No. 04-31

In the Supreme Court of the United States

HOMAN MCFARLING, PETITIONER

v.

MONSANTO COMPANY

ON PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

BRIEF FOR THE UNITED STATES AS AMICUS CURIAE

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QUESTIONS PRESENTED

1. Whether a licensee may validly assert the defense of patent misuse in an action for breach of a patent-licensing agreement when the license allowed him to plant seeds embodying patented technology only for the purpose of growing crops for resale as a commodity, and not to save any new seeds (also embodying the patented technology) for replanting.

2. Whether a patentee engages in tying, in violation of Section 1 of the Sherman Act, 15 U.S.C. 1, when it allows the licensee to plant seeds embodying patented technology only for the purpose of growing crops for resale as a commodity, and not to save any new seeds (also embodying the patented technology) for replanting.

TABLE OF CONTENTS

Page

Statement 1
Discussion 7
Conclusion 20
Appendix 1a

TABLE OF AUTHORITIES

Cases:

B. Braun Med., Inc. v. *Abbott Labs.*, 124 F.3d 1419 (Fed. Cir. 1997) 11
Bement v. *National Harrow Co.*, 186 U.S. 70 (1902) 17
C.R. Bard, Inc. v. *M3 Sys., Inc.*, 157 F.3d 1340 (Fed. Cir. 1998), cert. denied, 526 U.S. 1130 (1999) 11, 13
Deakins v. *Monaghan*, 484 U.S. 193 (1988) 9
Diamond v. *Chakrabarty*, 447 U.S. 303 (1980) 12
General Talking Pictures Corp. v. *Western Elec. Co.*, 305 U.S. 124 (1938) 11
Hartford-Empire Co. v. *United States*, 323 U.S. 386 (1945) 17
Image Technical Servs., Inc. v. *Eastman Kodak Co.*, 125 F.3d 1195 (9th Cir. 1997), cert. denied, 523 U.S. 1094 (1998) 18
Independent Serv. Orgs. Antitrust Litig., In re, 203 F.3d 1322 (Fed. Cir. 2000), cert. denied, 531 U.S. 1143 (2001) 18

Cases—Continued: Page

International Salt Co. v. *United States*, 332 U.S. 392 (1947) 15
Jefferson Parish Hosp. Dist. No. 2 v. *Hyde*, 466 U.S. 2 (1984) 15, 17
J.E.M. Ag Supply, Inc. v. *Pioneer Hi-Bred Int'l, Inc.*, 534 U.S. 124 (2001) 7
Mannington Mills, Inc. v. *Congoleum Indus., Inc.*, 610 F.2d 1059 (3d Cir. 1979) 19, 20
Miller Insituform, Inc. v. *Insituform of N. Am., Inc.*, 830 F.2d 606 (6th Cir. 1987), cert. denied, 484 U.S. 1064 (1988) 18
Pennsylvania Dep't of Corr. v. *Yeskey*, 524 U.S. 206 (1998) 12
Powell v. *McCormack*, 395 U.S. 486 (1969) 9
SCM Corp. v. *Xerox Corp.*, 645 F.2d 1195 (2d Cir. 1981), cert. denied, 455 U.S. 1016 (1982) 18
Simpson v. *Union Oil*, 377 U.S. 13 (1964) 17
United States v. *Microsoft Corp.*, 253 F.3d 34 (D.C. Cir.), cert. denied, 534 U.S. 952 (2001) 20
United States v. *Munsingwear, Inc.*, 340 U.S. 36 (1950) 9
United States v. *United Shoe Mach. Co.*, 247 U.S. 32 (1918) 17
United States v. *Univis Lens Co.*, 316 U.S. 241 (1942) 10, 14
Webster v. *Reproductive Health Servs.*, 492 U.S. 490 (1989) 9
Yarn Processing Patent Validity Litig., In re, 541 F.2d 1127 (5th Cir. 1976), cert. denied, 433 U.S. 910 (1977) 19, 20

Case—Continued: Page

Zenith Radio Corp. v. *Hazeltine Research, Inc.*, 395 U.S. 100 (1969) 10, 11

Constitution, statutes, and rules:

