

**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. United States*, 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*, Section 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 Section 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 Section 1498(a) and presents an amendment to cure that infirmity.*

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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

¹ U.S. CONST. art. I, § 8.
² U.S. CONST. art. I, § 8, cl. 8.
³ See generally U.S. CONST. art. I, § 8.

and patent laws, codified respectively as Titles 17 and 35 of the U.S. Code.⁴

Balancing Article I's grant of power, the Fifth Amendment limits the government's power by specifically guaranteeing certain rights to the People.⁵ One of these limitations, the Takings Clause, provides that "private property [shall not] be taken for public use, without just compensation."⁶ This limitation "does not prohibit the taking of private property, but instead places a condition on the exercise of that power."⁷

In *Zoltek Corp. v. United States*,⁸ patent rights and the Takings Clause collided. The Federal Circuit in *Zoltek* addressed 28 U.S.C. § 1498(a), which provides a patentee the right to sue the government for unauthorized use of a patent.⁹ The *Zoltek* court held that patents are not property protected by the Fifth

⁴ Presently, patent law is contained in Title 35 and copyright in Title 17 of the United States Code. *See* 35 U.S.C. §§ 100-376 (2006); 17 U.S.C. §§ 101-1332 (2006). Patent and copyright laws have been in effect since the 1790 Acts. *See* Patent Act of 1790, ch. 7, 1 Stat. 109 (1790); *see also* Copyright Act of 1790, 1 Stat. 124 (1790).

⁵ U.S. CONST. amend. V.

⁶ *Id.*

⁷ *First English Evangelical Lutheran Church of Glendale v. Los Angeles County*, 482 U.S. 304, 314 (1987).

⁸ 442 F.3d 1345 (Fed. Cir. 2006).

⁹ *See* 28 U.S.C. § 1498(a) (2006). The relevant paragraph states:

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.¹⁰ This Article argues, in part, that *Zoltek* is incorrect in light of prior case law.¹¹ Section 1498, its statutory forebears,¹² and cases interpreting these statutes demonstrate that patents were intended to be, and should be, protected by the Fifth Amendment.¹³ 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.¹⁴ In making this amendment, Congress recognized that costs are a necessary part of just compensation for takings of intellectual property.¹⁵ Despite recognizing that costs are a necessary part of just compensation in certain patent takings,¹⁶

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) (discussing prior Supreme Court decisions which dictate a conclusion that patents are property protected by the Fifth Amendment). *Zoltek* is discussed below. *See infra* Subsection II.B.1.

¹¹ *See infra* Subsection II.B.1.

¹² *See infra* note 82.

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.*” Act of Oct. 19, 1996, Pub. L. No. 104-308, 110 Stat. 3814 (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 Aktiengesellschaft*, 224 U.S. 290, 307 (1912) (“[W]e think *there is no room for doubt* that the statute [Section 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).

¹⁴ *See* H.R. REP. NO. 104-373 (1995).

¹⁵ *See* Pub. L. No. 104-308 (granting some claimants the right to recover costs in a section entitled “Just Compensation”). Congress’ use of the constitutional language implies that the amendment was intended to move patents within the Fifth Amendment’s grasp. *See also infra* Section II.B, III.A, III.B.

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 expenses are not embraced within just compensation for land taken by eminent domain.”). 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

Congress only granted that compensation to so-called small entities—namely, independent inventors, nonprofits, and other entities with under 500 employees.¹⁷ But because just compensation asks “what has the owner lost, not what has the taker gained,”¹⁸ such varying of 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 I 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 II discusses the Fifth Amendment’s “just compensation” requirement. It also describes how Section 1498(a) violates the Constitution. Part III proposes an amendment to the statute which remedies this failure. Additionally, Part III discusses policy objectives related to the grant of litigation cost recovery to all patentees and argues that doing so may improve economic and judicial efficiency and incentivize government agencies to negotiate licenses rather than resort to eminent domain.

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 III.

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.”

¹⁸ *Brown v. Legal Found. of Wash.*, 538 U.S. 216, 235-36 (2003) (citing *Boston Chamber of Commerce v. Boston*, 217 U.S. 189, 195 (1910)).

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**I. THE TWO ELEMENTS FOR SECURING RIGHTS UNDER
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Nineteenth century takings jurisprudence established that two elements are necessary for a property owner to bring a successful claim against the government for an exercise of eminent domain.¹⁹ First, the legal entitlement had to be classified as “property.”²⁰ Second, a court must have jurisdiction for the property owner to bring suit against the government as a defendant.²¹

With respect to patents, neither of these elements is satisfied under current law or legal scholarship. Some question whether patents are indeed property, or if instead they comprise only the right to exclude.²² It is not the purpose of this Article to enter the fray over whether *any* IP right should be considered property in a broad sense. This Section’s purpose in that vein is limited only to presenting arguments that patents satisfy the Fifth Amendment’s requirements. Additionally, this Section will refute three incorrect notions used to argue against treating patents as property: the exclusionary right, blocking patents and regulatory arguments.

Next, 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.²³ This Part argues, however, 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.

¹⁹ Adam Mossoff, *Patents as Constitutional Private Property: The Historical Protection of Patents Under the Takings Clause*, 87 B.U. L. REV. 689, 700 (2007) [hereinafter Mossoff, *Patents*] (discussing the necessary constitutional predicates to secure rights under the Takings Clause).

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) (stating that “a patent grants to the patentee and his assigns the right to exclude others from making, using, and selling the invention” without reference to property). *But see* 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.*”); JANICE M. MUELLER, PATENT LAW 15 (3d ed. 2009) (describing patents as a “time-limited property right” but describing that property right as a “negative right”).

²³ See generally *Zoltek Corp v. United States*, 442 F.3d 1345 (Fed. Cir. 2006) (holding that patents are not protected by eminent domain).

A. Patents as Property for the Purposes of the Takings Clause

Through an examination of the case law and the Patent Act, this Section demonstrates that patents are property under the Fifth Amendment. These sources refute the common scholarly assertion that they embody *only* the right to exclude,²⁴ 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.”²⁵ 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.²⁶ Title 35 does not expressly limit this attribute in any way.²⁷ 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.”²⁸ 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.”²⁹ If patents embodied a positive right to use instead of just a right to exclude, so the argument goes,

²⁴ See *supra* note 22.

²⁵ 35 U.S.C. § 261 (2006).

²⁶ See *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.”) (citations omitted).

²⁷ See generally 35 U.S.C. §§ 100-318 (2006).

²⁸ BLACK’S LAW DICTIONARY 1234 (9th ed. 2009).

²⁹ Adam Mossoff, *Exclusion and Exclusive Use in Patent Law*, 22 HARV. J.L. & TECH. 321, 330 (2009) [hereinafter Mossoff, *Exclusion*].

