinghoff, 758 F.2d 594, 599–600 (Fed. Cir.), *modified on other grounds*, 771 F.2d 480 (Fed. Cir. 1985).

4. 35 U.S.C. §§ 302–307.

5. *Id.* §§ 311–319.

6. *See, e.g.*, Oil States Energy Servs., LLC v. Greene's Energy Grp., LLC, 138 S. Ct. 1365 (2018) (Article III and Seventh Amendment challenge to IPRs); *Patlex*, 758 F.2d 594, and Joy Techs., Inc. v. Manbeck, 959 F.2d 226 (Fed. Cir.), *cert. denied*, 506 U.S. 829 (1992) (Article III and Fifth and Seventh Amendment challenges to reexaminations); and Celgene Corp. v. Peter, 931 F.3d 1342 (Fed. Cir. 2019); Christy, Inc. v. United States, 971 F.3d 1332 (Fed. Cir. 2020); and Golden v. United States, 955 F.3d 981 (Fed. Cir. 2020) (Fifth Amendment challenges to IPRs).

7. Christy, Inc. v. United States, 141 Fed. Cl. 641, 657–60 (2019), *aff'd on other grounds*, 971 F.3d 1332.

8. *Oil States*, 138 S. Ct. 1365.

9. *Id.* at 1373 (citations omitted).

10. *Id.* at 1373–74.

11. *Id.* at 1375 ("Oil States challenges this conclusion [that the Constitution does not prohibit the Patent Trial and Appeal Board from resolving patent validity outside of an Article III court], citing three decisions that recognize patent rights as the 'private property of the patentee.' *American Bell Telephone Co.*, 128 U.S., at 370; see also *McCormick Harvesting Machine Co. v. Aultman*, 169 U.S. 606, 609 (1898) ('[A granted patent] has become the property of the patentee'); *Brown v. Duchesne*, 19 How. 183, 197 (1857) ('[T]he rights of a party under a patent are his private property'). But those cases do not contradict our conclusion. Patents convey only a specific form of property right—a public franchise." (parallel citations omitted)).

12. *Id.* at 1376.

13. *Id.* at 1375.

14. *Id.* at 1379.

15. *Id.* (citing Fla. Prepaid Postsecondary Educ. Expense Bd. v. Coll. Sav. Bank, 527 U.S. 627, 642 (1999); James v. Campbell, 104 U.S. 356, 358 (1882)).

16. Christy, Inc. v. United States, 141 Fed. Cl. 641, 659 (2019) (alterations in original) (citations omitted).

17. *Id.* at 660 (alteration in original) (footnote omitted) (citation omitted).

18. The *Christy* case was the first one decided by the Claims Court, but on appeal to the Federal Circuit, *Golden* was decided before *Christy*. *Patlex* had broad language indicating that patents are property under the Fifth Amendment; however, the case concerned the due process protection under that amendment, not the takings protection. Patlex Corp. v. Mossinghoff, 758 F.2d 594 (Fed. Cir.), *modified on other grounds*, 771 F.2d 480 (Fed. Cir. 1985). The *Joy* case did include a takings claim and found that the constitutional attack there was rejected because *Patlex* was controlling authority. Joy Techs., Inc. v. Manbeck, 959 F.2d 226 (Fed. Cir.), *cert. denied*, 506 U.S. 829 (1992).

19. Golden v. United States, 955 F.3d 981, 990 (Fed. Cir. 2020).

20. *Id.* at 986.

21. *Id.*

22. *Id.* at 989 n.7 (quoting Oil States Energy Servs., LLC v. Greene's Energy Grp., LLC, 138 S. Ct. 1365, 1373 (2018)).

23. *Id.* (alterations in original) (quoting *Oil States*, 138 S. Ct. at 1379).

24. *Id.* (quoting *Oil States*, 138 S. Ct. at 1379).

25. *Id.*

26. Patlex Corp. v. Mossinghoff, 758 F.2d 594, 599–600 (Fed. Cir.), *modified on other grounds*, 771 F.2d 480 (Fed. Cir. 1985).

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