U.S. Const. Art. I, § 8, Cl. 8 10

Plant Variety Protection Act, 7 U.S.C. 2321 *et seq.* 7

Sherman Act, 15 U.S.C. 1 *et seq.*:

15 U.S.C. 1 ..... 3, 15, 16, 17, 19

15 U.S.C. 2 ..... 3, 4, 16, 17, 18

35 U.S.C. 101 ..... 7, 12

35 U.S.C. 154(a)(1) 10, 14, 16

35 U.S.C. 252 13

35 U.S.C. 271(a) 13

35 U.S.C. 271(d) 11, 13, 14, 17

35 U.S.C. 282 13

Fed. R. Civ. P. 54(b) 4

Sup. Ct. R. 10 9

Miscellaneous:

Robert L. Stern et al., *Supreme Court Practice* (8th ed. 2002) 9

U.S. Dep't of Justice, *Report of the Department of Justice's Task Force on Intellectual Property* (Oct. 2004) 18

U.S. Dep't of Justice & Federal Trade Commission, *Antitrust Guidelines for the Licensing of Intellectual Property* (Apr. 6, 1995) 16

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This brief is filed in response to the Court's invitation to the Acting Solicitor General to express the views of the United States. The position of the United States is that the petition for a writ of certiorari should be denied.

STATEMENT

1. Respondent Monsanto Company manufactures the herbicide Roundup®. The active ingredient in Roundup, glyphosate, kills plants by inhibiting the activity of an enzyme necessary for growth. Because Roundup would otherwise affect crops and weeds alike, respondent developed a genetic sequence that, when inserted in the germplasm of certain seeds (including soybean seeds), produces a growth enzyme that is unaffected by glyphosate. A farmer using seed containing that genetic sequence can spray Roundup (or another glyphosate-based herbicide) on his crops without harming them.

Seed containing that genetic modification is marketed as Roundup Ready® seed. Pet. App. 2-3.

Respondent asserts that its Roundup Ready seed technology is protected by various utility patents, two of which are particularly relevant here. In U.S. Patent No. 5,633,435 (the '435 patent), respondent claimed, *inter alia*, the DNA molecule encoding the glyphosate-tolerant enzyme; plant cells containing that DNA molecule; plants containing such cells; the seeds of such plants; and the method of producing such plants. In U.S. Patent No. 5,352,605 (the '605 patent), respondent claimed a specific promoter (*i.e.*, a DNA sequence required for cellular production of a protein) and plant cells containing that promoter. It is undisputed that Roundup Ready soybean seed contains DNA molecules claimed by both patents. Pet. App. 3.

Respondent markets Roundup Ready soybean seed in two primary ways. First, it owns several subsidiaries that themselves manufacture Roundup Ready soybean seed; those subsidiaries have approximately a 20% share of the Roundup Ready seed market. Second, it licenses Roundup Ready technology to various third-party seed manufacturers. Respondent receives a "technology fee" of $6.50 for each 50-pound bag of Roundup Ready soybean seed sold by its licensees. Pet. App. 3-4.

Under the terms of their licenses with respondent, the seed manufacturers must require farmers to execute licenses of their own with respondent before allowing them to purchase the seed. In the relevant version of the "Monsanto Technology Agreement," respondent imposes limitations on farmers' use of the licensed soybean seed. Specifically, a purchasing farmer agrees (1) "[t]o use the seed containing Monsanto gene technologies for planting a commercial crop only in a single sea-

son"; (2) "[t]o not save any crop produced from this seed for replanting, or supply saved seed to anyone for replanting"; and (3) "[t]o not use this seed or provide it to anyone for crop breeding * * * or seed production." Pet. App. 4. Thus, a farmer who wishes to continue using Roundup Ready seed in future years must buy new seed annually, rather than saving and replanting seed from the previous year's harvest.