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the blocking patent scenario would result in a seemingly illegitimate restriction on another patent owner's right to use.³⁰ 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.³¹ Upon examination, neither of these points stands to bar the treatment of patents as property.³²

i. Exclusion and the Attributes of Personal
Property

The “attributes of personal property” language of the Patent Act was first added in the 1952 Act.³³ In federal law, terms are accorded their common law definitions in the absence of specific statutory language to the contrary.³⁴ Property was not traditionally well-defined.³⁵ It is now established that property, in general, “extends to every species of valuable right and interest.”³⁶ Personal

³⁰ See Robert P. Merges, *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.”). See also Mossoff, *Exclusion*, *supra* note 29, 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.”).

³¹ See Mossoff, *Exclusion*, *supra* note 29, 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.”).

³² See *infra* Subsection I.A.2 (arguing that the blocking patents theory has a well-established analog in real property); see also Mossoff, *Exclusion*, *supra* note 29, at 330-39 (rebutting both the blocking patents and the regulatory state arguments).

³³ Pasquale J. Federico, *Commentary on the New Patent Act*, 75 J. PAT. & TRADEMARK OFF. SOC’Y 161, 211 (1993), *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.”).

³⁴ See, e.g., *Keck v. United States*, 172 U.S. 434, 446 (1899) (stating that, when a term has “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 its meaning.”).

³⁵ Jon M. Garon, *Normative Copyright: A Conceptual Framework for Copyright Philosophy and Ethics*, 88 CORNELL L. REV. 1278, 1286 (2003).

³⁶ BLACK’S LAW DICTIONARY 1382 (4th 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. See *Phillips v. AWH Corp.*, 415 F.3d 1303, 1313 (2005) (“[T]he 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

property, as it has evolved at common law, is essentially any form of property that is not “fixed” or appurtenant to land.³⁷ Law dictionaries from the same period as the 1952 Patent Act corroborate this definition.³⁸ Patents appear to have the attributes of personal property beyond the statute’s statement to that effect³⁹: they are intangible rights⁴⁰ that can be transferred,⁴¹ and are not appurtenant to land. These rights should therefore be personal property subject to eminent domain.⁴²

the invention”).

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 *Parsons v. Clarke*, 24 F.2d 338, 339 (9th Cir. 1928) (distinguishing personal property from real property by noting that “real property consists of land, that which is affixed to land, that which is incidental or appurtenant to land, and that which is immovable by law.”) (emphasis added); *Manson v. Dayton*, 153 F. 258, 263 (8th Cir. 1907) (indicating that personal property is anything “susceptible to manual delivery”). 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) (emphasis added). The essence of personal property is that it is movable, and not tied to land, which would make it real property.

³⁸ See, e.g., JAMES ARTHUR BALLANTINE, *LAW DICTIONARY WITH PRONUNCIATIONS* 961 (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.”)

³⁹ 35 U.S.C. § 261 (2006).

⁴⁰ See, e.g., *La Belle Iron Works v. U.S.*, 256 U.S. 377, 389 (1921) (comparing patents and other IP rights to “intangible property”); *Crozier v. Fried. Krupp Aktiengesellschaft*, 224 U.S. 290, 306 (1912) (“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).

⁴¹ See 35 U.S.C. § 261 (providing for assignment of patent rights); see also 37 C.F.R. § 3.1 (2009) (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).

⁴² See *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*.”) (citations omitted) (emphasis added); *Causby v. United States*, 75 F. Supp. 262, 264 (Ct. Cl. 1948) (“We see no difference in the destruction of personal property and 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.”). Notably, Black’s Law Dictionary defines “private property” presently as “[p]roperty—protected from public appropriation—over which the owner has exclusive and absolute rights.” *BLACK’S LAW DICTIONARY* 1337 (9th ed. 2009).

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Yet an analysis of Section 261 alone does not lay the matter to rest because it is subject to the “provisions of [Title 35].”⁴³ 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.”⁴⁴ This provision, it seems, has led to a general belief that patents embody *only* a right to exclude.⁴⁵

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.⁴⁶ Rather, Congress’s statement that patents embody a right to exclude may instead *support* the proposition that patents are property, as exclusion is often characterized as the most important stick in the proverbial bundle of property rights.⁴⁷ Judge Posner has stated that property rights are the “rights to the exclusive use of valuable resources.”⁴⁸ 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 selling the invention.’”⁴⁹

⁴³ 35 U.S.C. § 261.

⁴⁴ 35 U.S.C. § 154(a)(1) (2006).

⁴⁵ See MERGES & DUFFY, *supra* note 22, 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 22 (characterizing patents as a negative or 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); *Coll. Sav. Bank v. Fla. 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.” *Fla. Prepaid*, 527 U.S. at 673. Scholarship has echoed the sentiment. See Felix S. Cohen, *Dialogue on Private Property*, 9 RUTGERS L. REV. 357, 371 (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, 711 (1986) (“The right to exclude others has often been cited as the most important characteristic of private property.”).

⁴⁸ RICHARD A. POSNER, *ECONOMIC ANALYSIS OF LAW* 31 (4th ed. 1992).

⁴⁹ *eBay Inc. v. Mercexchange, L.L.C.*, 547 U.S. 388, 392 (2006) (citations omitted) (emphasis added).

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.⁵⁰ 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.

ii. Blocking Patents and the Regulatory Argument

Scholars have erred in their reliance upon the blocking patent scenario as support for the exclusion concept.⁵¹ 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.⁵² Scholars tend to view the blocking patent scenario as evidence of the distinction between property and exclusive patent rights.⁵³ 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.⁵⁴

At least one scholar has argued that this view is flawed, and that there is a real property analogy to blocking patents.⁵⁵ Professor Adam Mossoff analogizes patent use rights to water rights. Water rights are a form of real property in which concurrent positive rights exist.⁵⁶ Professor Mossoff notes that water rights are a real property example of conflicting, non-exclusive use-rights.⁵⁷ Two

⁵⁰ "The hallmark of a protected property interest is the right to exclude others." *Fla. Prepaid*, 527 U.S. at 673.

⁵¹ See, e.g., *Merges, One Hundred Years*, *supra* note 30, at 2222 (using the blocking patents scenario as support for the exclusion concept of patents).

⁵² See Mossoff, *Exclusion*, *supra* note 29, 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.").

⁵³ See *id.* at 333-35.

⁵⁴ Duffy, *supra* note 22, at 456.

⁵⁵ See Mossoff, *Exclusion*, *supra* note 29, at 333 (introducing an analogy to water rights as overlapping rights to use).

⁵⁶ Water rights are a form of real property. See, e.g., *State v. Super. Ct. of Riverside County*, 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 though that property right is only the right to use the water).

