28 U.S.C. § 1498(a) and the Unconstitutional Taking of Patents

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Abstract

Eminent domain requires a showing of two elements: a property right; and a proper venue to bring suit against the government. 28 U.S.C. § 1498(a) grants patent owners the right to sue the United States for the unauthorized use of patents. This statute and its predecessors have long been viewed as an exercise of eminent domain over the patent property.

The Federal Circuit ignored this view in *Zoltek v. U.S.*, holding that patents are not subject to eminent domain. However, Congress has acknowledged that litigation costs are a necessary part of a patent taking. If, as precedent established long before *Zoltek*, § 1498(a) is an eminent domain statute, its grant of litigation costs to only some entities is unconstitutional under the Fifth Amendment’s just compensation requirement.

This article presents the argument that § 1498(a) is unconstitutional. It argues that patents are a species of property and that § 1498(a) was intended to provide the proper venue for a patent owner to bring suit against the government for its exercise of eminent domain in using a patent without authorization. It then discusses the just compensation requirement and the constitutional infirmity within § 1498(a) and presents an amendment to cure that infirmity.

I. Introduction

Article I, Section 8 of the Constitution enumerates Congress’s powers, including, *inter alia*, the powers to tax, regulate commerce, and declare war.¹ Section 8 also includes the so-called Progress Clause, which grants Congress the power “[t]o promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries.”² The Progress Clause is the only power in Section 8 that specifically states its purpose.³ In order to achieve that purpose, Congress has enacted the copyright and patent laws, codified respectively as Titles 17 and 35 of the U.S. Code.⁴

⁴ Presently, patent law is contained in Title 35 and copyright in Title 17 of the United States Code.
Balancing Article I’s grant of power, the Fifth Amendment limits the government’s power by specifically guaranteeing certain rights to the people. One of these limitations, the Takings Clause, provides that “private property [shall not] be taken for public use, without just compensation.” This limitation “does not prohibit the taking of private property, but instead places a condition on the exercise of that power.”

In the decision of *Zoltek Corp. v. United States*, patent rights and the Takings Clause collided. *Zoltek* addressed 28 U.S.C. § 1498(a), the statute that provides a patentee the right to sue the government for unauthorized use of a patent. The *Zoltek* court held that patents are not property protected by the Fifth

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*See 35 U.S.C. § 101 et seq.; 17 U.S.C. § 101 et seq. Patent and copyright laws have been in effect since the 1790 Acts. See Patent Act of 1790, supra note 3; see also An Act for the encouragement of learning, by securing the copies of maps, charts, and books, to the authors and proprietors of such copies, during the times therein mentioned, 1 Stat. 124 (May 31, 1790).*

*See generally U.S. CONST. amend. V.*

*Id.*

*First English Evangelical Lutheran Church of Glendale v. Los Angeles County, Cal., 484 U.S. 304, 314 (1987).*

*442 F.3d 1345 (Fed. Cir. 2006) (hereinafter, Zoltek).*


“Whenever an invention described in and covered by a patent of the United States is used or manufactured by or for the United States without license of the owner thereof or lawful right to use or manufacture the same, the owner’s remedy shall be by action against the United States in the United States Court of Federal Claims for the recovery of his reasonable and entire compensation for such use and manufacture. Reasonable and entire compensation shall include the owner’s reasonable costs, including reasonable fees for expert witnesses and attorneys, in pursuing the action if the owner is an independent inventor, a nonprofit organization, or an entity that had no more than 500 employees at any time during the 5-year period preceding the use or manufacture of the patented invention by or for the United States. Notwithstanding [sic] the preceding sentences, unless the action has been pending for more than 10 years from the time of filing to the time that the owner applies for such costs and fees, reasonable and entire compensation shall not include such costs and fees if the court finds that the position of the United States was substantially justified or that special circumstances make an award unjust.”

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Amendment. This article argues, in part, that the Zoltek decision is incorrect in light of prior case law. Section 1498, its statutory forebears, and cases interpreting these statutes demonstrate that patents were intended to be, and should be, protected by the Fifth Amendment. Thus the proper reading of Section 1498 is as an exercise of eminent domain under the Fifth Amendment.

When properly viewed as an exercise of eminent domain, Section 1498 is subject to a constitutional infirmity contained in its language. In 1996, Congress amended Section 1498(a) to provide proper just compensation to patent owners, and such compensation included litigation costs. In making this amendment, Congress recognized that costs are a necessary part of just compensation for takings of intellectual property. Despite recognizing that costs are a necessary part of just compensation in certain patent takings, Congress only granted that

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10 Zoltek, 442 F.3d at 1350 (discussing case law and concluding that the government cannot be sued for patent infringement as a Fifth Amendment taking); but see Zoltek Corp. v. United States, 464 F.3d 1335, 1336-39 (2006) (Newman, J., dissenting) (hereinafter, Zoltek en banc) (discussing prior Supreme Court decisions which dictate a conclusion that patents are property protected by the Fifth Amendment). Zoltek is discussed further infra, at Part IV.A.

11 See infra Part IV.A.

12 See infra note 80.

13 For example, 28 U.S.C. § 1498(a) was amended in 1996 to allow parties to recover attorneys fees under a section entitled “Just Compensation: Patents Used by the U.S.” P.L. 104-308 (1996) (emphasis added). This is the constitutional language used in the Takings Clause, which requires that the government pay “just compensation” for taken property. U.S. CONST. amend. V. Further, case law has repeatedly discussed Section 1498 in the context of eminent domain. See Crozier v. Fried. Krupp Aktiengeselschaft, 224 U.S. 290, 307 (1912) (“[W]e think there is no room for doubt that [§1498] makes full and adequate provision for the exercise of the power of eminent domain for which, considered in its final analysis, it was the purpose of the statute to provide.”) (emphasis added); Motorola, Inc. v. U.S., 729 F.2d 765, 768 (Fed. Cir. 1984) (“This is a 28 U.S.C. § 1498 action, and as such, the patent owner is seeking to recover just compensation for the Government's unauthorized taking and use of his invention. The theoretical basis for his recovery is the doctrine of eminent domain.”) (emphasis added); Irving Air Chute Co. v. U.S., 93 F.Supp. 633, 635 (Ct. Cl. 1950) (“The Government urges, rightly, that 28 U.S.C.A. § 1498, is in effect, an eminent domain statute”) (emphasis added).


15 See P.L. 104-308 (granting some claimants the right to recover costs in a section entitled “Just Compensation: Patents Used by the U.S.”). Congress’ use of the constitutional language implies that the amendment was intended to move patents within the Fifth Amendment’s grasp. See also infra Parts IV.B, V.

16 This contrasts with real property takings, where expenditures in litigation are not a necessary predicate to recovery. See, e.g., Dohany v. Rogers, 281 U.S. 362, 368 (1930) (“Attorneys’ fees and
compensation to some entities.\textsuperscript{17} Because just compensation asks “what has the owner lost, not what has the taker gained,”\textsuperscript{18} varying just compensation based on the patentee’s size does not comport with prior just compensation cases; a patentee’s property has been taken by the government whether the patentee is a large corporation or a small firm. The patentee is therefore entitled to recover that lost property, regardless of entity size.

This article expands the argument that patents are protected by the Fifth Amendment and that 28 U.S.C. § 1498(a) is unconstitutional under the Fifth Amendment because of its distinction in just compensation based on a patent owner’s size. The true thrust of this article is to propose an amendment to Section 1498(a) that cures the constitutional infirmity in the language. To reach that conclusion, it is first necessary to show that patents are subject to eminent domain. Therefore, Part II presents the elements necessary for a plaintiff to secure rights under the Takings Clause. It proceeds to argue that patents satisfy these two elements: first, that patents are property; and second, that 28 U.S.C. § 1498(a) represents the government’s consent to suit for patent takings. Part III discusses the Fifth Amendment’s “just compensation” requirement. Part IV examines the language of 28 U.S.C. § 1498(a) in light of its legislative history and the Constitution. That Part also describes how Section 1498(a) violates the Constitution. Part V proposes an amendment to the statute which remedies this failure. Additionally, Part V discusses policy concerns related to the grant of litigation cost recovery to all patentees and argues that doing so may improve expenses are not embraced within just compensation for land taken by eminent domain.”\textsuperscript{17}). Costs are more directly taken by the government in patent takings cases because litigation is still necessary – a patentee must prove that it has a valid patent and that the government infringed that patent. While the issues are essentially the same in real property cases, and the owner must still show that it had an ownership interest and the government had taken such, these issues are readily discernible in real property cases.

