FEDERAL CIRCUIT PATENT LAW CASE UPDATE

Monsanto Co. v. McFarling, 03-1177 (Fed. Cir. Apr. 9, 2004) (Clevenger, J.)

McFarling replanted Roundup Ready® enabled soybeans that he saved from the prior year's crop. Monsanto sued for breach of a technology licensing agreement he signed upon purchase of the original seeds. The court affirmed the district court's summary judgment of McFarling's counterclaims and defenses in favor of Monsanto, including his patent-misuse defense, antitrust counterclaim, and defense under the PVPA. However, the court vacated the district court's judgment as it related to liquidated damages and remanded for the district court to determine actual damages.

Monsanto has several patents on its Roundup Ready® technology, which allows genetically modified plants to withstand Monsanto's Roundup® herbicide. Under the patents, Monsanto licenses the technology to seed companies, and requires that their distributors implement agreements with farmers planting the seeds. These require the farmers (i) to not save crop to use as seed later, (ii) to use the seed for a commercial crop only in one season, and (iii) to keep the seeds out of the hands of researchers.

> The district court held that, when McFarling replanted some of Monsanto's patented ROUNDUP READY® soybeans that he had saved from his prior year's crop, McFarling breached the Technology Agreement that he had signed as a condition of his purchase of the patented seeds. . . .
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> McFarling argues that the district court's grant of summary judgment on the breach-of-contract claim was erroneous on the following issues: (1) his patent-misuse defense, (2) his antitrust counterclaim, (3) his defense under the PVPA, and (4) his defense that the 120 multiplier in the liquidated damages provision of the Technology Agreement is a penalty clause that is unenforceable under Missouri law.

The court rejected McFarling's attempt to characterize the Technology Agreement as patent-misuse "tying." Monsanto simply exercised its patent rights. Then the court further considered McFarling's patent-misuse arguments as follows.

> Based on the record before us, McFarling plants and grows the first-generation seed in an identical fashion whether he intends to sell the second-generation seed as a commercial crop for consumption or whether he intends to replant it. Thus, the Technology Agreement does not impose a restriction on the use of the product purchased under license but rather imposes a restriction on the use of the goods made by the licensed product.
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> Our case law has not addressed in general terms the status of such restrictions placed on goods made by, yet not incorporating, the licensed good under the patent misuse doctrine. However, the Technology Agreement presents a unique set of facts in which licensing restrictions on the use of goods produced by the licensed product are not beyond the scope of the patent grant at issue: The licensed and patented product (the first-generation seeds) and the good made by the licensed product (the second-generation seeds) are nearly identical copies.

Based on its patent-misuse analysis, the court also affirmed the antitrust issue. Further, in light of the coexistence after J.E.M. AG Supply, Inc. v. Pioneer Hi-Bred International, Inc., 534 U.S. 124 (2001), of the utility patent system and the PVPA, the court rejected McFarling's argument that the PVPA allowed seed-saving.

Finally, the court found the Technology Agreement's liquidated damages clause "invalid and unenforceable under Missouri law as it applies to McFarling's breach of replanting of saved seed."

> Because $780,000.00 is grossly disproportionate to the loss that Monsanto actually suffered in loss of technology fees due to McFarling's replanting of saved seeds, however, the contractual damages provision in the Technology Agreement can only survive if it was a reasonable forecast of damages at the time the contract was signed. Monsanto does not argue that the damages award in the district court should be upheld because it is reasonable in light of actual damages.

Under Missouri law, however, the liquidated damages provision was not a reasonable forecast, and thus unenforceable as a penalty. Further, it could not be reasonably anticipated that the loss would be difficult to measure at the time of the breach. Finally, the 120 multiplier ran afoul of what the court called the "anti-one-size" rule: the same multiplier determined liquidated damages (i) for different crops, i.e., corn versus soybeans, each of which have a different rate of potential unlicensed seed promulgation; and (ii) for different provisions of the Technology Agreement.

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