⁵⁷ See Mossoff, *Exclusion*, *supra* note 29, at 333-34 n.54 (citing *Colorado v. New Mexico*, 459 U.S. 176, 179 n.4 (1982); *Druley*, 102 Ill. at 193; *Koch v. Aupperle*, 737 N.W.2d 869, 878 (Neb. 2007)); Mossoff, *Exclusion*, *supra* note

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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.⁵⁸ Professor Mossoff has described this situation as analogous to blocking patents, where two patentees may own conflicting, overlapping positive rights.⁵⁹

Accordingly, there is direct evidence against the scholarly assertion that overlapping patent use rights do not have an analog in real property.⁶⁰ As Professor Mossoff's example has shown, overlapping positive 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.⁶¹ This argument, too, falls apart as there are countless regulations placed on the use and enjoyment of real property.⁶²

The logic of the regulatory argument begins with the recognition that a tangible property right embodies more than the

29, at 334 nn.55-56 (“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 *usque ad filum aquoe*, and the owners of the other side, the right of soil or ownership and fishing unto the *filum aquoe* on their side”) (citing *People v. Platt*, 17 Johns. 195, 210 (N.Y. Sup. Ct. 1819)); *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 event, 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 *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 Mossoff, *Exclusion*, *supra* note 29, at 333.

⁵⁸ See, e.g., *Sullivan v. City of Ulysses*, 932 P.2d 456, 459 (1997) (“a water right . . . is subject to condemnation”).

⁵⁹ See Mossoff, *Exclusion*, *supra* note 29, at 334 n.55-56.

⁶⁰ See, e.g., *Duffy*, *supra* note 45, at 456 (arguing that patents do not include the “bundle of rights” commonly associated with property).

⁶¹ ROBERT P. MERGES ET AL., *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.”).

⁶² Mossoff, *Exclusion*, *supra* note 29, at 336-37 (stating that the regulatory argument is “self-consciously limited to patents,” that it “delegitimizes regulations of all 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.

right to exclude, *even though* such property is regulated.⁶³ Supporters of the regulatory argument acknowledge that tangible property entails a full bundle of rights,⁶⁴ despite the fact that tangible property is heavily regulated by the government.⁶⁵ Still they argue that intangible property does not embody more than the right to exclude *because* it is regulated.⁶⁶ This logic is flawed, and as support for the exclusion concept, “the regulatory state argument does not establish this truth.”⁶⁷

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,⁶⁸ this right is only one “attribute” of patent property.⁶⁹ Neither the blocking patent scenario nor the regulatory argument commonly used to support the exclusion concept does so faithfully or successfully.⁷⁰ Additionally, Section 154 arguably supports the treatment of patents as property despite its frequent use to the contrary.⁷¹

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.

⁶³ See Mossoff, *Exclusion*, *supra* note 29, at 335-39 (discussing regulation of patents by the administrative state).

⁶⁴ See, e.g., Merges, *supra* note 30, at 2222; Duffy, *supra* note 45, at 456.

⁶⁵ See, e.g., *Yee v. City of Escondido*, 503 U.S. 519, 539 (1992) (rent control is a valid regulation of public use); *Jones v. Alfred H. Mayer Co.*, 392 U.S. 409, 413 (1968) (legislation prohibiting discriminatory uses of property is valid); *Village of Euclid v. Ambler Realty Co.*, 272 U.S. 365, 394-95 (1926) (zoning is a valid regulation of property use).

⁶⁶ See Mossoff, *Exclusion*, *supra* note 29, at 335-39.

⁶⁷ *Id.* at 339.

⁶⁸ 35 U.S.C. § 261.

⁶⁹ *eBay Inc. v. Mercexchange, L.L.C.*, 547 U.S. 388, 392 (2006) (“[T]he Patent Act also declares that ‘patents shall have the attributes of personal property,’ including ‘the right to exclude others’”) (citations omitted).

⁷⁰ See *supra* Subsection II.A.1.ii (arguing that the blocking patent scenario and regulation of patents fail to support the exclusion concept).

⁷¹ “[T]he 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 selling the invention.’” *eBay, Inc.*, 547 U.S. at 392. And the right to exclude is the most important “property” right. See *Kaiser Aetna v. United States*, 444 U.S. 164, 176 (stating that the right to exclude is “one of the most essential sticks in the bundle of rights that are commonly characterized as property.”); see also *College Sav. Bank v. Florida Prepaid Postsecondary Educ. Expense Bd.*, 527 U.S. 666, 673 (1999) (“The hallmark of a protected property interest is the right to exclude others.”).

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i. State and Federal Treatment of Patents as
Property

“[A] page of history is worth a volume of logic” when examining historical patent practices.⁷² 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*.”⁷³ 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,⁷⁴ adding that “the right of the [patent] holder is as much entitled to protection as any other property.”⁷⁵ Five years later, the Supreme Court again referred to patents as property.⁷⁶ This treatment has never changed at the Supreme Court.⁷⁷

Following this historical precedent, the Supreme Court reiterated in 1947 that patents are “of the same dignity as any other property.”⁷⁸ Not surprisingly, such treatment extended from the Supreme Court to federal appellate⁷⁹ and even state courts.⁸⁰ Even

⁷² *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.

⁷³ *Gayler v. Wilder*, 51 U.S. 477, 493 (1850) (emphasis added).

⁷⁴ *Consol. Fruit-Jar Co. v. Wright*, 94 U.S. 92, 96 (1876).

⁷⁵ *Cammeyer v. Newton*, 94 U.S. 225, 226 (1876).

⁷⁶ *James v. Campbell*, 104 U.S. 356, 358 (1881) (stating that a patent “confers upon the patentee an exclusive property in the patented invention.”).

⁷⁷ *See, e.g., Gill v. U.S.*, 160 U.S. 426, 435 (1896) (“[T]he 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 that an expired patent becomes public property). This proposition makes little sense if the patent was not property to begin with.

⁷⁸ *Transparent-Wrap Mach. Corp. v. Stokes & Smith Co.*, 329 U.S. 637, 643 (1947).

⁷⁹ *N.V. Philips’ Gloeilampenfabrieken v. Atomic Energy Commission*, 316 F.2d 401, 409 (D.C. Cir. 1963) (“A patent, however, gives one person the right to exclude all others. This monopoly is the property right in the patent.”). The

the Federal Circuit repeated the proposition,⁸¹ finally stating that “[i]t is beyond reasonable debate that patents are property.”⁸² The Federal Circuit completely ignored its own precedent in *Zoltek*, with the exception of Judge Plager’s dissent.⁸³

More recently, the Supreme Court confirmed its historical view that patents are property, stating in 1999 that “[p]atents . . . have long been considered a species of property.”⁸⁴ This pervasive treatment of patents, historically and 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.

ii. The Taking of Other Forms of Intangible Property

The Supreme Court has additionally acknowledged two forms of intangible property related to patents. One of these properties, trade secret, is extensively discussed in a single case. The other property, copyright, is established as a general proposition in the case law.

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.⁸⁵ Discussing the property right at issue, the Court noted that “[property] interests . . . are not created by the

Supreme Court made a similar statement in 2002: “[t]he [patent] monopoly is a property right.” *Festo Corp. v. Shoketsu Kinzoku Kogyo Kabushiki Co.*, 535 U.S. 722, 730 (2002).