Notably, Congress has provided an escape provision: where the government is “substantially justified” in its taking (and assuming litigation has not been pending for ten years), the government is not responsible for fees. See 28 U.S.C. § 1498(a). While there are also some major constitutional infirmities in this idea, the substantial justification provision is not the subject of this article. It is, in fact, eliminated through the article’s proposal to cure the just compensation ill. See infra Part VII.

\textsuperscript{17} 28 U.S.C. § 1498(a) states that “[r]easonable and entire compensation shall include the owner’s reasonable costs … if the owner is an independent inventor, a nonprofit organization, or an entity that had no more than 500 employees at any time during the 5-year period preceding the use or manufacture of the patented invention by or for the United States.”

economic and judicial efficiency and incentivize government agencies to negotiate licenses rather than resort to eminent domain. Part VI concludes.

II. The Two Elements for Securing Rights Under the Takings Clause

In 19th century takings jurisprudence, two elements were necessary for a property owner to bring a successful claim against the government for an exercise of eminent domain. First, the legal entitlement had to be classified as “property.” Second, a court must have jurisdiction for the property owner to bring suit against the government as a defendant.

With respect to patents, both of these elements appear to be unsatisfied under current law. Some question whether patents are indeed property, and argue instead that they comprise only the right to exclude. As exemplified in Zoltek, it appears that there is no court with adequate jurisdiction in which a patent owner may bring suit against the government to recover just compensation for a taking. This Part argues that patents do in fact satisfy both elements; they are indeed property, and Section 1498(a) establishes the Court of Federal Claims as the appropriate forum.

A. Patents as Property Under the Takings Clause

Through an examination of the case law and the Patent Act, this sub-part


20 Id. See U.S. CONST. amend. V (providing that just compensation is required for a taking of property).

21 Id. This element is arguably moot because the Fifth Amendment is self-executing. See Jacobs v. United States, 290 U.S. 13, 16 (1933) (stating that, in bringing an eminent domain suit, “[s]tatutory recognition was not necessary. A promise to pay was not necessary. Such a promise was implied because of the duty to pay imposed by the amendment.”).

22 See DONALD S. CHISUM, CHISUM ON PATENTS § 16.02[1] (2008) (“a patent grants to the patentee and his assigns the right to exclude others from making, using and selling the invention.”); ROBERT PATRICK MERGES & JOHN FITZGERALD DUFFY, PATENT LAW AND POLICY 49 (4th ed. 2007) (“Unlike other forms of property, however, a patent includes only the right to exclude and nothing else.”). But see JANICE M. MUELLER, PATENT LAW 15 (3d ed. 2009) (describing patents as a negative property right: “Importantly, [the patent] property right is a negative right; that is, a right to exclude others”).

23 See generally Zoltek, 442 F.3d 1345 (holding that patents are not protected by eminent domain).
demonstrates that patents are property under the Fifth Amendment. These sources refute the common scholarly assertion that they embody only the right to exclude, without a corresponding property right. In the first section, the Patent Act is examined as a means of establishing that patents are property. The second section presents recent and historical decisions characterizing patents as property. These sources are examined with the purpose of showing that the property element of a takings claim is satisfied.

1. The Patent Act and Property Rights

Section 261 of the Patent Act itself states that “[s]ubject to the provisions of this title, patents shall have the attributes of personal property.” Thus, it seems that the presumption should be that patents share all of the attributes of personal property, except for where explicit statutory limitations make clear that they do not. One attribute of personal property is protection by the Takings Clause. Title 35 does not expressly limit this attribute in any way. Further, the Patent Act’s supposed implicit limitations do not remove patents from the property regime.

Anchored in the language of the Patent Act, blocking patents and administrative regulation of patents are the two doctrinal points frequently used to support the exclusion concept of patents through implicit limitations. A blocking patent is “[o]ne of two patents, neither of which can be effectively practiced without infringing the other. For example, if A patents an improvement of B’s patented invention, A cannot practice the improvement without infringing B’s patent. Nor can B use the improvement without infringing A’s patent.” In other words, a blocking patent is one of two or more patents through which “each patentee can exercise his right to exclude the other patentee[s] from using his respective contribution to th[e] invention.” If patents embodied a positive right

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24 See supra note 25.
28 See Parts III.A.2-3, infra.
29 BLACK’S LAW DICTIONARY 1234 (9th ed. 2009).
to use instead of just a right to exclude, so the argument goes, the blocking patent scenario would result in a seemingly illegitimate restriction on another patent owner’s right to use.\textsuperscript{31} As for government regulation of patents, the argument amounts to a statement that, because there are regulations on some patentable subject matter, like pharmaceuticals, there is no positive right to use patents.\textsuperscript{32} Upon examination, neither of these points stands to bar the treatment of patents as property.\textsuperscript{33}

a. Exclusion and the Attributes of Personal Property

The “attributes of personal property” language of the Patent Act was first added in the 1952 Act.\textsuperscript{34} In federal law, terms are accorded their common law definitions in the absence of specific statutory language to the contrary.\textsuperscript{35} Property, in general, “extend[s] to every species of valuable right and interest.”\textsuperscript{36}

\textsuperscript{31} See Robert P. Merges, \textit{One Hundred Years of Solicitude: Intellectual Property Law, 1900-2000}, 88 CAL. L. REV. 2187, 2222 (2000) (explaining the exclusion concept as “necessitated by the existence of blocking patents” because overlapping positive rights would lead to an illegitimate restriction of another patent owner’s “affirmative right to actually carry into practice a particular invention.”). \textit{See also} Mossoff, \textit{Exclusion, supra} note 33, at 332 (summarizing the blocking patents argument: “if a patentee has a right to use a patented invention, then a blocking patent, which is another valid patent that can exclude such use, would necessarily entail an infringement of this use-right.”).

\textsuperscript{32} See Mossoff, \textit{Exclusion, supra} note 33, at 336 (“In sum, scholars and jurists maintain that the exclusion concept of patents must be valid given a state agency’s regulatory restrictions on the use and disposition of a patented invention.”).

\textsuperscript{33} See \textit{infra} Part III.A.2 (arguing that the blocking patents theory has a well-established analog in real property); \textit{infra} Part III.A.3 (arguing that government regulation of property occurs in real property as well as patents, and thus does not refute the treatment of patents as property). \textit{See also} Mossoff, \textit{Exclusion, supra} note 33, at 330-39 (rebuthing both the blocking patents and the regulatory state arguments).

\textsuperscript{34} Pasquale J. Federico, \textit{Commentary on the New Patent Act}, 75 J. PAT. & TRADEMARK OFF. SOC’Y 161, 211 (1993), \textit{reprinted with permission from} Title 35, United States Code Annotated (1954 ed.) (stating that section 261 “begins by a new paragraph declaratory of the fact that patents have the attributes of personal property.”).

\textsuperscript{35} See, \textit{e.g.}, Keck v. United States, 172 U.S. 434, 446 (1899) (stating that, when a “term ha[s] a well understood import at common law, and in the absence of a particularized definition of its significance in the statute creating it, resort must be had to the common law for the purpose of arriving at the meaning of a word.”).

\textsuperscript{36} \textit{BLACK’S LAW DICTIONARY} 1382 (4\textsuperscript{th} ed. 1951). This definition is closest in time to that which the 1952 Act would have used. This definition is used based on patent law’s preference of using definitions available at the time the given language is used. \textit{See} Phillips v. AWH Corp., 415 F.3d 1303, 1313 (2005) (“the ordinary and customary meaning of a claim term is the meaning that the term would have to a person of ordinary skill in the art in question at the time of the invention”).
Personal property, as it has evolved at common law, is essentially any form of property that is not “fixed” or appurtenant to land.\textsuperscript{37} Law dictionaries from the same period as the 1952 Patent Act corroborate this definition.\textsuperscript{38} Patents appear to have the attributes of personal property beyond the statute’s statement to that effect: \textsuperscript{39} they are intangible rights\textsuperscript{40} that can be transferred,\textsuperscript{41} and are not appurtenant to land. These rights should therefore be personal property subject to eminent domain.\textsuperscript{42}

\textsuperscript{37} See 1 Richard R. Powell, Powell on Real Property § 5.04, at 5–7 to 5–8 (Patrick J. Rohan ed., rev. ed. 1998) (noting that, historically, personal property evolved essentially from “money, goods and things other than land.”) (emphasis added). See also, e.g., Manson v. Dayton, 153 F. 258, 263 (8th Cir. 1907) (indicating that personal property is anything “susceptible to manual delivery’’); Parsons v. Clarke, 24 F.2d 338, 339 (1928) (distinguishing personal property from real property by noting that “real property consists of land, that which is affixed to land, that which is incidential or appurtenant to land, and that which is immovable by law.”) (emphasis added). Black’s Law Dictionary presently defines “personal property” as “[a]ny movable or intangible thing that is subject to ownership and not classified as real property.” Black’s Law Dictionary 1337 (9th ed. 2009).

