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KIRKLAND **ALERT**

May 2013

U.S. Supreme Court *Monsanto* Decision Leaves Patent Exhaustion Questions about Self-Replicating Products Unanswered

Under patent exhaustion, the initial authorized sale of a patented item terminates all patent rights to that item. *Bowman v. Monsanto Co. et al.,* No. 11–796, slip op. (May 13, 2013), considered how exhaustion applies to genetically modified soybeans that each reproduce in materially identical form. On May 13, 2013, the U.S. Supreme Court unanimously held that the authorized sale of a patented plant seed does not authorize the buyer to reproduce additional seed. The opinion, written by Justice Elena Kagan, is expressly limited to the unique situation presented to the Court, leaving open the question of how patent exhaustion might apply to other self-replicating products.

The *Bowman v. Monsanto Co. et al.* case considered how exhaustion applies to genetically modified soybeans that each reproduce in materially identical form.

Respondents Monsanto Company and Monsanto Technology LLC (collectively "Monsanto") hold patents directed to genetically modified soybeans, which may survive exposure to glyphosate-based herbicides. Monsanto markets soybean seeds containing altered genetic material as Roundup Ready® seed. The Roundup Ready® genetic trait is capable of being carried forward into successive seed generations and is considered to be "self-replicating."

Monsanto authorizes sales of Roundup Ready® seed to farmers who sign a Technology Agreement. Under the agreement, the farmer agrees, among other things, "to not supply any of this seed to any other person or entity for planting," and "to not save any crop produced from this seed for replanting, or supply saved seed to anyone for replanting." *Monsanto Co. v. Bowman*, 657 F.3d 1341, 1344–45 (Fed. Cir. 2011). Monsanto does, however, authorize farmers to sell harvested seed to local grain elevators as a commodity grain, without requiring farmers to place restrictions on elevators' subsequent sales. *Id.* at 1345. Commodity grain is a mixture of undifferentiated soybeans harvested from a variety of farmers.

Vernon Hugh Bowman ("Bowman") is an Indiana farmer who purchased commodity grain from a local elevator for a late-season planting. Bowman applied glyphosate-based herbicide to his late-season fields and confirmed that the majority of the plants were glyphosate-resistant. For the next several years, Bowman saved the seed from his late-season crop, supplemented this saved seed with additional purchases of commodity grain, and applied glyphosate-based herbicide to his late-season plantings.

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Monsanto sued Bowman for patent infringement in the U.S. District Court for the Southern District of Indiana alleging infringement of two U.S. patents. In his defense, Bowman argued *pro se* that the patent rights in Monsanto's Roundup Ready® seed had been exhausted because it was the subject of two prior authorized sales (from farmers to the elevator and from the elevator to Bowman). The district court disagreed and granted summary judgment of infringement in favor of Monsanto. *Monsanto Co. v. Bowman*, 686 F. Supp. 2d 834 (S.D. Ind. 2009).

Bowman appealed to the Federal Circuit, who affirmed the district court's ruling. In its opinion, the Federal Circuit referred to its conditional sales doctrine, which was first articulated in *Mallinckrodt, Inc. v. Medipart, Inc.*, 976 F.2d 700 (Fed. Cir. 1992). Under that doctrine, a patentee can condition its sale of an article embodying its invention by contract terms and thus prevent the application of patent exhaustion. Discussing earlier cases involving Monsanto's Roundup Ready® seed, the Federal Circuit noted that it had previously held that the conditions in Monsanto's Technology Agreement did not implicate the doctrine of patent exhaustion. Ultimately, however, the Federal Circuit's reference to the conditional sale doctrine was dicta because the status of Monsanto's initial sale and the later sale to the grain elevator were not germane to the holding; instead, the Federal Circuit held that the doctrine of patent exhaustion did not protect Bowman because he had "created a newly infringing article." *Monsanto*, 657 F. 3d at 1348.

Bowman appealed the Federal Circuit's affirmance of infringement to the Supreme Court. Bowman and the United States as amicus curiae argued that the Federal Circuit's conditional sales doctrine is inconsistent with the Supreme Court's exhaustion precedent, including the unanimous decision in *Quanta Computer, Inc. v. LG Electronics, Inc.*, 553 U.S. 617 (2008), while Monsanto defended the doctrine. Despite their substantive disagreement, Monsanto and the United States both agreed that the Supreme Court need not address the issue in *Bowman* because it was not the basis of the Federal Circuit's decision.

In a 12-page opinion for the Court, Justice Kagan stated that the patent exhaustion doctrine applies only to the particular item sold, and not to reproductions (such as second generation seed). The seed Bowman purchased from the grain elevator was not intended for planting. Bowman could resell the soybeans he purchased from the elevator, eat the beans himself or feed them to his animals, but he could not "make" additional soybeans without Monsanto's permission. Finding otherwise would deprive a patentee of its "reward" for its patented inventions and "result in less incentive for innovation than Congress wanted."

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While Bowman tried to argue that, given their nature, the soybeans (not Bowman) made copies of the seeds, the Court found this "blame-the-bean defense tough to credit." According to the Supreme Court, it was Bowman, and not the soybean, who controlled the reproduction.

While ruling for Monsanto, the Supreme Court declined to offer broad guidance as to how patent exhaustion would apply to other self-replicating products.

While ruling for Monsanto, the Supreme Court declined to offer broad guidance as to how patent exhaustion would apply to other self-replicating products: "Our holding today is limited—addressing the situation before us, rather than every one involving a self-replicating product. We recognize that such inventions are becoming ever more prevalent, complex, and diverse. In another case, the article's self-replication might occur outside the purchaser's control. Or it might be a necessary but incidental step in using the item for another purpose." Future cases will have to address how exhaustion applies to other self-replicating products such as vaccines, cell cultures or perhaps types of computer code.

Interestingly, the Court did not mention the *Mallinckrodt* case and declined to address the Federal Circuit's conditional sale doctrine following *Quanta*. In a footnote, however, the Court indicated that "patent exhaustion no more protected Bowman's reproduction of seed he purchased for his first crop (from a Monsanto-affiliated seed company) … [which] came with a license from Monsanto to plant the seed and then harvest and market one crop of beans." This appears to leave the question of that doctrine's continued validity for another case.

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