⁸⁰ *See, e.g., Hewett v. Samsonite Corp.*, 507 P.2d 1119, 1122 (Colo. App. 1973) (“Patents and rights in patents are incorporeal personal property.”).

⁸¹ *See, e.g., Schenk v. Nortron Corp.*, 713 F.2d 782, 784 (Fed. Cir. 1983) (“Patents and licenses are exemplifications of property rights.”). Later in 1983, the Federal Circuit, citing *Schenk*, stated that “a patent is a form of property right, and the right to exclude recognized in a patent is but the essence of the concept of property.” *Connell v. Sears, Roebuck & Co.*, 722 F.2d 1542, 1548 (Fed. Cir. 1983).

⁸² *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.

⁸³ *Zoltek Corp. v. United States*, 442 F.3d 1345, 1374 (Fed. Cir. 2006) (Plager, J., dissenting).

⁸⁴ *Fla. Prepaid Postsecondary Educ. Expense Bd. v. College Sav. Bank.*, 527 U.S. 627, 642 (1999). *See also Festo*, 535 U.S. at 730 (stating that the patent monopoly is a property right).

⁸⁵ *Ruckelshaus v. Monsanto Co.*, 467 U.S. 986, 991 (1984).

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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.”⁸⁶

Independent creation, it seems then, is the key to the creation of a property right. The line of “independence” may be difficult to draw because no law is fully independent of the Constitution. While neither state nor copyright, nor patent laws are completely independent of the Constitution – no American law is – they are defined and delineated beyond the Constitution by its *authorization*. Authorization, then, is perhaps the best way to draw the line of independence: where the Constitution merely authorizes a right, implicitly or explicitly, it is independent. Where the Constitution creates the right directly, it is not independent.

The Federal Circuit seemingly drew the line between property subject to eminent domain and some unprotected property by drawing a line between state and federal rights.⁸⁷ The Federal Circuit then supported their decision by noting that *Monsanto* did not overrule *Schillinger v. United States*.⁸⁸ This observation is absurd for its lack of relevance or usefulness. *Schillinger* refers only to patents, so there was no call for the *Monsanto* court to examine it, especially when the Court found it apparent that “[t]rade secrets have many of the characteristics of more tangible forms of property.”⁸⁹

Monsanto did, however, recognize that intangible trade secrets are protected by the Fifth Amendment.⁹⁰ This is particularly interesting in light of decisions stating that trade secrets are *not* in fact property.⁹¹ If trade secrets, which have a questionable property status, are protected by the Fifth Amendment, surely the property of patents must be, as well?

⁸⁶ *Id.* at 1001 (citing *Webb’s Fabulous Pharmacies, Inc. v. Beckwith*, 449 U.S. 155, 161 (1980)) (internal quotations omitted).

⁸⁷ *Zoltek*, 442 F.3d at 1352 (recognizing that a patent is “a property right created by federal law” to distinguish a patent taking from a trade secret taking).

⁸⁸ 155 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*.”).

⁸⁹ *Monsanto*, 467 U.S. at 1002 (noting that trade secrets are assignable and can form the res of a trust).

⁹⁰ *See id.* at 1003-04 (“We therefore hold that to the extent that *Monsanto* has an interest in its health, safety, and environmental data cognizable as a trade-secret property right under Missouri law, that property right is protected by the Taking Clause of the Fifth Amendment.”).

⁹¹ *See Kewanee Oil Co. v. Bicron Corp.*, 416 U.S. 470, 497 (1974) (“A trade secret, unlike a patent, has no property dimensions.”); *E.I 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).

Further, the Supreme Court acknowledges that there is an overlap in patent and trade secret subject matter, and that some trade secrets are patentable.⁹² Given this overlap, it makes little sense for the Fifth Amendment to protect a given innovation as a trade secret but not a patent.⁹³ The only difference between these two, in many cases, is choice – whether the owner wants the potentially permanent but weak protection of trade secret, or the temporary but stronger protection of patent. Either way, the property owner seeks to retain the capability of exclusion. Why then should one be protected by the Fifth Amendment while the other is not?

It is instructive to return momentarily to the issue raised by the questionable property status of trade secrets. In general, the above shows that trade secrets are “property,” or at least protected by the Fifth Amendment.⁹⁴ Yet according to the prevailing definition, trade secrets have a weaker claim than patent to being characterized as property.

Property is embodied by the right to completely exclude others.⁹⁵ Trade secrets do not grant the owner as strong an exclusive right as a patent. Trade secret limits only the manner in which one acquires the “property,” but not the use thereof: it is illegal to misappropriate trade secrets,⁹⁶ but not to independently discover or reverse engineer the exact same property.⁹⁷ They

⁹² *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).

⁹³ The *Zoltek* decision distinguishes the holding in *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. *Monsanto*, 467 U.S. at 1001. 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.”).

⁹⁴ *See supra* note 91 for cases stating that trade secrets are not property.

⁹⁵ *See* BLACK’S LAW DICTIONARY 1337 (9th ed. 2009) (defining private property as giving an owner the exclusive and absolute right to his property); *see also supra* note 47 (citing cases referring to property as the right to exclude).

⁹⁶ *See, e.g.*, 18 U.S.C. § 1832(a) (2006) (making theft—or unauthorized acquisition—of trade secrets illegal); *see also Kewanee*, 416 U.S. at 475 (“The protection accorded the trade secret holder is against the disclosure or unauthorized use of the trade secret by those to whom the secret has been confided under the express or implied restriction of nondisclosure or nonuse.”).

⁹⁷ *See, e.g., Kewanee*, 417 U.S. at 476 (“A trade secret law, however, does not offer protection against discovery by fair and honest means, such as by independent invention, accidental disclosure, or by so-called reverse engineering.”).

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therefore embody a right to prevent access, rather than a right to deny use or enjoyment. Patent does not contemplate such simple evasions of the exclusive right.⁹⁸ Patents therefore embody a more powerful exclusive right.⁹⁹

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.

⁹⁸ See the discussion of blocking patents. *See supra* notes 28-29.

