Are Patents Property?

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Are Patents Property?

Written by Matt C. Acosta - 02/04/2019

Most people think of "intellectual property" as a type of property. This makes sense because, well, "property" is in the name. However, as lawyers know all too well, the law is never that simple. As it turns out, at least one judge believes that patents—perhaps the most iconic form of intellectual property—are not really "property" as that word is legally understood.

Throughout the modern era, patents have been sold, traded, licensed, and appear on the balance sheet as an assets. However, since 2012, the number of patents being invalidated has skyrocketed. This is primarily due to new procedures allowing for post-grant review of patents created by the Leahy-Smith America Invents Act (AIA) passed in 2011, along with two landmark Supreme Court cases that substantially changed the law of patent-eligibility.

For those that own patents, many of whom paid to acquire them, some questions naturally arise when those patents are later invalidated, either through the courts or a post-grant review procedure in the patent office. If patents really are "property," could their sudden invalidation be viewed as a government

"taking" in violation of the Takings Clause of the Fifth Amendment to the U.S. Constitution?

The answer to this question is "no" according to an opinion recently issued by the Chief Judge of the Court of Federal Claims. The original facts leading to *Christy, Inc. v. The United States*, No. 18-657C (USCFC), tell a fairly common story. Christy, along with its exclusive licensee, filed a complaint for patent infringement in United States district court against, among others, Black & Decker. In response, Black & Decker filed a petition for *Inter Partes* review of the asserted patent in the Patent Trial and Appeal Board (PTAB), an administrative body created by the AIA. Christy's district court case was stayed pending the PTAB review, and was ultimately dismissed when the PTAB finally canceled all of the claims of the patent.

In the meantime, the Supreme Court issued its opinion in *Oil States Energy Services, LLC v. Greene's Energy Group LLC*, 138 S. Ct. 1365 (2018) holding that the *Inter Partes* review procedure did not violate Article III of the Seventh Amendment to the U.S. Constitution. In its opinion in *Oil States*, the Court says that the "constitutionality of *inter partes* review . . . should not be misconstrued as suggestion that patents are not property for purposes of the Due Process Clause or the Takings Clause." *Id.* at 1379.

Seizing on this language, Christy then sued the *United States* in the Court of Federal Claims alleging that the invalidation of its duly issued patent was an unconstitutional taking. In his opinion

dismissing the case for failure to state a plausible claim, Chief Judge Sweeny holds that patents are not "property," but "public franchises." In support of this ruling, Judge Sweeny cited the U.S. Supreme Court case *Schillinger v. United States*, 155 U.S. 163, 169 (1894) and the Federal Circuit case *Zoltek Corp. v. United States*, 442 F.3d 1345, 1348 (Fed. Cir. 2006), which both held that a claim for patent infringement against the United States could not be recast as a Fifth Amendment Takings claim. From these holdings, he reasons that "Congress has not expressed any intent that patent rights may be the subject of Takings Clause claims. Since patent rights derive wholly from federal law, Congress is free to define those rights . . . as it sees fit." *Christy*, at p. 13.

Judge Sweeny also looks to *Oil States* to support his opinion. He quotes the opinion's holding that "the decision to grant a patent is a matter involving public rights—specifically, the grant of a public franchise . . ." *Christy*, at p. 14 (quoting Oil States 138 S. Ct. at 1373). The *Christy* opinion does not describe the difference between "property" and a "public franchise," and recognizes that "Federal law provides that 'patents shall have the *attributes* of personal property.'" *Id.* (citing 35 U.S.C. § 261) (emphasis in original). But *Christy* also holds that this statutory "rule is not absolute, nor does it reflect Congress's intent for patents to be treated as the same as any other particular form of personal property." *Id.* at p. 15. Indeed, *Oil States* seemingly expresses the same principle. *Oil States*, 38 S. Ct. at 1375 ("[35 U.S.C. § 261] qualifies any property rights that a patent owner

has in an issued patent, subjecting them to the express provisions of the Patent Act.").

For now, the holding in *Christy* maintains the status quo: Patents invalidated through post-grant review and district court litigation are not unconstitutional takings. However, the opinion also demonstrates that this is a complex and nuanced issue. If Congress did not intend "patents" to be entirely treated as "personal property," then why has it decreed that they "have the attributes of personal property"? Why was this clarification by congress even necessary if those "attributes" are coextensive with the rights and remedies already attributed to patents by statute? What "attributes" of personal property are absent from a "public franchise"? What might be the consequences if the cancellation of issued patents was held unconstitutional? And are these potential consequences at all relevant to the determination?

These are only a few of many questions raised following the *Christy* opinion. Whether in the *Christy* case or another, the question of whether a "patent" is "property" is destined for the Federal Circuit, and likely, the Supreme Court in the not-too-distant future.