In 1998, petitioner Homan McFarling, a Mississippi farmer, purchased 1000 bags of Roundup Ready soybean seed and, in doing so, executed the Monsanto Technology Agreement. Petitioner saved 1500 bushels of seed from his 1998 crop and replanted that seed in 1999, and he again saved seed from his 1999 crop and replanted that seed in 2000. Pet. App. 5.

2. After learning that petitioner had replanted Roundup Ready seed, respondent brought suit against petitioner in the United States District Court for the Eastern District of Missouri, alleging, *inter alia*, that petitioner had infringed the '435 and '605 patents and that petitioner had breached the licensing agreement. Pet. App. 5. In his answer, petitioner raised various affirmative defenses, including a defense of patent exhaustion. See Answer 3. Petitioner also asserted various counterclaims, including (1) a claim that petitioner's licensing scheme constituted an unreasonable restraint of trade, in violation of Section 1 of the Sherman Act, 15 U.S.C. 1; (2) a claim that petitioner had engaged in actual or attempted monopolization, in violation of Section 2 of the Sherman Act, 15 U.S.C. 2; and (3) a claim that petitioner had engaged in patent misuse. See Second Amended Counterclaims ¶¶ 8-18, 19-21, 26-27. The district court granted respondent's motion for a preliminary injunction, No. 4:00-CV84CDP, 2001 WL 34082053

(E.D. Mo. Apr. 18, 2001), and the court of appeals affirmed, 302 F.3d 1291 (Fed. Cir. 2002). The court of appeals reasoned, *inter alia*, that petitioner was unlikely to succeed on his antitrust and patent-misuse counterclaims or on his defense of patent exhaustion. *Id.* at 1297-1299. This Court denied certiorari. 537 U.S. 1232 (2003).

3. The district court subsequently granted summary judgment to respondent on its claims of breach of the licensing agreement and infringement of the '605 patent, and on all of petitioner's counterclaims. Pet. App. 32-33, 35-49.[1] As to the patent-misuse counterclaim, the court rejected petitioner's contention that respondent "has engaged in patent misuse by impermissibly broadening the scope of its patent grant." *Id.* at 39. The court reasoned that the issuance of a "single use" license "is simply within the scope of this patent." *Ibid.* As to the tying counterclaim, the court noted that "what [petitioner] is arguing is that the trait and the seed are separate products, and that the tying is that [respondent] is forcing the farmer to buy the seeds when the farmer buys the traits." *Id.* at 41. The court reasoned that "[the trait and the seed] are inherently tied together as one single product, because the genetic trait is contained in the seed." *Id.* at 42.[2] Pursuant to Rule 54(b) of the Federal Rules of Civil Procedure, the court entered final judgment on respondent's claim for breach of the licens-

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[1] Respondent did not seek summary judgment on its claim of infringement of the '435 patent. See Pet. App. 42.

[2] The district court also granted summary judgment for respondent on petitioner's Section 2 claim, see Pet. App. 39-41, and held that summary judgment on petitioner's antitrust claims was in any event proper on the alternative ground that petitioner lacked antitrust standing, see *id.* at 39.

ing agreement, see Pet. App. 34, and on all counterclaims, see App., *infra*, 1a, but not on the claim of infringement of the '605 patent (because damages issues on that claim remained to be tried, see Pet. App. 33).

4. The court of appeals affirmed in part, vacated in part, and remanded. Pet. App. 1-31.

a. Treating petitioner's patent-misuse theory as a defense to respondent's breach-of-contract claim, the court of appeals held that the patent-misuse doctrine was inapposite. Pet. App. 8-12. The court reasoned that, in evaluating a patent-misuse defense, the critical inquiry was whether the patentee had "impermissibly broadened the scope of the patent grant with anticompetitive effect." *Id.* at 8 (citation omitted). "In the cases in which the restriction [being challenged] is reasonably within the patent grant," the court noted, "the patent misuse defense can never succeed." *Id.* at 9.