⁹⁹ It is worth noting here that copyrights have been characterized as property by the Supreme Court. *See Fox Film Corp. v. Doyal*, 286 U.S. 123, 127 (1932) (“The owner of the copyright... may refrain from vending or licensing and content himself with simply exercising the right to exclude others from using his *property*.”); *Bobbs-Merrill Co. v. Staus*, 210 U.S. 339, 346 (1908). Copyright, like trade secret, is tied to patent by a Supreme Court decision that recognizes that both intangible rights are property. *See eBay Inc v. MercExchange, L.L.C.*, 547 U.S. 388, 392 (2006) (The approach of treating patents as property “is consistent with [the Supreme Court’s] treatment of injunctions under the Copyright Act. Like a patent owner, a copyright holder possesses ‘the right to exclude others from using his property.’” (citing *Fox Film Corp*, 286 U.S. at 127)). Even those who oppose strong copyrights acknowledge that copyrights are property. *See Lawrence Lessig, Re-Crafting a Public Domain*, 18 *YALE J.L. & HUMAN.* 56, 80-81 (2006) (“At least in the United States, there is no ambiguity about whether copyright is property. And especially in the United States, the understanding that copyright is property tends to support a simplistic view about the nature of that property.”). Even during the second session of Congress in 1790, copyrights were viewed as property. *See Karl B. Lutz, Patents and Science: A Clarification of the Patent Clause of the U.S. Constitution*, 18 *GEO. WASH. L. REV.* 50, 52 (1949) (quoting Rep. Burke as saying that Congress should “take care of copyrights immediately . . . because it is almost as easy to ascertain literary as any other kind of property.”). Like trade secret, the exclusive power of copyright is significantly more limited than patent. Copyright is subject to such limitations as fair use, 17 U.S.C. § 107 (2006), archival use, 17 U.S.C. § 108 (2006), and others. *See* 17 U.S.C. §§ 109-122 (2006). Additionally, copyright does not protect a senior owner from a junior owner’s use of the exact same work if the junior work was created independently. *See Feist Publ’ns, Inc. v. Rural Tel. Servs.*, 499 U.S. 340, 346 (“[O]riginality requires independent creation plus a modicum of creativity.”). *See also* *Original Appalachian Artworks, Inc. v. Toy Loft, Inc.*, 684 F.2d 821 (11th Cir. 1982); *Granite Music Corp. v. United Artists Corp.*, 532 F.2d 718 (9th Cir. 1976); *Herbert Rosenthal Jewelry Corp. v. Kalpakian*, 446 F.2d 738 (9th Cir. 1971); *Roth Greeting Cards v. United Card Co.*, 429 F.2d 1106 (9th Cir. 1970); *Morrison v. Solomons*, 494 F. Supp. 218 (S.D.N.Y. 1980) (all using independent creation as a rebuttal to copying). All of these factors indicate that a copyright, which is recognized as property by the courts and critics, has less claim to “property” than does patent, which provides much stronger exclusive rights.

B. The Government's Consent to Suit for Patent Takings

This Section demonstrates that Section 1498(a) constitutes the government's consent to suit 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

Three cases establish a baseline for patent takings analyses. These cases are *Schillinger v. United States*,¹⁰⁰ *Crozier v. Fried. Krupp Aktiengesell-Schaft*,¹⁰¹ and *Cramp & Sons Ship & Engine Building Co. v. International Curtis Marine Turbine Co.*¹⁰² *Schillinger* was decided before the earliest predecessor to Section 1498 was enacted. The other two cases address the first two versions of Section 1498.

Schillinger, the first of these cases, involved a government contractor's use of a patented improvement in concrete pavement.¹⁰³ 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 government up to suit provided jurisdiction only in some circumstances, with the explicit exception of claims that sounded in tort.¹⁰⁴ Because the agreement between the government and its contractor did not explicitly direct the contractor to infringe the patent (in fact, it made no mention of any patents), the Court presumed that the government had not intended the infringement.¹⁰⁵ 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

¹⁰⁰ 155 U.S. 163 (1894).

¹⁰¹ 224 U.S. 290 (1912).

¹⁰² 246 U.S. 28 (1918).

¹⁰³ *Schillinger*, 155 U.S. at 164.

¹⁰⁴ Act of Mar. 3, 1887, ch. 359, 24 Stat. 505; see *Schillinger*, 155 U.S. at 167.

¹⁰⁵ See *Schillinger*, 155 U.S. at 164 (noting that the government contract made no "reference to or description of the Schillinger patent").

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its final analysis, it was the purpose of the statute to provide.”¹⁰⁶ 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 “procur[e] such patented articles as [they] needed”¹⁰⁷ – 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. Roosevelt,¹⁰⁸ petitioned the Senate to amend the 1910 Act to clarify its meaning. The 1918 amendment explicitly extended coverage to government contractors¹⁰⁹ – the exact situation at issue, but unaddressed by statute, in *Schillinger*.

2. *The Federal Circuit’s Incorrect Reliance on Schillinger v. United States*

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*.¹¹⁰ 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.¹¹¹

The apparent conflict between *Schillinger* and *Crozier* is actually non-existent. 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

¹⁰⁶ *Crozier v. Fried. Krupp Aktiengesellschaft*, 224 U.S. 290, 307 (1912).

¹⁰⁷ *Richmond Screw Anchor Co. v. United States*, 275 U.S. 331, 342 (1928) (citation omitted).

¹⁰⁸ *Wood v. Atl. Gulf & Pac. Co.*, 296 F. 718, 720 (1924) (quoting Letter from Franklin D. Roosevelt, Secretary of the Navy, to Senator Benjamin R. Tillman (April 20, 1918)).

¹⁰⁹ 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 721 (quoting the Secretary’s letter to Congress).

¹¹⁰ See *Zoltek Corp. v. United States*, 442 F.3d 1345, 1350 (Fed. Cir. 2006).

¹¹¹ *Id.* (“*Schillinger* remains the law.”).

against a private party is based in tort whereas one against the government is based on eminent domain.”¹¹²

While *Crozier* may not have explicitly overruled *Schillinger*, *Schillinger* should no longer be considered 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 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.¹¹³ The Supreme Court has both implicitly¹¹⁴ and explicitly¹¹⁵ acknowledged that Section 1498 is an eminent domain statute. Practitioners echo this view.¹¹⁶ Finally,

¹¹² H.R. REP. NO. 104-373, at 2 (1995).

¹¹³ See, e.g., *Leesona Corp. v. United States*, 599 F.2d 958, 964 (Ct. Cl. 1979) (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 § 1498 is premised on a theory of an eminent domain taking under the Fifth Amendment.” (citing *Pitcairn v. United States*, 547 F.2d 1106 (Ct. Cl. 1976)); *Calhoun v. United States*, 453 F.2d 1385 (Ct. Cl. 1972)); *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.”)).

¹¹⁴ See *Richmond Screw Anchor Co. v. United States*, 275 U.S. 331, 342-43 (1928) (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 recognition of patents as susceptible to takings.

¹¹⁵ See, e.g., *Crozier v. Fried. Krupp Aktiengesellschaft*, 224 U.S. 290, 307 (1912) (“[T]here is no room for doubt that the statute [Section 1498] makes full and adequate provision for the exercise of the power of eminent domain . . .”).

¹¹⁶ See, e.g., David M. Schlitz and Richard J. McGrath, *Patent Infringement Claims Against the United States Government*, 9 FED. CIR. B.J. 351, 353 (2000) (characterizing the government's use under 28 U.S.C. § 1498(a) as a taking under eminent domain); David R. Lipson, *We're Not Under Title 35 Anymore: Patent Litigation Against the United States Under 28 U.S.C. § 1498(a)*, 33 PUB.