The essence of personal property is that it is movable, and not tied to land, which falls under real property.

\textsuperscript{38} See, e.g., James Arthur Ballantine, Law Dictionary with Pronunciations 961 (The Lawyers Co-Operative Publishing Co. 1948) (personal property “embraces all objects and rights which are capable of ownership except freehold estates in land, and incorporeal hereditaments issuing thereout, or exercisable within the same.”). Ballantine also notes that personal property is “coextensive with money, goods, chattels, things in action, evidences of debt, and money.” Id.

\textsuperscript{39} 35 U.S.C. § 261.

\textsuperscript{40} See, e.g., Crozier, 224 U.S. at 306 (“Coming to apply these principles … strictly to the conditions here before us, that is, the intangible nature – patent rights – of the property taken…”) (emphasis added); La Belle Iron Works v. U.S., 245 U.S. 377, 389 (1921) (stating that patents and other IP rights are “intangible property.”).

\textsuperscript{41} See 35 U.S.C. § 261 (providing for assignment of patent rights). See also 37 C.F.R. § 3.1 (defining assignment as a “transfer by a party of all or part of its right, title and interest in a patent, patent application, registered mark or a mark for which an application to register has been filed.”); United States Patent and Trademark Office, Manual of Patent Examining Procedure 302 (8th ed. 2008) (describing patent assignment requirements).

\textsuperscript{42} See Andrus v. Allard, 444 U.S. 51, 65 (1979) (noting that eagle feathers, which are personal property, may be subject to eminent domain). See also Huntleigh USA Corp. v. United States, 525 F.3d 1370, 1377-78 (Fed. Cir. 2008) (“The protections of the Takings Clause apply to real property, personal property, and intangible property.”) (internal citations omitted) (emphasis added); Causby v. United States, 75 F. Supp. 262, 264 (“We see no different in the destruction of personal property or real property, where is [sic] either case the owner is deprived of its use … In each case there is a taking for which the Constitution requires just compensation.”).
Yet an analysis of Section 261 alone does not lay the matter to rest because it is subject to the “provisions of [Title 35.]” Title 35, Section 154 provides that a “patent shall ... grant to the patentee ... the right to exclude others from making, using, offering for sale, or selling the invention...” This provision, it seems, has led many to argue that patents embody only the right to exclude.

The argument that Section 154 somehow limits the Section 261 property right is tenuous at best. Section 154 does not state that patents only grant the right to exclude; it simply states that exclusion is one of the rights that patents grant. Rather, Congress’s statement that patents embody a right to exclude may support the proposition that patents are property, as exclusion is often characterized as the most important stick in the proverbial bundle of property rights. This view has been endorsed by the Supreme Court, which has explicitly stated that the Patent Act “declares that ‘patents shall have the attributes of personal property,’ including ‘the right to exclude others from making, using, offering for sale, or

Notably, Black’s defines “private property” presently as “[p]roperty – protected from public appropriation – over which the owner has the exclusive and absolute rights.” BLACK'S LAW DICTIONARY 1337 (9th ed. 2009).


45 See MERGES, supra note 25, at 49 (“Unlike other forms of property, however, a patent includes only the right to exclude and nothing else.”); John F. Duffy, Rethinking the Prospect Theory of Patents, 71 U. Chi. L. Rev. 439, 456 (2004) (contrasting the “bundle of rights” in real property with the exclusive right of patents). But see MUeller, supra note 25 (characterizing patents as an exclusive property right).

46 See 35 U.S.C. § 154(a)(1) (stating that a patent grants a patentee “the right to exclude others” with no other qualifications).

47 The Supreme Court has declared that the right to exclude is “one of the most essential sticks in the bundle of rights that are commonly characterized as property.” Kaiser Aetna v. United States, 444 U.S. 164, 176 (1979); accord Ruckelshaus v. Monsanto, 467 U.S. 986, 1011 (1984); College Sav. Bank v. Florida Prepaid Postsecondary Educ. Expense Bd., 527 U.S. 666, 673 (1999). In Florida Prepaid, the Court went further, stating that “[t]he hallmark of a protected property interest is the right to exclude others.” Florida Prepaid, 527 U.S. at 673. Scholarship has echoed the sentiment. See Felix S. Cohen, Dialogue on Private Property, 9 Rutgers L. Rev. 357, 370-71 (1954) (arguing that “property” is defined by the “right to exclude.”); Thomas W. Merrill, Property and the Right to Exclude, 77 Neb. L. Rev. 730, 754 (1998) (“[P]roperty means the right to exclude others from valued resources, no more and no less.”) (emphasis added); Carol Rose, The Comedy of the Commons: Custom, Commerce, and Inherently Public Property, 53 U. Chi. L. Rev. 711, 717 (1986) (“The right to exclude others has often been cited as the most important characteristic of private property.”).
Accommodating the invention.

Accordingly, the right to exclude embodied in Section 154 is one of two things. Either it is only one attribute of personal property, and it does not in any way limit those attributes, or, it is the very hallmark of the property right. It cannot reasonably be argued, then, that the exclusion concept overcomes a view of patents as personal property. The exclusive right contained in Section 154 does nothing to disprove that patents are property.

b. Blocking Patents and the Regulatory Argument

Scholars have erred in their reliance upon the blocking patent scenario as support for the exclusion concept. Supposedly, if a patent grants the patentee a positive right to use a patented invention, then a blocking patent would grant one patentee the right to infringe another patentee’s right to use. Scholars tend to view the blocking patent scenario as evidence of the distinction between property and exclusive patent rights. Professor John Duffy, for example, uses the blocking patent scenario to contrast the “bundle of rights” in real property, which include “positive rights of possession and enjoyment,” with the exclusive right of patents.

At least one scholar has argued that this view is flawed, and that there is a real property analogy to blocking patents. He analogizes patent use rights to water rights. Water rights are a form of real property in which concurrent positive rights exist. Professor Adam Mossoff notes that water rights are a real property

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48 eBay Inc., 547 U.S. at 392 (internal citations omitted) (emphasis added).

49 See, e.g., Merges, One Hundred Years, supra note 34, at 2222 (using the blocking patents scenario as support for the exclusion concept of patents).

50 See Mossoff, Exclusion, supra note 33, at 332 (“[I]f a patentee has a right to use a patented invention, then a blocking patent, which is another valid patent that can exclude such use, would necessarily entail an infringement of this use-right.”).

51 See id. at 333-35.

52 Duffy, supra note 37, at 456.

53 See Mossoff, Exclusion, supra note 33, at 333 (introducing an analogy to water rights as overlapping rights to use).

54 Water rights are a form of real property. See, e.g. California v. Superior Court of Riverside County ex rel. Underwriters at Lloyd’s of London, 93 Cal. Rptr. 2d 276, 281 (Ct. App. 2000) (noting that “a water right itself has been considered an interest in real property”); Druley v. Adam, 102 Ill. 177, 193 (1882) (noting that an “owner of land over which a stream of water flows, has, as incident to his ownership of the land, a property right in the flow of the water,” even
example of conflicting, non-exclusive use-rights.\textsuperscript{55} Two people may share an equal claim to use the same water, yet water rights are clearly established as property rights protected by the Fifth Amendment.\textsuperscript{56} Professor Mossoff has described this situation as analogous to blocking patents, where two patentees may own conflicting, overlapping positive rights.\textsuperscript{57}

Accordingly, there is direct evidence against the scholarly assertion that overlapping patent use-rights do not have an analog in real property.\textsuperscript{58} Overlapping use rights are not unprecedented in real property, and therefore do not support the exclusion concept. Nor do they support a denial of eminent domain protection, as similar tangible rights are protected by the Fifth Amendment.

The second argument often put forth to support the exclusion concept is the regulation of patents. An example used in such an argument is that the positive use of a patented pharmaceutical product is not immediately allowed; a drug must still satisfy the requirements of Food and Drug Administration regulations.\textsuperscript{59} This argument, too, falls apart as there are countless regulations though that property right is only the right to use the water).