The court of appeals rejected petitioner's contention that respondent could be found to have "committed patent misuse because [respondent] has impermissibly tied an unpatented product to a patented product." Pet. App. 8. While acknowledging that tying can constitute patent misuse, the court reasoned that petitioner "does not raise a typical tying allegation." *Id.* at 9. Instead, the court noted, "the closest [petitioner] comes to alleging a tying argument is a suggestion that [respondent] has tied together the legal right to exclude granted by a patent and the entire, physical patented product (or combination of germplasm and trait)." *Id.* at 10. According to the court, petitioner was effectively arguing that "he should be granted a compulsory license to use the patent rights in conjunction with the second-generation [Roundup Ready] soybeans in his possession after harvest." *Ibid.*

After thus describing petitioner's claim, the court of appeals rejected the argument that "[respondent's] raw exercise of its right to exclude from the patented invention by itself is a 'tying' arrangement that exceeds the scope of the patent grant." Pet. App. 10. The court recognized that the licensing 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," and noted that "[o]ur 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." *Id.* at 11. However, relying on the "unique set of facts" that the licensed product (*i.e.*, the first-generation Roundup Ready seeds) and the good made by the licensed product (*i.e.*, the second-generation seeds) were "nearly identical," and concluding (in view of petitioner's failure to challenge the '435 patent, *id.* at 12 n.1) that "we must presume that [respondent's] '435 patent [covers] * * * the second-generation seeds," the court held that the restriction on the use of second-generation seeds "do[es] not extend [respondent's] rights under the patent statute," *id.* at 11-12.

Although the court of appeals rejected petitioner's patent-misuse defense, it vacated the district court's entry of final judgment on respondent's breach-of-contract claim on the ground that the liquidated-damages clause in the licensing agreement was unenforceable. Pet. App. 15-31.

b. The court of appeals also rejected petitioner's tying counterclaim, on the ground that it constituted merely a "repackage[d]" version of his patent-misuse defense. Pet. App. 12-14. The court observed that "the anticompetitive effect of which [petitioner] complains is

part and parcel of the patent system's role in creating incentives for potential inventors." *Id.* at 13. Although the court of appeals conceded that whether the trait and the seed were distinct products for tying purposes was a question of fact, it reasoned that the district court's determination concerning the unified nature of the market for the trait and the seed was "not relevant" to its own holding, because petitioner "is not alleging that he is unable to, or even that he desires to, purchase a 'natural' soybean seed and the [Roundup Ready] genetic trait as distinct items." *Ibid.* Instead, the court of appeals concluded, petitioner "alleges only that [respondent] refuses to grant him a license to use the second-generation genetically modified seeds in his possession after harvest in his preferred manner." *Id.* at 13-14.[3]

DISCUSSION

This case involves a challenge to the validity of certain patent-licensing restrictions in the specific factual context of a product that embodies presumptively patented technology and reproduces itself in materially identical form. In holding that the restrictions in respondent's patent-licensing agreement constituted neither

[3] The court of appeals also rejected petitioner's contention that the Plant Variety Protection Act (PVPA), 7 U.S.C. 2321 *et seq.*, prevented respondent from prohibiting the saving of seeds in its licensing agreement. Pet. App. 14. As the court of appeals noted (*ibid.*), in *J.E.M. Ag Supply, Inc.* v. *Pioneer Hi-Bred International, Inc.*, 534 U.S. 124 (2001), this Court recognized that (1) plants could constitute patentable subject matter under 35 U.S.C. 101; (2) Section 101, unlike the PVPA, provides no exemption for the saving of seeds; and (3) the PVPA did not displace protection for plants under Section 101. Respondent did not pursue an affirmative claim against petitioner under the PVPA, and petitioner does not challenge the court of appeals' disposition of his PVPA defense.

patent misuse nor tying, the court of appeals correctly applied settled law to that context. The court of appeals' decision does not conflict with any decision of this Court or of a court of appeals, and it presents no question of federal law warranting further review. Accordingly, the petition for a writ of certiorari should be denied.

1. As a preliminary matter, petitioner contends (Supp. Br. 4-7) that the petition should be granted, and the case remanded to the court of appeals, in light of subsequent developments in the district court. That contention lacks merit.

