



MONSANTO COMPANY V. HOMAN MCFARLING Case Brief

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[Official Cite] Nos. 05-1570, -1598, May 24, 2007

JUDGES: Before Lourie, Rader, Bryson, Circuit Judges.

OPINION BY: Bryson

Procedural Posture:

This is the third time this case has been before the CAFC. After a damages trial, the district court entered an award of damages for patent infringement and rejected Mr. McFarling's arguments for vacating the judgment of liability. In the third and current appeal, the CAFC addressed these issues and reviewed the facts surrounding the jury's standard for calculating royalties.

Overview:

Are you certain of what your business and license agreements *really* say? Homan McFarling bought Monsanto's genetically modified seeds under a one-year agreement, and set some seeds aside to be planted in later years. After having been found to infringe Monsanto's patents by using second generation seeds, the royalties he must now pay for those extra seeds exceed the cost of the original license and seed purchase price, and include (1) all actual market costs avoided, (2) the indirect economic benefits Monsanto would have gained in the marketplace if the license was adhered to, and (3) other tangible economic benefits McFarling gained.

Facts:

- The patented technology relates to genetically modified soybean plants that contain an enzyme that confers resistance to the pesticide glyphosphate, also known as Roundup®. Farmers can apply Roundup® to crops containing the modified soybean plants to kill weeds without harming the soybean plants. Monsanto protected its genetically engineered soybean seeds under two of its patents, U.S. Patent No's 5,633,435 and 5,352,605.
- To obtain Monsanto's soybean seeds, farmers had to purchase the seeds from an authorized Monsanto dealer and had to sign a "Technology Agreement," promising not to replant seeds from the first generation of soybean crops and not to sell seeds that were produced by the first generation crop to others. Monsanto collected a license fee of \$6.50 per fifty-pound bag of seed and the dealer charged \$19 to \$22 per bag of seed.

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- In 1998, Homan McFarling purchased Monsanto's soybean seeds from an authorized dealer, signed the Technology Agreement for that year, and paid the license fee. Later that year, however, McFarling saved the seeds that came from the first generation soybean crop and planted those seeds in 1999. He repeated his actions again in 2000. He did not pay Monsanto the license fee for 1999 or 2000.

Issues:

Did the district court properly conclude that the jury's finding for damages of \$40 per fifty-pound bag of seed was supported by the evidence?

Holding:

The CAFC held that the jury's finding for damages of \$40 per fifty-pound bag of seed was supported by the evidence.

Analysis:

McFarling argued that he should pay no more than the \$6.50 license fee per bag. The Court disagreed with McFarling and noted that if the reasonable royalty were limited to the \$6.50 license fee, it would give infringers like McFarling an unfair advantage over farmers that complied with all of the provisions of the Monsanto license. First, the real cost would have been the \$6.50 license fee plus a \$19-22 fee to the seed dealer. Plus, the CAFC said other added value should be considered, including benefits to Monsanto under the license agreement such as monitoring seed quality and geographic distribution, price negotiation leverage with new seed companies, and lowered risk of under-reporting. Also, benefits were gained by McFarling, including increased crop yield and reduced weed control costs.

Monsanto said that the current injunction forced Monsanto to license its genetically engineered seeds to McFarling. Monsanto thus requested that the injunction be amended to enjoin McFarling from obtaining Monsanto's seeds unless Monsanto gave its "express authorization." The CAFC disagreed with Monsanto's need to amend the permanent injunction. McFarling could only legally obtain the seeds by entering into another technology agreement with Monsanto through the purchase of seeds from a lawful dealer, and the injunction would not and should not prohibit the licensed conduct.

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Lessons:

Both patentees and licensees of patented genetically modified organisms and related products should carefully consider all intended commercial uses, possible second generation organisms and products, and whether the related licenses or technology agreements provide sufficient detail and notice of prohibited and allowed activities. If infringement is indicated, the calculation of royalties will include actual market costs avoided and may also include indirect costs associated with the economic benefits normally derived by the licensor in the marketplace, plus other tangible economic benefits gained by the infringer.

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