\textsuperscript{55} See Mossoff, \textit{supra} note 33, at 333-34 n.54 (citing Colorado v. New Mexico, 459 U.S. 176, 179 n.4 (1982); Druley v. Adam, 102 Ill. 177, 193 (1882); Koch v. Aupperle, 737 N.W.2d 869, 878 (Neb. 2007).); id. at 334 n.55-56 (citing People v. Platt, 17 Johns. 195, 210 (N.Y. Sup. Ct. 1819) ("'Fresh rivers … belong to the owners of the soil adjacent, so that the owners of one side have, of common right, the propriety of the soil, and, consequently, the right of fishing \textit{usque ad filum aquae}, and the owners of the other side, the right of soil or ownership and fishing unto the \textit{filum aquae} on their side…'"); Cantrell v. Wallick, 117 U.S. 689, 694 (1886) ("Two patents may both be valid when the second is an improvement on the first, in which even, if the second includes the first, neither of the two patentees can lawfully use the invention of the other without the other’s consent.").) These examples are particularly important because the blocking patent scenario is offered as evidence that patent rights cannot include \textit{use}, and are thus not like real property. The water rights analog is further persuasive in that there are similarities in the “public good” characteristics of both water and IP law. See id. at 333.

\textsuperscript{56} See, \textit{e.g.}, Sullivan v. City of Ulysses, 932 P.2d 456, 459 (1997) (“a water right … is subject to condemnation”).

\textsuperscript{57} See Mossoff, \textit{Exclusion, supra} note 33, at 334 n.55-56

\textsuperscript{58} See, \textit{e.g.}, Duffy, \textit{supra} note 47, at 456 (arguing that patents do not include the “bundle of rights” commonly associated with property).

\textsuperscript{59} ROBERT P. MERGES ET AL., \textsc{INTELLECTUAL PROPERTY IN THE NEW TECHNOLOGICAL AGE} 114 (3d ed. 2003) (“A patent does not automatically grant an affirmative right to do anything; patented pharmaceuticals, for instance, must still pass regulatory review at the Food and Drug Administration.”).
placed on the use and enjoyment of real property.60

The logic of the regulatory argument begins with the recognition that a tangible property right embodies more than the right to exclude, even though such property is regulated.61 Supporters of the regulatory argument acknowledge that tangible property entails a full bundle of rights,62 despite the fact that tangible property is heavily regulated by the government.63 Still they argue that intangible property does not embody more than the right to exclude because it is regulated.64 This logic is flawed, and as support for the exclusion concept, “the regulatory state argument does not establish this truth.”65

Therefore, none of the justifications rooted in the language of the Patent Act satisfactorily refute the idea that patents comprise more than merely a right to exclude. While patents grant an owner the right to exclude others,66 this right is only one “attribute” of patent property.67 Neither the blocking patent scenario nor the regulatory argument commonly used to support the exclusion concept does so faithfully or successfully.68 Additionally, Section 154 arguably supports the treatment of patents as property despite frequent use to the contrary.69

60 Mossoff, Exclusion, supra note 33, at 336-37 (stating that the regulatory argument is “self-consciously limited to patents,” that it “delegitimizes regulations of tangible property rights,” and is therefore “made without any regard for its logical implications for tangible property rights.”). Essentially, this argument ignores regulations imposed on real property.

61 See Mossoff, Exclusion, supra note 33, at 335-339 (discussing regulation of patents by the administrative state).

62 See, e.g., Merges, supra note 34, at 2222; Duffy, supra note 47, at 456.


64 See id.

65 Id. at 339.


67 eBay Inc., 547 U.S. at 392 (“the Patent Act declares that ‘patents shall have the attributes of personal property,’ including ‘the right to exclude others...’”).

68 See supra Part III.A.2 (arguing that the blocking patent scenario fails to support the exclusion concept); supra Part III.A.3 (arguing that the regulation of patents similarly fails to support the exclusion concept).

69 “[T]he Patent Act declares that ‘patents shall have the attributes of personal property,’ including
2. Judicial Treatment of Intangible Rights as Property

Case law also strongly supports the proposition that patents are property. This section presents precedent, both old and new, that supports the treatment of patents as property. It also discusses the treatment of other intangible rights as property.

a. State and Federal Treatment of Patents as Property

“[A] page of history is worth a volume of logic” when examining historical patent practices. This section demonstrates that patents are property under such historical practices. These historical practices, still followed by the Supreme Court today, were commonplace in both federal and state courts.

Repeatedly, throughout the mid- to late-nineteenth century, the Supreme Court recognized that patents are property. In 1850, Chief Justice Taney, addressing patent assignment, said that a patent assignment “is not the mere parchment on which the grant is written. It is the monopoly which the grant confers; the right of property which it creates.” 71 In 1876, the Court twice stated explicitly that patents are property, saying that patents “rest[] on the same foundation, and [are] surrounded and protected by the same sanctions” as real property, 72 adding that “the right of the [patent] holder is as much entitled to protection as any other property.” 73 Five years later, the Supreme Court again referred to patents as property. 74 This treatment has never changed at the Supreme Court.

70 eBay, Inc., 547 U.S. at 395 (Roberts, C.J., concurring) (quoting New York Trust Co. v. Eisner, 256 U.S. 345, 349 (1921)). eBay addressed patents, and Chief Justice Roberts believed it important to note that historical practices should play a part in patent law analysis today.


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

73 Cammeyer v. Newton, 94 U.S. 225, 226 (1876).

74 James v. Campbell, 104 U.S. 356, 358 (1881) (a patent “confers upon the patentee an exclusive property in the patented invention.”).
Following this historical precedent, the Supreme Court reiterated in 1947 that patents are “of the same dignity as any other property.” Not surprisingly, such treatment extended from the Supreme Court to federal appellate and even state courts. Even the Federal Circuit repeated the proposition, finally stating that “[i]t is beyond reasonable debate that patents are property.” The Federal Circuit completely ignored its own precedent in Zoltek, with the exception of Judge Plager’s dissent.

More recently, the Supreme Court confirmed its historical view that patents are property, stating in 1998 that “[p]atents … have long been considered a species of property.” This pervasive treatment of patents, historically and

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75 See, e.g., Gill v. U.S., 160 U.S. 426, 435 (1896) (“the mere fact that a person is in the employ of the government does not preclude him from making improvements in the machines with which he is connected, and obtaining patents therefor, as his individual property; and that in such case the government would have no more right to seize upon and appropriate such property than any other proprietor would have.”).

It is commonly said that a patent becomes public property upon expiration. See Kellogg Co. v. National Biscuit Co., 305 U.S. 111, 120 (1938) (noting than an expired patent becomes public property). This proposition makes little sense if the patent was not property to begin with.


80 Patlex Corp. v. Mossinghoff, 758 F.2d 594, 599 (Fed. Cir. 1985). Notably, the Federal Circuit included this statement in a section of the opinion it entitled “The Property Rights at Issue.” Id. Perhaps most notably, this case cited Leesona Corp. v. United States, 599 F.2d 958 (Ct. Cl. 1979). Leesona not only affirmed that patents are property, id. at 966-69, but addressed 28 U.S.C. § 1498 as being rooted in an eminent domain theory.

81 Zoltek, 442 F.3d at 1374 (Plager, J., dissenting).

presently, by the Supreme Court and federal appellate courts establishes that patents are indeed property. Because virtually every court has recognized that patents are property, the first element of a takings claim is satisfied.

### b. The Taking of Other Forms of Intangible Rights

The Supreme Court has additionally acknowledged that at least one related form of intangible right is property. *Ruckelshaus v. Monsanto Co.* involved trade secret information that was submitted to the Environmental Protection Agency for evaluation under the Federal Insecticide, Fungicide and Rodenticide Act.\(^{83}\) Discussing the property right at issue, the Court noted that “property interests … are not created by the Constitution. Rather, they are created and their dimensions are defined by existing rules or understandings that stem from an independent source such as state law.”\(^{84}\) While neither state nor patent laws are completely independent of the Constitution – no American law is – they are defined and delineated outside the Constitution. This is in contrast with, for example, the right to freedom of speech, which arises directly from the Constitution.\(^{85}\) Refusing to recognize this distinction as independence, the Federal Circuit instead drew the line between state and federal rights.\(^{86}\) The Federal Circuit then supported their decision by noting that *Monsanto* did not overrule *Schillinger v. United States*.\(^{87}\) This observation is absurd for its usefulness: *Schillinger* refers only to patents, so there was no call for the *Monsanto* court to examine it, especially when it was apparent that “[t]rade secrets have many of the characteristics of more tangible forms of property.”\(^{88}\)

The takeaway from *Monsanto* is that intangible trade secrets are protected by the Fifth Amendment.\(^{89}\) This is particularly interesting in light of decisions

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See also *Festo*, 535 U.S. at 730 (stating that the patent monopoly is a property right).