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amendments to Section 1498 imply that the statute is an exercise of eminent domain.¹¹⁷

In *Motorola, Inc. v. United States*, the same court (but a different panel) that decided *Zoltek* held that Section 1498 is rooted in eminent domain.¹¹⁸ 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 theoretical basis for his recovery is the doctrine of *eminent domain*.”¹¹⁹

Lower courts should follow the Supreme Court’s deference to historical patent doctrine,¹²⁰ including its treatment of patents as property¹²¹ and of Section 1498 as an exercise of eminent domain.¹²² 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.¹²³ 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.

CONT. L.J. 243, 244-45 (2003) (“Unlike private infringement suits, which are based in tort, claims for compensation from the Government under § 1498(a) are eminent domain actions.”).

¹¹⁷ 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 Act of Oct. 19, 1996, Pub. L. No. 104-308, 110 Stat. 3814 (1996) (amendment to include litigation costs entitled “*Just Compensation: Patents Used by the U.S.*”) (emphasis added).

¹¹⁸ *Motorola, Inc. v. United States*, 729 F.2d 765 (1984).

¹¹⁹ *Id.* at 768 (emphasis added).

¹²⁰ See Mossoff, *Exclusion*, *supra* note 29, at 324 n.21 (citing *Quanta Computer, Inc. v. LG Elecs., Inc.*, 128 S. Ct. 2109, 2115 (2008) (citing nineteenth-century case law)) (arguing that the Supreme Court has “professe[d] fealty” to longstanding doctrines of patent 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. v. Shoketsu Kinzoku Kogyo Kabushiki Co.*, 535 U.S. 722, 738 (2002) (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).

¹²¹ See *supra* Subsection I.A.2.i.

¹²² See *supra* Section I.B.

¹²³ 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.”).

II. THE JUST COMPENSATION REQUIREMENT AND HOW 28 U.S.C. § 1498(A) VIOLATES THE TAKINGS CLAUSE

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.¹²⁴ A recent Supreme Court decision has effectively removed the public use requirement from the Fifth Amendment,¹²⁵ leaving only one burden upon the government: just compensation. This Section discusses the just compensation requirement and argues that Section 1498(a) fails to satisfy this requirement despite recent amendments directed specifically at just compensation.

A. The Just Compensation Requirement

“Just compensation,” put concisely, is the “full monetary equivalent of the property taken.”¹²⁶ It is a measure of the owner’s loss, not the government’s gain.¹²⁷ To satisfy this requirement, the owner must be put in the same position, monetarily speaking, as if her property had not been taken.¹²⁸ It is important, at this point, to note that money is a form of personal property,¹²⁹ 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.”¹³⁰ Market value is ascertained by determining what a willing buyer would pay a willing seller.¹³¹ In the case of actual cash loss, market value

¹²⁴ U.S. CONST. amend. V.

¹²⁵ 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.

¹²⁶ *Almota Farmers Elevator & Warehouse Co. v. United States*, 409 U.S. 470, 473 (1973) (citing *United States v. Reynolds*, 397 U.S. 14, 16 (1970)).

¹²⁷ *Brown v. Legal Found. of Wash.*, 538 U.S. 216, 236 (2003) (stating that just compensation asks “what has the owner lost, not what has the taker gained.”).

¹²⁸ *Id.*

¹²⁹ See BALLANTINE, *supra* note 38, at 961 (stating that money is a form of personal property).

¹³⁰ *New York v. Sage*, 239 U.S. 57, 61 (1915).

¹³¹ *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.”).

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is immediately ascertainable because the amount of cash taken is the market value.

B. 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 entity's size or position as a commercial entity.¹³² Litigation costs, as is explained herein, have a readily determinable market value,¹³³ and allowing recovery of such costs for only some patent owners is unconstitutional.

1. The Legislative History of 28 U.S.C. § 1498(a) and Costs for 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.”¹³⁴ 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.¹³⁵ So Congress amended Section 1498(a) to say that, in some cases, “[r]easonable and entire compensation shall include

¹³² See 28 U.S.C. § 1498(a) (2006) (providing for recovery of costs “if the owner is an independent inventor, a nonprofit organization, or an entity that had no more than 500 employees....”).

¹³³ Again, market value is ascertained from “what a willing buyer would pay in cash to a willing seller.” *Miller*, 317 U.S. at 374. Because litigation costs are a readily-ascertained cash value, the market value is simply the dollar amount of the litigation costs.

¹³⁴ Act of Oct. 19, 1996, Pub. L. No. 104-308, 110 Stat. 3814 (1996).

¹³⁵ 141 CONG. REC. H14318-02, H14319 (1995) (“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.”).

the owner's reasonable costs, including reasonable fees for expert witnesses and attorneys."¹³⁶

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 same.¹³⁷ Congress then acknowledged that litigation costs are not part of just compensation.¹³⁸ It then explicitly stated that an owner "isn't getting entire compensation" if she does not recover litigation costs.¹³⁹ 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."¹⁴⁰ 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."¹⁴¹

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.

¹³⁶ 28 U.S.C. § 1498(a).

¹³⁷ H.R. REP. NO. 104-373, at 2 (1995) (citing *Waite v. United States*, 282 U.S. 508, 509 (1931)).

¹³⁸ *Id.*

¹³⁹ 141 CONG. REC. at H14319.

¹⁴⁰ *Id.*

¹⁴¹ *Id.*

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In *Dohany v. Rogers*, the Supreme Court held that “[a]ttorneys’ fees and expenses are not embraced within just compensation for land taken by eminent domain.”¹⁴² 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.¹⁴³ Additionally, there are provisions like the federal government has adopted, known as “quick-take” statutes, which allows for a taking prior to judgment.¹⁴⁴ In such a taking, the government ascertains the market value and tenders payment to the real property owner upon taking.¹⁴⁵ Litigation is therefore only necessary in an attempt to argue that the use is not for the public¹⁴⁶ 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.¹⁴⁷

¹⁴² *Dohany v. Rogers*, 281 U.S. 362, 368 (1930) (citing *Joslin Mfg. Co. v. City of Providence*, 262 U.S. 675 (1923)).

¹⁴³ See, e.g., Bradley M. Taub, Comment, *Why Bother Calling Patents Property? The Government’s Path to License Any Patent and Maybe Pay for It*, 6 J. MARSHALL REV. INTELL. PROP. L. 151, 155 (2006) (“Usually, land owners know of the taking because of the physical and tangible nature of land.”).

¹⁴⁴ See 40 U.S.C.A. §§ 3114-3116, 3118 (Supp. 2003). See also 6 Julius L. Sackman, NICHOLS ON EMINENT DOMAIN § 24.10 (3d. ed. 2002) (observing that standard quick-take procedures require a condemnor to file a “declaration of taking” and a deposit of the appraised fair market value); Nicole Stelle Garnett, *The Public-Use Question as a Takings Problem*, 71 GEO. WASH. L. REV. 934, 970 (2003) (observing that the federal government and most states have enacted quick-take statutes which permit possession of property prior to final judgment in an eminent domain action).

