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# TECHNOLOGY LAW UPDATE

A report of the latest Federal Circuit updates brought to you by Preston Gates.

## Monsanto Co. v. Ralph

Nos. 03-1243, 04-1001 (Fed. Cir. Sept. 7, 2004)

***“[A]lthough an infringer’s anticipated profit from use of the patented invention is ‘[a]mong the factors to be considered in determining’ a reasonable royalty, the law does not require that an infringer be permitted to make a profit.”***

On September 7, 2004, the Federal Circuit vacated-in-part and affirmed-in-part the district court’s judgment that, *inter alia*, entered the jury award of almost \$3 million for Ralph’s infringement of U.S. Patents No. 5,164,316, No. 5,196,525, No. 5,322,938, No. 5,352,605, and No. 5,633,435, which related to Roundup-Ready® soybeans. The Federal Circuit upheld the district court’s sanctions against Ralph, overturned the liquidated damages award, and stated regarding the jury award:

Ralph next argues that he is entitled to a new trial on damages for patent infringement. In particular, he contends that the court erred by refusing to limit damages to a reasonable royalty for the use that he actually made of the seed, rather than for the uses that he could potentially have made and that he has now been enjoined from making. According to Ralph, a reasonable royalty deduced through a hypothetical negotiation process can never be set so high that no rational self-interested wealth-maximizing infringer acting *ex ante* would ever have agreed to it. More particularly, Ralph asserts that [an] infringer be given a reasonable opportunity *ex ante* to make a profit. Ralph also contends that there was no need for a hypothetical negotiation in this case, because, he argues, lost profits were shown and those should have been the measure of damages. Even if lost profits had not been shown, Ralph argues, the standard Technology Fee that Monsanto charges all farmers is “the most established royalty patent infringement litigation has ever seen.” . . .

Ralph’s suggestion that the Technology Fee is an established royalty for the use that he made of the seed can be rejected as unsound. One of the most fundamental tenets of patent law is that a patent gives its owner the right to exclude others from making, using, selling, offering to sell, or importing the patented subject matter. If the patent owner chooses not to totally exclude others, he or she may negotiate with a potential licensee to permit the licensee to make, use, sell, or import the patented subject matter under whatever terms the parties agree upon. Monsanto has chosen, as is its prerogative, to permit farmers to plant a commercial crop of the patented seeds in a single season in exchange for payment of the Technology Fee and a promise, manifested through the Technology Agreement, not to save those seeds that are harvested at the end of the growing season for replanting, production, sale, or transfer to others. The Technology Fee is a royalty, to be sure, but it is a royalty for only a narrow, contractually agreed-upon, use of the seed. It is undisputed in the record that Monsanto has not granted licenses to anyone to plant, produce, or transfer saved seed. The Technology Fee is therefore not an established royalty for planting or transferring saved seed, the uses that Ralph made of the patented invention.

Ralph argues that no sane farmer would ever negotiate a royalty in excess of his anticipated profits. However, although an infringer’s anticipated profit from use of the patented invention is “[a]mong the factors to be considered in determining” a reasonable royalty, the law does not require that an infringer be permitted to make a profit. And, where, as here, a patentee is unwilling to grant an unlimited license, the hypothetical negotiation process has its limits. [T]he “imposition on a patent owner who would not have licensed his invention for [a given] royalty is a form of compulsory license, against the will and interest of the person wronged, in favor of the wrongdoer.” Just as Ralph asserts that he would never pay Monsanto such a royalty just to be able to save seed for replanting or transfer, Monsanto would apparently never permit Ralph to save seed for replanting or transfer at any price.