84 *Id.* at 1001 (*citing* Webb’s Fabulous Pharmacies, Inc. v. Beckwith, 449 U.S. 155, 161 (1980)) (internal quotations omitted).

85 U.S. CONST. amend. I.

86 *Zoltek*, 442 F.3d at 1352 (“Here, the patent rights are a creature of federal statute.”).

87 155 U.S. 163 (1894). *Zoltek*, 442 F.3d at 1352 n.3 (“*Monsanto* did not overrule *Schillinger*, and we must follow *Schillinger* until it is overruled by the Supreme Court, whether or not *Schillinger* is viewed as inconsistent with *Monsanto*.”).

88 *Monsanto*, 467 U.S. at 1002 (noting that trade secrets are assignable and can form the res of a trust).

89 See *id.* at 1003-04 (“We therefore hold that to the extent that Monsanto has an interest in its
holding that trade secrets are not property. If trade secrets, the “property” of which is questionable, are protected by the Fifth Amendment, surely the property of patents must be, as well?

Further, the Supreme Court acknowledges that there is an overlap in patent and trade secret subject matter, and that some trade secrets are patentable. Given this overlap, it makes little sense for the Fifth Amendment to protect a given innovation as a potentially non-property trade secret but not a patent.

Judicial precedent and statutory analysis quite clearly support the proposition that patents are property. Whether patents share the “attributes” of or are “of the same dignity” as property, they are property. They therefore satisfy the property prong of an eminent domain claim.

**B. The Government’s Consent to Suit for Patent Takings**

This subpart demonstrates that Section 1498(a) is the government’s consent to be sued for the taking of a patent. It first discusses the relevant case law prior to *Zoltek*. Next, it demonstrates the fallacy in *Zoltek*’s reliance on *Schillinger*. Lastly, it argues that Section 1498 not only provides proper venue for a patentee to bring suit against the government, but that it does so specifically under an eminent domain theory.

1. **Pre-Zoltek Case Law**

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90 See Kewanee Oil Co. v. Bicron Corp, 416 U.S. 470, 497-98 (1974) (“A trade secret, unlike a patent, has no property dimensions); DuPont de Nemours Powder Co. v. Masland, 244 U.S. 100, 102 (1917) (expressing doubt over the appropriateness of using the word property with regard to trade secrets).

91 Kewanee, 416 U.S. at 484 (acknowledging three types of trade secret: (1) one which the owner believes constitutes a validly patentable invention; (2) one which the owner knows is unpatentable; and (3) one which may be patentable).

92 The *Zoltek* decision distinguishes *Monsanto* from patents because trade secret rights are created from an independent source (state law). *Zoltek*, 442 F.3d at 1352. However, the Federal Circuit failed to recognize that patents are “created and their dimensions are defined by” Congress. Certainly, patent law is rooted in the Constitution, but their metes and bounds are defined by statute. Notably, a state’s ability to define property rights is also rooted in the Constitution. See U.S. CONST. amend. X (“The powers not delegated to the United States by the Constitution, nor prohibited by it to the States, are reserved to the States respectively, or to the people.”).
Three cases establish a baseline for patent takings analyses. These cases are Schillinger v. U.S.,\(^\text{93}\) Crozier v. Fried. Krupp Aktiengesellschaft,\(^\text{94}\) and Cramp & Sons Ship & Engine Bldg. Co. v. International Curtis Marine Turbine Co.\(^\text{95}\)

Schillinger, the first of these cases, involved a government contractor’s use of a patented improvement in concrete pavement.\(^\text{96}\) Importantly, Section 1498 did not exist when Schillinger was decided, so the Schillinger Court’s jurisdiction was based on a very different waiver of sovereign immunity. The statutory language potentially opening the United States up to suit provided jurisdiction only in some circumstances, with the explicit exception of claims that sounded in tort.\(^\text{97}\) Because the agreement did not direct the government contractor to infringe the patent, the Court presumed that the government did not intend the infringement.\(^\text{98}\) Without a contract or quasi-contract claim, the plaintiff’s claim sounded in tort – a claim to which the government had not consented.

In 1910, when the first ancestor of today’s Section 1498 was enacted, the government implicitly waived immunity against patent infringement. Crozier addressed the 1910 version of the statute (“the 1910 Act”), holding that “there is no room for doubt that [the 1910 Act] makes full and adequate provision for the exercise of the power of eminent domain, for which, considered in its final analysis, it was the purpose of the statute to provide.”\(^\text{99}\) The government or its contractor would therefore be liable for damages under an eminent domain theory.

The common interpretation of Crozier allowed the government or its contractors to “procure[s] such patented articles as [they] needed”\(^\text{100}\) – that is, until the Supreme Court handed down a contradictory decision in Cramp & Sons, whereupon the Secretary of the Navy – a man by the name of Franklin D.

\(^{93}\) 155 U.S. 163 (1894).
\(^{94}\) 224 U.S. 290 (1912).
\(^{95}\) 246 U.S. 28 (1918).
\(^{96}\) Schillinger, 155 U.S. at 164.
\(^{98}\) See Schillinger, 155 U.S. at 164 (noting that the government contract made no “reference to or description of the Schillinger patent”).
\(^{99}\) Crozier, 224 U.S. at 307.
\(^{100}\) Richmond Screw Anchor Co. v. U.S., 275 U.S. 331, 342 (1928).
Roosevelt\(^\text{101}\) – petitioned the Senate to amend the 1910 Act to clarify its meaning. The 1918 amendment explicitly extended coverage to government contractors\(^\text{102}\) – the exact situation at issue, but unaddressed by statute, in *Schillinger*.

### 2. *Zoltek’s Incorrect Reliance on Schillinger v. U.S.*

The waiver of immunity that had not existed in *Schillinger* was completed no later than 1918, through the first amendment to Section 1498. The Zoltek trial court correctly held that *Crozier* had overruled *Schillinger*.\(^\text{103}\) The Federal Circuit rejected this analysis, instead holding that *Schillinger* is good law and that a patent owner cannot allege that the government’s unlicensed use of a patent is a taking under the Fifth Amendment.\(^\text{104}\)

The apparent conflict between *Schillinger* and *Crozier* is actually nonexistent. As already mentioned, they dealt with completely different waivers of immunity. The *Schillinger* Court was constrained by the statutory language in existence at the time, and because the government did not directly or intentionally use the infringing technology, the existing waivers did not protect a patent owner. Either at *Crozier* or upon enactment of the 1918 amendment, the Act brought contractors within its penumbra, therefore eliminating the need for intentional or direct taking of a patent by the government. As Congress has acknowledged, a “suit against a private party is based in tort whereas one against the government is based on eminent domain.”\(^\text{105}\)

While *Crozier* may not have explicitly overruled *Schillinger*, *Schillinger* is no longer good law. The combination of *Crozier*’s holding, that the Act is an exercise of eminent domain, and the impetus for the 1918 amendment, the protection of contractors through the government’s waiver of immunity, yields the result that contractors can now take patent property in the government’s name. In such scenarios, under the 1918 amendment, the government is still liable for the

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\(^{102}\) The Secretary of the Navy noted that “manufacturers are exposed to expensive litigation, involving the possibilities of prohibitive injunction payment of royalties, rendering of accounts, and payment of punitive damages, and they are reluctant to take contracts that may bring such severe consequences.” *Id.* at 342-43 (citing the Secretary’s letter to Congress).

\(^{103}\) See *Zoltek*, 442 F.3d at 1350.

\(^{104}\) *Id.* (“*Schillinger* remains the law.”).

taking. Schillinger has been effectively overruled by this combination.

3. **28 U.S.C. § 1498(a), Read Correctly, is the Government’s Consent to Suit**

Aside from the Zoltek decision, the judiciary has consistently treated Section 1498 as an exercise of eminent domain. The Court of Federal Claims – the court that has original jurisdiction over Section 1498 cases – views Section 1498 as an eminent domain statute. The Supreme Court has both implicitly and explicitly acknowledged that Section 1498 is an eminent domain statute. Practitioners echo this view. Finally, amendments to Section 1498 imply that the statute is an exercise of eminent domain.