¹⁴⁵ Sackman, *supra* note 144, at § 24.10.

¹⁴⁶ Again, this argument is almost sure to fail in light of *Kelo v. City of New London*, 545 U.S. 469 (2005), as even economic benefit qualifies as public use. See *Kelo*, 545 U.S. 469.

¹⁴⁷ Admittedly, this point may appear contradictory to this Article’s thesis that patents are property. However, this appearance is only superficial. It is true that this point speaks to the scarcity of tangible rights versus the lack of scarcity in intangible rights. However, as evidenced above, scarcity is not the defining characteristic of property. The right to exclude others from the use of a valuable resource is. See *supra* notes 47-48. The government’s use therefore speaks

So, as a preliminary matter, a patent owner must actually discover the taking and file a timely suit.¹⁴⁸ In such a suit, “direct infringement under [the Patent Act] is a necessary predicate for government liability under section 1498.”¹⁴⁹ Litigation is a necessary step in proving infringement;¹⁵⁰ not an optional one as in a real property taking. The patentee must litigate to prove infringement and rebut any defenses, like invalidity.¹⁵¹ Litigation of these issues frequently involves large expenditures.¹⁵² 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,¹⁵³ 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.

2. *Failure to Provide All Entities Just Compensation*

As dictated by logic and recognized by Congress, just compensation includes litigation costs in the case of a patent taking. Because litigation costs are part of just compensation in patent takings cases, 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 employees¹⁵⁴ – the “small entities” of patent law.¹⁵⁵ Small entities are only a

directly to the property question, because the government’s use indicates that the resource (here, the patented innovation) has some *value*.

¹⁴⁸ See Taub, *supra* note 143, at 155 (“[F]or 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.’”).

¹⁴⁹ 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)).

¹⁵⁰ See 35 U.S.C. § 271 (2006) (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).

¹⁵¹ See 35 U.S.C. § 282(2)-(4) (2006) (providing for invalidity defenses); see also Janice M. Mueller, *PATENT LAW*, *supra* note 22, at 403 (noting that an accused infringer “will almost always assert” a non-infringement or invalidity defense).

¹⁵² These costs can quickly become astronomical. See AM. INTELLECTUAL PROP. LAW ASS’N, *REPORT OF THE ECONOMIC SURVEY 2007 25* (2007) (providing statistics on patent litigation costs).

¹⁵³ See *Brown v. Legal Found. of Wash.*, 538 U.S. 216, 236 (2003).

¹⁵⁴ 28 U.S.C. § 1498(a) (2006).

¹⁵⁵ See 37 C.F.R. § 1.27(a) (2009) (defining small entities as an individual inventor, non-profit organization, or a “small business concern”). A small

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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.¹⁵⁶

Congress has elsewhere legislated based on the distinctions between small and big businesses.¹⁵⁷ These laws have been justified on the grounds of encouraging capacity growth, preserving competitive enterprise, ensuring that small businesses can receive government contracts, and generally strengthening the American economy.¹⁵⁸ Some statutes directed at improving small businesses do so without directly mentioning them. An amendment to Section 337 of the Tariff Act, for example, was intended in part to help protect domestic industries for small businesses by giving them easier access to the International Trade Commission.¹⁵⁹ These policies all sound appropriate in the intellectual property arena, as they all appear to be directed at Progress.

It is not the purpose of this article to debate these policy justifications, but the article accepts that such justifications may support, for example, different fees for large and small entities at the USPTO.¹⁶⁰ Allowing small entities to acquire patents at a reduced cost is exactly the sort of benefit for which Congress is empowered to make policy decisions. However, a recent survey of

business concern is one “[w]hose number of employees, including affiliates, does not exceed 500 persons.” 13 C.F.R. § 121.802(a) (2009).

¹⁵⁶ It is worthwhile to note here that Congress has elsewhere legislated based on distinctions between small and big business. *See, e.g.*, 15 U.S.C. §§ 631-657 (2006). Among the policy justifications for these distinctions are encouraging capacity growth, preserving competitive enterprise, ensuring that small businesses may receive government contracts, and generally strengthening the American economy. *Id.* at § 631. It is not the purpose of this article to debate these policy justifications, but it is worth noting that such justifications may support, for example, different fees for large and small entities at the USPTO. *See* 73 Fed. Reg. 158, 47535 (Aug. 14, 2008), *available at* <http://www.uspto.gov/web/offices/com/sol/notices/73fr47534.pdf> (providing USPTO fees for large and small entities). Allowing small entities to acquire patents at a reduced cost is exactly the sort of benefit that Congress is intended to make policy decisions about. Limiting recovery of just compensation, on the other hand, satisfies none of these goals.

¹⁵⁷ *See, e.g.*, 15 U.S.C. §§ 631-657.

¹⁵⁸ *Id.* at § 631.

¹⁵⁹ For example, Section 337 of the Tariff Act of 1930 does not explicitly mention small businesses. *See* 19 U.S.C. § 1337 (2006). However, the 1988 amendment to the domestic industry requirement was directed, in part, towards small businesses. That amendment for the first time included the factor “substantial investment in [a patent’s] exploitation, including engineering, research and development, or licensing.” 19 U.S.C. § 1337(a)(3)(C). This amendment was intended to protect the domestic industry for those “universities and small businesses who do not have the capital to actually make the good in the United States.”

¹⁶⁰ *See* 73 Fed. Reg. at 47535 (providing USPTO fees for large and small entities).

randomly-selected patents shows that only 20% of patents are held by those claiming to be small entities.¹⁶¹ Of those patents, over one tenth are held by universities or non-profits like the California Institute of Technology, Princeton University and Battelle Energy Alliance – each a multi-billion-dollar entity.¹⁶² Many of the remaining small entity patents are held by other sizeable companies or partnerships that somehow satisfy small entity requirements.¹⁶³

The majority of these “small” entities are not in need of the encouragement that small entity status provides. They are simply not on the same footing as true small entities, the types to which the usual justifications for small entity treatment apply. One can imagine a “small entity” like Stanford, Harvard, or Yale suing the United States for patent infringement. In practical effect, there is little difference between one of those research giants claiming patent infringement and Microsoft claiming patent infringement. Yet one research giant is allowed to recover its litigation costs while the other is not. The result is that some large entities are allowed to free-ride on small entity status although none of the purposes of small business laws are furthered by such entities.

Because true small entities are such a small percentage of the patent-owning community, limiting recovery of entire just compensation to that small percentage does not adequately serve the ends of growth, competition or strengthening the economy like other small business laws. And indeed, as Congress recognized, if the litigation costs taken from a patent owner when the United States makes unauthorized use of a patent are not repaid, then the large majority of patent owners are not getting full (or just) compensation. Not only are approximately 80% of United States patent owners unable to receive just compensation, but the ends of small business laws are not served by the vast majority of those owners that do qualify to receive full just compensation.