The petition for certiorari filed in this case challenges the court of appeals' rejection of two legal theories advanced by petitioner: (1) his patent-misuse defense to respondent's breach-of-contract claim, and (2) his tying counterclaim. In addition to rejecting those claims, the court of appeals also vacated the district court's entry of final judgment on respondent's breach-of-contract claim on grounds not challenged here, and it remanded for further proceedings on that claim. See Pet. App. 30-31. Since the petition in this case was filed, however, respondent has withdrawn, and the district court has dismissed, its breach-of-contract claim. See Supp. Br. App. 1.

Petitioner contends (Supp. Br. 1) that the dismissal of this claim (along with the simultaneous dismissal of respondent's claim of infringement of the '435 patent) constitutes a "fundamental change in the underlying circumstances of the case." At most, however, the dismissal of the breach-of-contract claim renders moot the issue whether petitioner asserted a valid patent-misuse defense to that (now-dismissed) claim. It cannot render the entire case moot, because petitioner continues to challenge the court of appeals' disposition of his tying

counterclaim.[4] When one but not all of the issues presented becomes moot, "the remaining live issues supply the constitutional requirement of a case or controversy." *Powell* v. *McCormack*, 395 U.S. 486, 497 (1969).

To be sure, this Court has stated that, "[w]hen a claim is rendered moot while awaiting review by this Court, the judgment below should be vacated with directions to the District Court to dismiss the relevant portion of the complaint." *Deakins* v. *Monaghan*, 484 U.S. 193, 200 (1988) (citing *United States* v. *Munsingwear, Inc.*, 340 U.S. 36, 39-40 (1950)); accord *Webster* v. *Reproductive Health Servs.*, 492 U.S. 490, 512-513 (1989). That general rule is appropriate when, as was true in *Deakins* and similar cases, the Court has already determined that the case merits plenary review. It has been the consistent position of the United States, however, that because the decision whether to grant review on any issue (including mootness) is discretionary with this Court, see Sup. Ct. R. 10, the Court should deny review of cases (or claims) that have become moot after the court of appeals entered its judgment but before this Court has acted on the petition, when such cases (or claims) do not present any question that would independently be worthy of this Court's review. See, *e.g.*, U.S. Br. in Opp. at 5-8, *Velsicol Chem. Corp.* v. *United States*, cert. denied, 435 U.S. 942 (1978) (No. 77-900) (arguing that Court should deny certiorari in moot cases that would not have warranted review on the merits); Robert L. Stern et al., *Supreme Court Practice* § 18.4, at 830 n.30 (8th ed. 2002) (noting that the Court appears

[4] The dismissal of the claim of infringement of the '435 patent does not render moot either of the claims raised in the petition, and ultimately has little if any effect on the merits of those claims. See p. 13 n.7, *infra*.

to follow the approach proposed in the government's brief in *Velsicol*); U.S. Br. on Mootness at 8 n.6, *U.S. Bancorp Mortgage Co.* v. *Bonner Mall P'ship*, 513 U.S. 18 (1994) (No. 93-714).

Such an approach is particularly appropriate in a case like this one, in which only one claim addressed in the petition is moot. In light of the sometimes difficult nature of mootness issues, it would be unfruitful for this Court to expend its resources determining whether a case that does not merit plenary review is, in fact, moot in part. For the reasons given below, this case does not present any issue that would otherwise warrant the Court's review, and the petition for a writ of certiorari should therefore be denied.

2. The court of appeals correctly held in this case that respondent's decision to authorize its licensees to use purchased seed only for the purpose of planting a commercial crop, and not to save any new seeds for replanting, did not constitute patent misuse.

a. The Constitution confers on Congress the legislative power "[t]o promote the Progress of Science and useful Arts, by securing for limited Times to * * * Inventors the exclusive Right to their * * * Discoveries." U.S. Const. Art. I, § 8, Cl. 8. Congress has accordingly granted to a patentee "the right to exclude others from making, using, offering for sale, or selling the invention" for the term of the patent. 35 U.S.C. 154(a)(1). That exclusionary right is at the "[t]he heart of [a patentee's] legal monopoly," *Zenith Radio Corp.* v. *Hazeltine Research, Inc.*, 395 U.S. 100, 135 (1969), because it "enable[s] [the patentee] to secure the financial rewards for his invention," *United States* v. *Univis Lens Co.*, 316 U.S. 241, 250 (1942).