In *Motorola, Inc. v. United States*, the same court (but a different panel)

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106 See, e.g., *Leesona*, 599 F.2d at 964 (observing that, in Section 1498 cases, “[t]he theory for recovery against the government for patent infringement is not analogous to that in litigation between private parties. When the government has infringed, it is deemed to have ‘taken’ the patent license under an eminent domain theory, and compensation is the just compensation required by the fifth amendment.”). See also *Tektronix, Inc. v. United States*, 552 F.2d 343, 346 (Ct. Cl. 1977) (“It is settled that recovery of reasonable compensation under s 1498 is premised on a theory of an eminent domain taking under the Fifth Amendment.”) (citing *Calhoun v. United States*, 453 F.2d 1385 (Ct. Cl. 1972); *Pitcairn v. United States*, 547 F.2d 1106 (Ct. Cl. 1976)); *Irving Air Chute Co. v. United States*, 93 F.Supp. 633, 635 (Ct. Cl. 1950) (“The Government urges, rightly, that 28 U.S.C.A. § 1498, is in effect, an eminent domain statute.”).

107 See *Richmond Screw*, 275 U.S. at 342-43 (discussing the Secretary of the Navy’s letter to Congress, wherein the Secretary requested that the amendment be made “with a view of enabling dissatisfied patentees to obtain just and adequate compensation in all cases”) (emphasis added). The use of the constitutional language, just compensation, implies a recognition of patents as susceptible to takings.

108 See, e.g., *Crozier*, 224 U.S. at 307 (“there is no room for doubt that [§ 1498] makes full and adequate provision for the exercise of the power of eminent domain”).


110 See, e.g., *Richmond Screw*, 275 U.S. at 342-43 (demonstrating that the 1918 Amendment was made in order to ensure that patentees obtain just compensation); see also P.L. 104-308 (amendment to include litigation costs entitled “Just Compensation: Patents Used by the U.S.”) (emphasis added).
that decided Zoltek held that Section 1498 is rooted in eminent domain.\textsuperscript{111} The Federal Circuit unequivocally stated that, in a 28 U.S.C. § 1498(a) action, “the patent owner is seeking to recover just compensation for the Government’s unauthorized taking and use of his invention. The theoretically basis for his recovery is the doctrine of eminent domain.”\textsuperscript{112}

Lower courts should follow the Supreme Court’s deference to historical patent doctrine,\textsuperscript{113} including its treatment of patents as property\textsuperscript{114} and of Section 1498 as an exercise of eminent domain.\textsuperscript{115} According to such precedent, the two requirements for sustaining a takings claim are satisfied: patents are property and the government has consented to suit for taking them.\textsuperscript{116} Thus, patents are (or should be) protected by the Fifth Amendment, leaving only the questions of public use, just compensation, and whether Section 1498(a) adequately provides for these requirements.

\textbf{III. The Just Compensation Requirement}

Once a property owner has established that she has a viable claim, the Takings Clause places additional requirements upon the government. Taken property must be put to public use and the owner must be paid just compensation.\textsuperscript{117} A recent Supreme Court decision has effectively removed the

\textsuperscript{111} Motorola, Inc. v. United States, 729 F.2d 765 (1984).

\textsuperscript{112} Id. at 768.

\textsuperscript{113} See Mossoff, supra note 29, at 324 n.21 (arguing that the Supreme Court has “professe[d] fealty” to longstanding doctrines of patent law) (citing Quanta Computer, Inc. v. LG Elecs., Inc., 128 S. Ct. 2109, 2115 (2008) (citing 19th century case law); KSR Int’l Co. v. Teleflex, Inc., 550 U.S. 398, 405 (2007) (recognizing that modern nonobviousness doctrine follows “the logic of the earlier decision in Hotchkiss v. Greenwood and its progeny” (citation omitted)); Festo Corp., 535 U.S. at 738 (affirming the doctrine of prosecution history estoppel in patent law given, in part, how courts construed this equitable defense in the nineteenth century); Warner-Jenkinson Co. v. Hilton Davis Chem. Co., 520 U.S. 17, 26 n.3 (1997) (maintaining that nineteenth-century court decisions creating the doctrine of equivalents are controlling today)).

\textsuperscript{114} See supra Part II.A.2.

\textsuperscript{115} See supra Part II.B.

\textsuperscript{116} Notably, the government no longer needs to waive immunity in takings cases because the Fifth Amendment is now self-executing. Jacobs v. United States, 290 U.S. 13, 16 (1933) (stating that, in bringing an eminent domain suit, “[s]tatutory recognition was not necessary. A promise to pay was not necessary. Such a promise was implied because of the duty to pay imposed by the [Fifth] amendment.”).

\textsuperscript{117} U.S. CONST. amend. V.
public use requirement from the Fifth Amendment, leaving only one burden upon the government: just compensation.

“Just compensation,” put concisely, is the “full monetary equivalent of the property taken.” It is a measure of the owner’s loss, not the government’s gain. To satisfy this requirement, the owner must be put in the same position, monetarily speaking, as if her property had not been taken. It is important, at this point, to note that money is a form of personal property and is therefore susceptible to taking.

In order to assist in determining the amount necessary to return an owner to their original monetary position, the Supreme Court has established the concept of “market value.” Market value is ascertained by determining what a willing buyer would pay a willing seller. In the case of actual cash loss, market value is immediately ascertainable because the amount of cash taken is the market value.

IV. How 28 U.S.C. § 1498(a) Violates the Takings Clause

This Part presents the argument that Congress has intentionally, and correctly, concluded that litigation costs are part of the just compensation due to patent owners when the government exercises its power of eminent domain over patents. Congress has, however, only granted recovery of these costs to a portion of the patent-holding population by drawing a line based on the patent-owning

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118 This decision is *Kelo v. City of New London*, 545 U.S. 469 (2005). *Kelo* held that economic benefits satisfy the public use requirement of the Takings Clause. Justice O’Connor, in dissent, noted that “nearly any lawful use of real private property can be said to generate some incidental benefit to the public,” so the Takings Clause no longer realistically placed any prohibitions on takings. *Kelo*, 545 U.S. at 501 (O’Connor, J., dissenting). Therefore, she said, the Takings Clause was rendered “little more than hortatory fluff.” *Id.* at 497.


120 Brown v. Legal Foundation of Washington, 538 U.S. 216, 236 (2003) (just compensation asks “what has the owner lost, not what has the taker gained.”).

121 *Id.*

122 See *Ballantine*, *supra* note 37, at 961 (stating that money is a form of personal property).


124 United States v. Miller, 317 U.S. 369, 374 (1943). *See also Sage*, 239 U.S. at 61 (“What the owner is entitled to is the value of the property taken, and that means what it fairly may be believed that a purchaser in fair market conditions would have given for it in fact.”).
entity’s size or position as a commercial entity. Litigation costs, as is explained herein, have a readily determinable market value, and allowing recovery of such costs for only some patent owners is unconstitutional.

A. The Legislative History of 28 U.S.C. § 1498(a) and Grant of Litigation Costs to Small Entities

An examination of the amendments to, and history of, Section 1498 demonstrates that litigation costs should be treated as part of just compensation. The clearest place to start in this analysis is the most recent amendment, which allowed for recovery of litigation costs. That amendment was entitled “Just Compensation: Patents Used by the U.S.” It is the amendment that allowed for small entities to recover their litigation costs in suits against the government. The use of the constitutional language in and of itself strongly implies that Congress views costs as a portion of the property taken.

In discussing the amendment, Congress acknowledged that an owner “really isn’t getting entire compensation” when forced to bear the costs of litigation due to the government’s taking of a patent. So Congress amended Section 1498(a) to say that, in some cases, “[r]easonable and entire compensation shall include the owner’s reasonable costs, including reasonable fees for expert witnesses and attorneys.”

The logic exhibited in the legislative history is somewhat confused. Congress explicitly recognized that “reasonable and entire compensation” under Section 1498 is “just compensation” under the Fifth Amendment – an unspectacular observation in light of Supreme Court precedent holding the

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125 See 28 U.S.C. § 1498(a) (provided for recovery of costs “if the owner is an independent inventor, a nonprofit organization, or an entity that had no more than 500 employees…”).

