United States: Paying Just Compensation for “Taking” Patents?

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Since the U.S. Supreme Court last year in *Oil States* rejected a constitutional challenge to the Patent Trial & Appeal Board’s authority to invalidate patents in post-grant reviews, patent owners in the United States have started exploring other constitutional challenges to these PTAB proceedings. Some patent owners have said that the PTAB violated their due process rights, and others have claimed that the PTAB’s Administrative Patent Judges were unconstitutionally appointed. Others have also raised the novel argument that the invalidation of a patent by the PTAB is an unconstitutional taking violating the Fifth Amendment’s Takings Clause, which provides that private property cannot be taken for public use without the payment of “just compensation.” But a threshold question for courts to address is this – is a patent a private property right subject to protection by the Takings Clause in the first place? In the upcoming months, the Federal Circuit will get its chance to weigh in on this very issue.

***Christy, Inc. v. USA* (U.S. Court of Federal Claims)**

In May 2018, an entity who had seen several claims of one of its patents invalidated in an *Inter Partes* Review (IPR) proceeding, Christy, Inc., filed a class action lawsuit against the U.S. government in the Court of Federal Claims in Washington, DC, seeking “just compensation for the taking of inventors’ and patent owners’ recognized patent property rights” in post-grant proceedings under the AIA. Unlike in *Oil States*, where the PTAB’s authority to invalidate patents was challenged, Christy did not assert that the PTAB lacks the authority to cancel its claims, but instead that once this occurs, the government has a “constitutional obligation to pay just compensation,” or for the fair market value of the patent at the time of the taking.

The government moved to dismiss, arguing that, among other things, patents are government franchises, not private property rights, and that the cancellation of a patent in a PTAB proceeding therefore cannot be an unconstitutional taking. The Court of Federal Claims agreed, and dismissed Christy’s case. The court, citing *Oil States*, broadly stated that “patents are public franchises, not private property” and that “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.”

Christy’s Upcoming Appeal

Christy appealed the dismissal of its case to the Federal Circuit, and its opening brief is due on July 18. (Any amicus briefs and accompanying motions for leave are due one week later.) While the Supreme Court and the Federal Circuit have recognized that patents are property rights for the purposes of the Fifth Amendment’s Due Process Clause,[1] the question of whether a patent is a private property right under the Fifth Amendment’s Takings Clause has seemingly never been squarely addressed by the Federal Circuit. The question is an important one with potential consequences for any U.S. patent owner, especially in high-profile industries such as pharmaceuticals and biotechnology. If the Federal Circuit affirms that a patent is not property for Takings Clause purposes, and therefore the government need not pay just compensation if it “takes” a patent for public use, then the government could conceivably pass regulations or laws essentially condemning various types of patents under the guise of public benefit – all without paying any compensation to the owners of those now-worthless patents.

Whether Christy (or other litigants) can eventually prevail on the merits of its claim that the PTAB’s cancellation of its patent claims was an unconstitutional taking is unclear, but precedent seems to support Christy on the narrower, threshold question of whether patents are protected by the Takings Clause in the first place. First, even if – as the court found – patents are only a type of “public franchise,” the Supreme Court has previously held that other types of public franchises are property for Takings Clause purposes. In *Monongahela Nav. Co. v. United States*, 148 U.S. 312 (1893), for example, the Court held that the government had to pay just compensation when it took away a company’s public franchise to take tolls on a bridge.

Second, both the Supreme Court and Congress have repeatedly stated that patents are property, and have appeared to treat them as such. [2] In *James v. Campbell*¸ 104 U.S. 356, 357-58 (1882), the Supreme Court explained that when the government grants a patent, it “confers upon the patentee an exclusive property in the patented invention which cannot be appropriated or used by the government itself, without just compensation.” Even in *Oil States*, the Supreme Court clarified that its ruling, which uphheld the constitutionality of inter partes review, “should not be misconstrued as suggesting that patents are not property for the purposes of the Due Process Clause or the Takings Clause.”[3] Indeed, the Patent Act expressly provides that patents have “the attributes of personal property,[4] and Congress requires the United States to pay reasonable compensation for use and manufacture of patented inventions.[5] And currently, if the Patent Office withholds a patent for national security reasons, the applicant may seek “compensation for the damage and/or use of the invention by the Government.”[6]

In fact, in recent months several Federal Circuit judges have implied that patent-related takings claims may be viable, at least in certain limited circumstances. Both Judge Richard Taranto and Judge Kimberly Moore have each separately expressed concerns that Covered Business Method (CBM) review proceedings may present takings-related issues, as CBMs allow the Patent Office to revisit validity questions, such as patentable subject matter under 35 U.S.C. § 101, that were not able to be addressed by the Patent Office in a post-grant review proceeding prior to the America Invents Act.[7] The Federal Circuit has not reached the merits of this issue; although some appellants from PTAB proceedings have raised takings arguments, as Judge Todd Hughes recently explained to one of these appellants, litigants must “go to the Court of Federal Claims,” rather making such arguments in an appeal from the PTAB.[8]

Whatever the outcome, *Christy* is a case worth watching – and the Supreme Court’s penchant for both Federal Circuit and Fifth Amendment cases may mean the issue may ultimately end up before the U.S. Supreme Court. Interested parties – particularly those who own U.S. patents – may wish to weigh in with amicus filings to help the Federal Circuit’s consideration of this issue of first impression.

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[1] *E.g.*, *Florida Prepaid Postsecondary Ed. Expense Board v. College Savings Bank*, 527 U.S. 627, 642(1999)

[2] *See, e.g.*, *Horne v. Dep’t of Agric.*, 135 S. Ct. 2419, 2427 (2015).

[3] O*il States Energy Servs., L.L.C. v. Greene’s Energy Grp.*, 138 S. Ct. 1365, 1379 (2018).

[4] 35 U.S.C. § 261.

[5] 28 U.S.C. § 1498.

[6] 35 U.S.C. § 183. Similarly, Congress previously required the government to compensate patent owners for revoking patents related to nuclear material and atomic weapons. Atomic Energy Act, 42 U.S.C. §§ 2181(a), 2187(b).

[7] Oral Argument, *Trading Tech. Int’l v. IBG LLC*, No. 2017-2257 (Mar. 3, 2019); Oral Argument, *Collabo Innovations, Inc. v. Sony Corp.*, No. 2018-1211 (Mar. 5, 2019).

[8] Oral Argument, *Trading Tech. Int’l v. IBG LLC*, No. 2018-1443 (May 9, 2019).