The doctrine of patent misuse is a defense to a claim of patent infringement (and, by extension, to a claim of breach of a patent-licensing agreement).[5] That doctrine seeks to prevent a patentee from "extend[ing] the monopoly of his patent to derive a benefit not attributable to use of the patent's teachings." *Zenith Radio*, 395 U.S. at 136. Under the patent-misuse doctrine, "[t]he key inquiry is whether, by imposing conditions that derive their force from the patent, the patentee has impermissibly broadened the scope of the patent grant with anticompetitive effect." *C.R. Bard, Inc.* v. *M3 Sys., Inc.*, 157 F.3d 1340, 1372 (Fed. Cir. 1998), cert. denied, 526 U.S. 1130 (1999). A patentee, however, does not engage in patent misuse when it merely invokes its core right to refuse to license its patented invention. See 35 U.S.C. 271(d) ("No patent owner otherwise entitled to relief for infringement * * * of a patent shall be * * * deemed guilty of misuse or illegal extension of the patent right by reason of his having * * * (4) refused to license or use any rights to the patent."). Similarly, this Court has long held that a patentee may conditionally license its patent subject to a "field-of-use" restriction: that is, a restriction that the patented product may be used only in a defined field. See, *e.g.*, *General Talking Pictures Corp.* v. *Western Elec. Co.*, 305 U.S. 124, 126-127 (1938) (upholding validity of license to make and sell amplifiers "only for radio amateur reception, radio experimental reception and radio broadcast reception").

b. In the present posture of this case, it must be assumed that respondent's patents cover all Roundup

[5] Courts have repeatedly held that the doctrine of patent misuse is an affirmative defense, rather than an independent cause of action. See, *e.g.*, *B. Braun Med., Inc.* v. *Abbott Labs.*, 124 F.3d 1419, 1428 & n.5 (Fed. Cir. 1997).

Ready soybeans, including both first-generation seed (*i.e.*, seed purchased from seed manufacturers) and second-generation seed (*i.e.*, seed that is produced from first-generation seed). The district court entered partial summary judgment in favor of respondent on its claim that petitioner's replanting of second-generation seed infringed the '605 patent (which claims, *inter alia*, certain DNA sequences concededly contained in Roundup Ready seed, Pet. App. 3), and that determination is not at issue at this stage of the appellate proceedings, *id.* at 32-33, 42-43. Likewise, there appears to be no dispute that the '435 patent (which claims, *inter alia*, the "seed[s] of a glyphosate-tolerant plant," *id.* at 3) covers the second-generation seeds replanted by petitioner.[6]

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[6] Petitioner does not appear to challenge the validity of the '605 patent (see Pet. App. 6), but does suggest (Pet. 13-14) that the seed claimed by the '435 patent "contains not only a genetically-altered gene, but also contains thousands of other genes which are not made by [respondent] but by God." See also Supp. Br. 6-7 (same); C.A. Reply Br. 4, 7 (same). Petitioner's argument in this regard amounts to a challenge to the validity of this claim of the '435 patent on the ground that it violates the prohibition against patenting "products of nature." See generally *Diamond* v. *Chakrabarty*, 447 U.S. 303 (1980) (holding that natural phenomena are not patentable, but that a genetically altered bacterium with "markedly different characteristics from any found in nature" and "the potential for significant utility" was patentable under 35 U.S.C. 101). The court below declined to consider the validity of the '435 patent at this stage of the litigation, however, because petitioner did not preserve the issue. Pet. App. 12 n.1. Accordingly, the issue is not properly before this Court. See, *e.g.*, *Pennsylvania Dep't of Corr.* v. *Yeskey*, 524 U.S. 206, 212-213 (1998). Moreover, because petitioner does not challenge the validity of the claim in the '435 patent that covers only the genetically modified material rather than the remainder of the seed, petitioner cannot contend that the '435 patent would not cover Roundup Ready soybean seed.