126 Again, market value is ascertained from “what a willing buyer would pay in cash to a willing seller.” United States v. Miller, 317 U.S. 369, 374. Because litigation costs are a readily-ascertained cash value, the market value is simply the dollar amount of the litigation costs.

127 P.L. 104-308.

128 See infra notes 147-48.

129 141 CONG. REC. H14318-02, H14319 (1995) [hereinafter, 141 CONG. REC.] (“But if the patent owner has to bear the costs of litigation to recover compensation for the Government's use of its patent, the owner really isn't getting entire compensation. That is the gap that this legislation will fill.”).

same.\textsuperscript{131} Congress then acknowledged that litigation costs are not part of just compensation.\textsuperscript{132} It then explicitly stated that an owner “isn’t getting entire compensation” if she does not recover litigation costs.\textsuperscript{133} It then entitled the new amendment “Just Compensation.” The result is that litigation costs are part of just compensation, but are not part of just compensation. Needless to say, this is a rather unclear statement.

The legislative history does present a few justifications for the amendment. The very same Congresswoman who noted that costs were necessary for full just compensation argued that paying these costs was actually a benefit to the United States: “Without this bill, companies have little incentive to spend their intellectual resources to help the Government solve its technical problems.”\textsuperscript{134} The bill was also intended to “correct a problem [that] should have been corrected long ago” – that courts were not “permit[ting] inventors to obtain complete recovery.”\textsuperscript{135}

So, while Congress’s logic appears somewhat circular, the legislative history – both its logic and justifications – support inclusion of litigation costs in the reasonable and entire, or just, compensation. The clearest explanation of why the government would want this bill – to encourage companies to help solve government problems – provides no justification for a distinction between large and small corporations. If small corporations are capable of assisting the government, surely large government contractors like Boeing, Lockheed Martin, Raytheon, Halliburton and the like are just as capable.

Additionally, Congress recognized as a “problem” the fact that patent owners were not receiving just compensation if they were forced to pay for their litigation costs. The conflict in Congress’s statements that litigation costs are taken but are not part of just compensation can be cured through an examination of real property eminent domain law.

In \textit{Dohany v. Rogers}, the Supreme Court held that “[a]ttorneys’ fees and expenses are not embraced within just compensation for land taken by eminent

\begin{footnotes}
\item[131] H.R. Rep. 104-373 at 2 (\textit{citing} Waite v. United States, 282 U.S. 508, 509 (1931)).
\item[132] Id.
\item[133] 141 Cong. Rec. at H14319.
\item[134] 141 CONG. REC., supra note 125, at H14319.
\item[135] Id.
\end{footnotes}
domain.”136 It is likely this decision to which Congress was referring when it stated that litigation costs are not part of a taking. From a policy standpoint, there is a logical reason to distinguish between real property, as in *Dohany*, and patents in assessing the availability of recovery for litigation costs. In real property cases, the exercise of eminent domain is usually quite clear; an owner will either no longer have possession of the property, or in the case of regulatory takings, will enjoy only restricted use of the property.137 Additionally, there are provisions like the federal government has adopted, known as “quick-take” statutes, which allows for a taking prior to judgment.138 In such a taking, the government ascertains the market value and tenders payment to the real property owner upon taking.139 Litigation is therefore only necessary in an attempt to argue that the use is not for the public140 or if the owner believes she did not receive the proper market value. In other words, the property owner will almost surely recover *something* without paying for litigation.

This is not the case when intangible property, like a patent, is taken by the government. The intangible nature of a patent means that the owner may still enjoy the rights granted by the patent without knowing that government has exercised a taking. So, as a preliminary matter, a patent owner must actually discover the taking and file a timely suit.141 In such a suit, “direct infringement under [the Patent Act] is a necessary predicate for government liability under


140 Again, this argument is almost sure to fail in like of *Kelo*, as even economic benefit qualifies as public use. See *Kelo*, *supra* note 115.

141 See Taub, *supra* note 133, at 155 (“for a patent owner to obtain just compensation when the government decides to use a patented invention, the patent owner must first discover the taking and then make a timely filing of a law suit in the United States Court of Federal Claims for ‘reasonable and entire compensation.’”).
section 1498.” Litigation is a necessary step in proving infringement; not an optional one as in a real property taking. The patentee must litigate to prove infringement and rebut any defenses, like invalidity. Litigation of these issues frequently involves large expenditures. Such expenditures are necessarily part of what the patent owner loses when her patent is taken. Loss by the owner is what dictates just compensation, so these expenditures are indeed part of just compensation. Market value is equal to those expenditures, regardless of whether the patent owner is a large or small entity.

B. Failure to Provide All Entities Just Compensation

Because, as dictated by logic and recognized by Congress, just compensation includes litigation costs in the case of a patent taking, Section 1498(a) draws an unconstitutional line by failing to provide for recovery of costs to all parties. The statute only provides for recovery for independent inventors, nonprofit organizations, or entities with 500 or fewer employees – otherwise known as “small entities” in patent law. Small entities are only a portion of the patent-owning community, but all entities, large or small, lose the monetary value of their litigation costs in pursuing recovery for patent takings.

A hypothetical demonstrates the absurdity of the statute and highlights the constitutional issue. Presume A and B are patent-owning entities with 500 employees. See 35 U.S.C. § 271 (defining patent infringement). See also Cybor Corp. v. FAS Techs., Inc., 138 F.3d 1448, 1454 (Fed. Cir. 1998) (en banc) (stating that, in order to prove infringement, “[f]irst, the court determines the scope and meaning of the patent claims asserted… [Second,] the property construed claims are compared to the allegedly infringing device.”) (citations omitted).


While true that this “absurd result” occurs in other small entity situations, like USPTO fees, the scale is significantly larger in a taking case. The most expensive fee, as of 2009, for a large entity

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142 NTP, Inc. v. Research in Motion, Ltd., 418 F.3d 1282, 1316 (Fed. Cir. 2005) (citing Motorola, Inc. v. United States, 729 F.2d 765, 768 n.3 (Fed. Cir. 1984)).

143 See 35 U.S.C. § 271 (defining patent infringement). See also Cybor Corp. v. FAS Techs., Inc., 138 F.3d 1448, 1454 (Fed. Cir. 1998) (en banc) (stating that, in order to prove infringement, “[f]irst, the court determines the scope and meaning of the patent claims asserted… [Second,] the property construed claims are compared to the allegedly infringing device.”) (citations omitted).

144 See 35 U.S.C. § 282(2)-(4) (providing for invalidity defenses). See also Janice M. Mueller, PATENT LAW 403 (3d ed. 2009) (noting that an accused infringer “will almost always assert” a non-infringement or invalidity defense).


146 See Brown, 538 U.S. at 236.


148 See 37 C.F.R. § 1.27(a) (defining small entities as an individual inventor, non-profit organization, or a “small business concern”). A small business concern is one “[w]hose number of employees, including affiliates, does not exceed 500 persons.” 13 C.F.R. § 121.802(a).

149 While true that this “absurd result” occurs in other small entity situations, like USPTO fees, the scale is significantly larger in a taking case. The most expensive fee, as of 2009, for a large entity
employees each, while $C$ and $D$ are patent-owning entities with 501 employees each. One year before the government makes use of each firm’s patent, $B$ hires one employee and $D$ fires one employee, so $A$ and $D$ now have 500 employees while $B$ and $C$ each have 501 employees. The government makes unauthorized use of each firm’s patent on the same day. In attempting to recover their just compensation under Section 1498, each firm spends exactly $5$ million in litigation costs. The damages, independent of litigation costs, from the government’s use total $10$ million for each firm.

This hypothetical results in only firm $A$ recovering its litigation costs because, at “[some] time during the 5-year period preceding” the government’s use, $B$, $C$ and $D$ had over 500 employees and are therefore ineligible to recover litigation costs. Therefore, $A$ recovers $15$ million while the other entities each recover only $10$ million. This disparity exists simply because, at some point, each firm had one more employee than $A$, so the statute assumes that their losses are somehow less than $A$’s. Given just compensation’s concentration on loss, not entity size or relative value of what is taken, this result is absurd. Each party should recover the same amount, but they do not.

V. A Proposed Amendment to 28 U.S.C. § 1498(a)

A simple amendment to Section 1498(a) can cure the present constitutional infirmity. All that is necessary is removal of the qualifiers applicable to the costs recovery language. While this amendment is sure to cure the statute’s constitutional infirmity, subpart B discusses other benefits that may accrue from the amendment.