Therein lies the injustice of Section 1498(a): the vast majority of those firms eligible to recover *all* of what they have lost are not susceptible to the concerns voiced in Congress while drafting Section 1498(a). Indeed, entities like Princeton and Battelle are not small businesses that “cannot afford expensive legal defense fees associated with defending their patents against Government expropriation.”¹⁶⁴

Further, the justifications for distinguishing between large and small entities are nothing more than types of “public use”

¹⁶¹ See *Patenting by Small Entities*, PATENT L. BLOG, available at <http://www.patentlyo.com/patent/2010/05/patenting-by-small-entities.html>

¹⁶² *Id.*

¹⁶³ *Id.*

¹⁶⁴ 141 CONG. REC. H14318-02, H14319 (1995).

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under the Takings Clause.¹⁶⁵ If the very purpose of a constitutional taking can be used to avoid the constitutional requirement of just compensation, then the Takings Clause truly is rendered nothing more than “hortatory fluff.” Such circular reasoning cannot justify a limitation on just compensation for the majority of patent owners.

It can be seen that the purposes of neither the Progress Clause nor the Takings Clause are satisfied where small entities, which compared to large entities contribute very little to “progress,” are the only entities entitled to recover just compensation. The practical effect of Section 1498(a)’s distinction is that many large entities that do not need the encouragements that small business laws provide reap the greatest benefit, while other large entities are left without full compensation and only a very limited number of true small businesses receive the intended benefit of Section 1498(a). The simplest solution is, in this case, the best: rid the statute of the distinction between large and small entities and provide full just compensation to all entities whose patents have been used by the United States without authorization.

III. 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 manufacture of the patented invention by or for the United States. Notwithstanding the preceding sentences, unless the

¹⁶⁵ All of the justifications for small entity distinction are economic, and economic purposes can satisfy the public use requirement of the Takings Clause. *See Kelo v. City of New London*, 545 U.S. 469, 484-85 (2005).

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.¹⁶⁶

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.

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 potentially makes taxpayers responsible for the litigation costs associated with lawsuits from large corporations. While this is only logical since the taking operates to the expected benefit of the public,¹⁶⁷ this would likely cause some public outcry.

When viewed objectively, this scenario is seen in a different light. The government is one of the most frequent

¹⁶⁶ Act of Oct. 19, 1996, Pub. L. No. 104-308, 110 Stat. 3814.

¹⁶⁷ See *Kelo*, 545 U.S. at 484 (noting that “plan[ne]d takings] unquestionably serve[] a public purpose”); see also U.S. CONST. amend. V. It is presumed here that the hypothetical Microsoft would challenge a taking *not* for public use, so it would only be in the position to recover its costs if the use served a public purpose.

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“infringers” of patents in the United States.¹⁶⁸ The current statute gives little incentive for the government to negotiate a legitimate license or to otherwise avoid infringement.¹⁶⁹ In fact, there is at least one major disincentive for government agencies to negotiate licenses: where an agency licenses a patent, it is responsible for payment. Where the patentee recovers damages under Section 1498, the funds come from the Treasury.¹⁷⁰

Despite the disincentive to acquire legitimate licenses, some government agencies have established processes whereby a patent owner can file an administrative claim rather than a suit in court.¹⁷¹ But even when a claim strongly favors a patentee, receiving agencies reject most administrative claims, most likely for one of two reasons.¹⁷² First, any reasonably competent patent attorney can make at least a credible argument on invalidity or non-infringement.¹⁷³ 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.¹⁷⁴ 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.¹⁷⁵ Taking an about-face, Comptroller decisions beginning in 1958 began to erode this policy, resulting in evaluation of bids without consideration of patent infringement liability.¹⁷⁶ The result is that

¹⁶⁸ See Schlitz and McGrath, *supra* note 116, at 351 (“The United States Government (hereinafter ‘Government’) undoubtedly is one of the most frequent ‘infringers’ in the United States.”) (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.”).

¹⁶⁹ *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.”).

¹⁷⁰ See 28 U.S.C. § 2517 (2006); 31 U.S.C. § 1304 (2006).

¹⁷¹ Schlitz and McGrath, *supra* note 116, at 354-55.

¹⁷² *Id.* at 355.

¹⁷³ *Id.*

¹⁷⁴ 13 Dec. U.S. Comp. Gen. 173, 175 (1933).

¹⁷⁵ See Switlik Parachute Co., B-77738 (Jan. 10, 1944), available at <http://archive.gao.gov/iglpapr2pdf21/087353.pdf>

¹⁷⁶ See Gerald J. Mossinghoff and Robert F. Allnutt, *Patent Infringement in Government Procurement: A Remedy Without a Right?*, 42 NOTRE DAME LAW. 5 (1966), reprinted in 48 J. PAT. OFF. SOC’Y 755, 762-63 (1966).

government agencies have been discouraged from examining the issue of patent infringement and associated costs in accepting bids – agencies are now directed simply to accept the lowest bid.¹⁷⁷

The high intrinsic costs of patent litigation may 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.¹⁷⁸ 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 private patent litigation,¹⁷⁹ and that disparity will probably remain constant, any reduction in patent litigation results in an improvement, however slight, in judicial efficiency.

CONCLUSION

Patents are not properly protected as Fifth Amendment property under current law, but according to historical practices and legal precedent, patents should be protected by the Fifth Amendment's Takings Clause.¹⁸⁰ The above discussion demonstrates that patents satisfy both the requirements for an eminent domain claim. That is to say, they are property and there is a court of competent jurisdiction for patent takings.

Where the Takings Clause applies, a patent owner is entitled to recover just compensation.¹⁸¹ Just compensation is

¹⁷⁷ See Herbert Cooper, 38 Comp. Gen. 276, 276 (1958) (“[A]n 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 . . .”).

¹⁷⁸ See Mossinghoff and Allnutt, *supra* note 176, 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).

¹⁷⁹ Schlitz and McGrath, *supra* note 116, 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.”).

¹⁸⁰ See *supra* Part I (providing the elements for a plaintiff to bring suit against the government for a taking); *supra* Part II (arguing that patents are property and that 28 U.S.C. § 1498(a) constitutes the government's consent to be sued for patent takings).

¹⁸¹ See U.S. CONST. amend. V.

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intended to return the property owner to the same monetary position he occupied before the taking. Yet according to Congress, statutory “reasonable and entire compensation” for patent takings, which is constitutional just compensation,¹⁸² must include litigation costs to ensure that a patent owner is returned to the proper monetary position. Logic dictates this inclusion of litigation costs in patent taking recovery because the intangible nature of the patent property right necessitates litigation to determine that the right has in fact been violated. Congress has recognized this necessity.

However, Congress has granted only small entities the right to recover litigation costs when the government takes their patent;¹⁸³ 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, this may not be the case.

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.

¹⁸² Waite v. United States, 282 U.S. 508, 509 (1931)

¹⁸³ 28 U.S.C. § 1498(a) (2006).