In fact, petitioner forthrightly acknowledged below "the indisputable fact that second-generation, genetically-altered seed contain[s] * * * patented man-made components." C.A. Reply Br. 7. As the case comes to this Court, therefore, respondent's patents must be presumed valid, see 35 U.S.C. 282, and it must be assumed that a farmer who "without authority makes, uses, offers to sell, or sells" first- *or* second-generation Roundup Ready seeds would infringe respondent's patents, see 35 U.S.C. 271(a) and (d).[7]

Against that backdrop, the court of appeals correctly concluded that the patent-misuse defense did not apply. As the court recognized (Pet. App. 10), petitioner's fundamental grievance is that respondent does not license farmers to save and replant second-generation Roundup Ready soybean seeds, with the result that farmers must repurchase Roundup Ready seed each year if they wish to continue planting it. In order to demonstrate patent misuse, however, petitioner was required to show that respondent's restrictions on the use of second-generation seeds "impermissibly broadened the scope of the patent grant." *C.R. Bard*, 157 F.3d at 1372. No such showing could be made here, because included within

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[7] Respondent has filed an application with the Patent and Trademark Office seeking to reissue the '435 patent with certain amended claims. The pendency of the reissue application does not affect the validity or scope of the patent, and a reissued patent relates back to the date of the original patent to the extent its claims are substantially identical. See 35 U.S.C. 252. After filing its reissue application, and after the petition for certiorari was filed, respondent withdrew, and the district court dismissed, its claim of infringement of the '435 patent. See Supp. Br. App. 1. That dismissal does not necessarily prevent respondent from relying on the '435 patent to rebut petitioner's patent-misuse defense to the breach-of-contract claim, however, and in any event the district court's judgment of infringement of the '605 patent still stands.

"the scope of the patent grant" is "the right to exclude others from * * * using * * * the invention." 35 U.S.C. 154(a)(1). As this case comes before the Court, respondent's refusal to license petitioner to plant second-generation (and hence patented) Roundup Ready seed merely constitutes an exercise of that statutory right, and thus cannot be patent misuse. See 35 U.S.C. 271(d).

The court of appeals carefully limited the scope of its holding, emphasizing that the patented invention at issue here is self-replicating, so that "the good made by the licensed product (the second-generation seeds)" is a "nearly identical cop[y]" and therefore also within the scope of the patent. Pet. App. 11-12. The court distinguished the restrictions at issue from "restrictions placed on goods made by, yet not incorporating, the licensed good," suggesting that such restrictions might amount to patent misuse. *Id.* at 11. The decision below thus involves a narrow application of established legal principles to a specific factual context involving a self-replicating product, and does not merit review.[8]

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[8] The first question presented in the petition is whether "a patent holder [may] lawfully prohibit farmers from saving and replanting seed as a condition to the purchase of patented technology." Pet. i. Insofar as that question is broad enough to cover other defenses to respondent's breach-of-contract claim besides patent misuse, petitioner does not appear to have preserved any such defenses for review in this Court. In his answer to the complaint, petitioner raised as an affirmative defense the doctrine of "patent exhaustion" (or "first use"). See Answer 3. Under that doctrine, "sale of [a patented product] exhausts the monopoly in that article and the patentee may not thereafter, by virtue of his patent, control the use or disposition of the article." *United States* v. *Univis Lens Co.*, 316 U.S. 241, 250 (1942). After the court of appeals concluded at the preliminary-injunction stage that petitioner was unlikely to succeed on his patent-exhaustion defense,

3. The court of appeals also correctly held that respondent did not engage in tying in violation of Section 1 of the Sherman Act.