A. Curing the Constitutional Infirmity

The 1996 amendment provided the following relevant statutory language:

Reasonable and entire compensation shall include the owner's reasonable costs, including reasonable fees for expert witnesses and attorneys, in pursuing the action if the owner is an independent inventor, a nonprofit organization, or an entity that had no more than 500 employees at any time during the 5-year period preceding the use or

is $3,580, and for a small entity is $1,790. 73 Fed. Reg. 158, 47535 (2008), available at http://www.uspto.gov/web/offices/com/sol/notices/73fr47534.pdf. These costs are significantly less than the potential costs of litigation. See AIPLA REPORT, supra note 141, at 25. The “absurdity” is therefore nowhere near as costly in other situations.
manufacture of the patented invention by or for the United States. Notwithstanding the preceding sentences, unless the action has been pending for more than 10 years from the time of filing to the time that the owner applies for such costs and fees, reasonable and entire compensation shall not include such costs and fees if the court finds that the position of the United States was substantially justified or that special circumstances make an award unjust.\textsuperscript{150}

To avoid this issue, the language should be amended by removing the language beginning with, and including, “if the owner is an independent inventor…” The proposed language provides for the award of just compensation, including litigation costs, to all owners, not just some.

The resulting language states:

Reasonable and entire compensation shall include the owner's reasonable costs, including reasonable fees for expert witnesses and attorneys, in pursuing the action.

The most obvious benefit of this language is that all patent-owning entities are able to recover their litigation costs. There are no longer any unconstitutional qualifications upon who may recover the constitutionally mandated just compensation. Further, as Congress recognized, now all patent-owning entities will be incentivized to use their “intellectual resources” to assist the government in solving future problems.

\textbf{B. Improving Economic and Judicial Efficiency}

An apparent flaw in this proposal is hypothetical payment, by the government, of litigation costs for a firm like Microsoft. At first glance, this scenario makes taxpayers responsible for the hypothetical Microsoft litigation costs. While this is only fair since the taking operates to the expected benefit of the public,\textsuperscript{151} this would likely cause some public outcry.

When viewed objectively, this scenario can be seen in a different light.

\textsuperscript{150} P.L. 104-308.

\textsuperscript{151} See \textit{Kelo}, 545 U.S. at 484 (noting that “plan[ned takings] unquestionably serve[] a public purpose”). \textit{See also} U.S. CONST. amend. V. It is presumed here that the hypothetical Microsoft would challenge a taking \textit{not} for public use, so it would only be in the position to recover its costs if the use served a public purpose.
The government is one of the most frequent “infringers” of patents in the United States.\textsuperscript{152} The current statute provides little incentive for the government to negotiate a legitimate license or to otherwise avoid infringement.\textsuperscript{153} In fact, there are disincentives for government agencies to negotiate licenses: where an agency licenses a patent, it is responsible for payment; where the patentee recovers damages under 28 U.S.C. § 1498, the funds come from the Treasury.\textsuperscript{154}

Some, but not all, government agencies have established processes whereby a patent owner can file an administrative claim rather than file a suit in court.\textsuperscript{155} Still, even when a claim strongly favors a patentee, receiving agencies reject most administrative claims, most likely for one of two reasons.\textsuperscript{156} First, any reasonably competent patent attorney can make at least a credible argument on invalidity or non-infringement.\textsuperscript{157} Second, as stated above, there is a financial incentive to take a claim to litigation because the agency in question will not have to pay for the infringement.

The Comptroller General has further discouraged the legitimate licensing of patents. In the 1930s, the Comptroller General concluded that, where the government made a request for bids in which patents were certain to be involved, the agency could directly obtain those rights through its contractor.\textsuperscript{158} Later, the Comptroller General took this position a step further, holding that “sound practice” required the government agency to consider the possibility of patent infringement in evaluating competing bids.\textsuperscript{159} Taking an about-face, Comptroller

\textsuperscript{152} See Schlitz, \textit{supra} note 106, at 351 (“The United States Government (hereinafter “Government”) undoubtedly is one of the most frequent "infringers" in the United States.”) (internal citations omitted). See also id. at 352 (“Government departments often tailor their procurement specifications in such a way as to make infringement of one or more patents a virtual prerequisite for obtaining the Government contract.”).

\textsuperscript{153} Id. at 352 (“There is little motivation or incentive for the Government to make an effort to avoid patent infringement or to obtain a patent license … To the contrary, there is a disincentive for government agencies to take a patent license, the payment for which would come out of their program budgets.”).


\textsuperscript{155} Schlitz, \textit{supra} note 106, at 354-55.

\textsuperscript{156} \textit{Id.} at 355.

\textsuperscript{157} \textit{Id.}

\textsuperscript{158} 13 Decs. Comp. Gen. 173, 175 (1933).

\textsuperscript{159} See Switlik Parachute Co., B-77738 (Jan. 10, 1944).
decisions beginning in 1958 began to erode this policy, resulting in evaluation of bids without consideration of patent infringement liability.\textsuperscript{160} The result is that government agencies have been discouraged from examining the issue of patent infringement and associated costs in accepting bids – an agency should just accept the lowest bid.\textsuperscript{161}

The high intrinsic costs of patent litigation may very well make legitimate license of patents the more attractive option to the government. After a few suits brought by major computer, electronic or pharmaceutical corporations, the government may again come to the realization that patent takings are not the most economically efficient means of acquiring patented technology – something the government once knew, but seems to have forgotten.\textsuperscript{162} By improving administrative claims procedures and encouraging licensing negotiations, the government can avoid these economic inefficiencies. Additionally, while patent litigation against the government has not historically been as common as prevalent as private patent litigation,\textsuperscript{163} and that disparity will probably remain constant, any reduction in patent litigation results in an improvement, however slight, in judicial efficiency.

The proposed amendment has one certain beneficial outcome: 28 U.S.C. § 1498(a) will no longer violate the Constitution. All patent-owning entities will be eligible to recover their litigation costs, a critical portion of their just compensation. Other benefits may also accrue due to the proposed amendment, including improved economic and judicial efficiency. This combination of potential and assured benefits should be enough to encourage consideration of the proposed amendment.


\textsuperscript{161} See \textit{Herbert Cooper}, 38 Comp. Gen. 276, 276 (1958) (“an award is required to be made to the lowest bidder meeting the specifications without regard to possible patent infringement and even though some of the other bidders hold patents or licenses…”).

\textsuperscript{162} See \textit{Mossinghoff}, supra note 160, at 761 (describing how, in decisions in 1933 and 1944, the Comptroller General required an agency to consider possible patent infringement in evaluating contract bids, and how later decisions rescinded this policy).

\textsuperscript{163} Schlitz, \textit{supra} note 106, at 352 (“Despite there potentially being a multitude of legitimate patent infringement claims against the Government, relatively few patent infringement cases are brought against the Government. During the past ten years there has been a proliferation of private sector patent infringement litigation. During this same time frame, there was a paucity of patent infringement cases against the Government.”).
VI. Conclusion

Patents are not properly protected as Fifth Amendment property under the current precedent. According to historical practices and legal precedent, patents should be protected by the Fifth Amendment’s Takings Clause. When protected by the Takings Clause, a patent owner is entitled to recover just compensation. Statutory “reasonable and entire compensation,” which is equivalent to constitutional just compensation, includes litigation costs. Logic dictates this inclusion based on the intangible nature of the property right in patents, which necessitates litigation, and Congress has recognized this necessity.

However, Congress has granted only small entities the right to recover litigation costs when the government takes their patent; it has refused to do so for other firms. In drawing an arbitrary line, Congress has denied part of what it has acknowledged as just compensation to some entities that are entitled to full just compensation.

This article proposes that 28 U.S.C. § 1498, the statutory culprit, be amended to remove the distinction between entities of different size. Because litigation costs are part of the just compensation guaranteed under the Constitution for an exercise of eminent domain, an entity has a right to recover such costs, whether the entity has five employees or five thousand. While on its face, such an amendment appears to increase costs to the government by requiring compensation of litigation costs, such an amendment may have the opposite effect in enhancing government efficiency. More importantly, however, the amendment is sure to eliminate the constitutional infirmity inherent in the present language of the statute.

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164 See supra Part II (providing the elements for a plaintiff to bring suit against the government for a taking); supra Part III (arguing that patents are property); supra Part IV (arguing that 28 U.S.C. § 1498(a) constitutes the government’s consent to be sued for patent takings).

165 See U.S. CONST. amend. V.

166 Waite, 282 U.S. at 509.