

THE DAILY RECORD

WESTERN NEW YORK'S SOURCE FOR LAW, REAL ESTATE, FINANCE AND GENERAL INTELLIGENCE SINCE 1908

IP FRONTIERS

Soybean patents not exhausted – yet

A patent is often referred to as a bundle of rights. One of the strongest rights in the bundle is the right to exclude others from making, using or selling the patented item or performing the patented process.

However, the right to exclude others from using or selling is generally limited after the first sale of the patented item. This judicially created doctrine is called patent exhaustion, the exhaustion doctrine, or the first sale doctrine. It is similar to the limitation placed on copyright and trademark owners barring control over resale of a trademarked or copyrighted item.

The patent exhaustion doctrine also implicates anti-trust law, but that discussion is beyond the scope of this article.

The patent exhaustion doctrine limits the amount of control that a patent owner can have after the first sale of the device. The doctrine allows the purchaser of a patented item to use and resell that item without liability for infringement. Essentially, the original sale of a patented item includes an implied license to use and resell the item. Patentees have attempted to modify or limit this license with varying amounts of success.

The most recent wrinkle to the patent exhaustion doctrine was added by the Court of Appeals for the Federal Circuit in the recently announced case of *Monsanto Co. v. Bowman*. The Monsanto Co. is the maker of Roundup and Roundup Ready products, including genetically altered herbicide resistant plants. Monsanto owns several patents that protect the genetically modified plants.

In addition to the patents, Monsanto requires farmers to sign technology licenses when purchasing seed for planting. The technology license prohibits the farmer from saving seed from a harvest of the genetically modified plant and replanting it. This practice forces the farmer to purchase herbicide resistant seed from Monsanto for each and every planting.

Monsanto's patent and technology licensing strategies are coupled with an aggressive enforcement of its rights. Thus, the defendants in Monsanto litigations have often been their own customer-farmers.

In several earlier cases, Monsanto enforced the technology agreement against customer-farmers who violated the technology

license; usually by saving seed from a harvest for a subsequent planting. These cases were often a straight forward application of contract law based on the technology license.

Mr. Bowman, however, did not violate the technology license. Mr. Bowman planted his first crop with genetically modified seed from Monsanto. He planted a second, riskier crop with commodity seed purchased from a grain elevator and tested this seed for resistance to herbicides. Bowman saved this seed for subsequent plantings.

Monsanto was unable to assert a breach of the technology license against Mr. Bowman because he had not saved seed from his previous harvest or otherwise violated the agreement. Monsanto therefore had to rely solely on the infringement of the patents for the genetically modified plants.

Mr. Bowman asserted that the patents had been exhausted by the initial sale of the genetically modified seed. The Federal Circuit disagreed that patents were exhausted by the initial sale. The commodity seed purchased from the grain elevator was a copy of the originally sold seed and was not the original item sold; therefore, the patent exhaustion doctrine did not apply. The fact that the plants were self replicating and produced copies does not give the purchaser the right to use the copies.

Thus, *Monsanto v. Bowman* makes clear that the copies created by a self-replicating technology are true copies under the exhaustion doctrine and the sale and use of the copies may constitute infringement of the patent.

Monsanto has announced that it will not enforce its existing technology licenses once its current patents expire. These patents should expire in 2014 and farmers will be able to replant their seeds at will. Of course, the Monsanto strategy may be followed by other patentees of self-replicating technologies and Monsanto's frequent lawsuits remain a blueprint for protection.

The patent exhaustion doctrine applies to patents for devices as well as patents for methods. A 2008 U.S. Supreme Court case, *Quanta Computer, Inc. v. LG Electronics, Inc.*, held that the patent exhaustion applies to method patents and those methods could be embodied in a device.

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By **GARTH MASHMANN**

Daily Record
Columnist

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In *Quanta*, LG sold computer chips to Intel and Intel resold the chips to Quanta. These computer chips embodied the steps of a method patent. In other words, the chips performed, or were designed to perform, all of the necessary steps of the patent when connected to other electronics. The court reasoned that because all of the steps could be performed by the chips, the patent was exhausted by the sale from LG to Intel.

In addition, LG attempted to limit the possible resale of the patented chips by Intel. However, the LG-Intel license agreement did not expressly prohibit the sale of the chips or otherwise prohibit combination of the patented chips with other devices.

Nonetheless an agreement between a patentee and a first buyer should not limit the rights of subsequent purchasers. Although an agreement could limit or prohibit the right to resell

a patented article, the right to recover for a violation would be against the party to the contract and not the subsequent purchaser of the item.

When supplementing patent protection with contract protection, patentees are put in the unenviable position of suing their own customers and not the third party purchasers. Thus, it is clear that although limited to the articles actually sold, the patent exhaustion doctrine remains a viable shield for downstream purchasers who are accused of infringement with a device that is sold to them.

Garth H. Mashmann is an associate with the law firm of Heslin Rothenberg Farley & Mesiti PC. He can be reached via email at ghm@hrfmlaw.com, or at (518) 452-5600. The previous statements are for informational purposes only and do not constitute legal advice.