a. As this Court has noted, "the essential characteristic of an invalid tying arrangement lies in the seller's exploitation of its control over [one] product to force the buyer into the purchase of [another] product that the buyer either did not want at all, or might have preferred to purchase elsewhere on different terms." *Jefferson Parish Hosp. Dist. No. 2* v. *Hyde*, 466 U.S. 2, 12 (1984). In the specific context in which the seller holds a patent on the first (or "tying") product, "[a]ny effort to enlarge the scope of the patent monopoly by using the market power it confers to restrain competition in the market for a second product" constitutes an illegal tie. *Id.* at 16. Thus, it is unlawful for a patentee with market power to condition the sale or lease of a patented product on the condition that the buyer make all of its purchases of a second, unpatented product from the patentee. See, *e.g.*, *International Salt Co.* v. *United States*, 332 U.S. 392, 395-396 (1947).[9]

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however, petitioner appears to have abandoned it. In any event, the court of appeals' earlier resolution of that issue, in the context of an appeal from the entry of a preliminary injunction, is not worthy of review. That decision is not inconsistent with any decision of this Court or of a court of appeals, as it involves the novel question whether (and, if so, to what extent) the patent-exhaustion doctrine applies to restrictions on the use of a materially identical patented product that was produced by the patented product sold by the patentee. That question may not recur with any frequency, and it would be beneficial to have a fully considered resolution of that question in the lower courts.

[9] The question whether market power in the tying product can be presumed based on the existence of a patent on that product is currently pending before this Court. See *Illinois Tool Works Inc.* v. *Independent Ink, Inc.*, petition for cert. pending, No. 04-1329 (filed Apr. 4,

b. In this Court, petitioner asserts (Pet. 9) that respondent impermissibly "ties unwanted new seed to the right to purchase the patented technology," in violation of Section 1 of the Sherman Act.[10] Thus, the allegedly tied product is "new soybeans" and the tying product is "the patented technology." Pet. 10. That tying claim lacks merit.

As the court of appeals correctly noted (Pet. App. 10, 13-14), petitioner did not contend that he was unable to buy, plant, and save soybean seeds lacking respondent's technology, or that he sought a license to purchase, make, or use respondent's technology independent of the remainder of the seed. Thus, the court correctly concluded that petitioner's "tying" theory reduces to the notion that he is entitled to purchase respondent's patented invention without also honoring limits imposed on the use of the product in which that invention finds its useful, tangible expression. Petitioner points to no authority for that novel proposition, and for good reason: it is contrary both to the fundamental nature of the patent grant, which confers on the patentee the right to refuse to license its invention, see 35 U.S.C. 154(a)(1),

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2005). The Department of Justice and the Federal Trade Commission "will not presume that a patent * * * necessarily confers market power upon its owner," because "there will often be sufficient actual or potential close substitutes for such product * * * to prevent the exercise of market power." U.S. Dep't of Justice & Federal Trade Commission, *Antitrust Guidelines for the Licensing of Intellectual Property* § 2.2, at 4 (Apr. 6, 1995).

[10] Although petitioner advanced counterclaims under both Section 1 and Section 2 in the district court, petitioner has invoked only Section 1 in this Court (Pet. 1, 9), and he appears to have relied solely on Section 1 in the court of appeals (Pet. C.A. Br. 18-25).

271(d),[11] and to the fundamental competitive concerns underlying antitrust law.

Respondent's unilateral refusal to license petitioner to save and replant second-generation seed, even if viewed as "tying," does not improperly threaten competition in any market for Roundup Ready seeds or "enlarge the scope of the patent monopoly." *Jefferson Parish*, 466 U.S. at 16. The patent grant *itself* prohibits petitioner from saving and replanting patented seed without a license. Respondent's license restrictions thus do not constitute an unreasonable restraint of trade under Section 1 of the Sherman Act—just as they do not constitute patent misuse. See Point 2, *supra*; cf. *Simpson* v. *Union Oil Co.*, 377 U.S. 13, 24 (1964) (noting that "[t]he patent laws[,] which give a 17-year monopoly on 'making, using, or selling the invention[,]' are *in pari materia* with the antitrust laws and modify them *pro tanto*"); *United States* v. *United Shoe Mach. Co.*, 247 U.S. 32, 57 (1918) (reasoning that exercise of "the right to exclude others from the use of the invention * * * is not an offense against the Anti-Trust Act").

That conclusion is bolstered by case law involving Section 2 of the Sherman Act, which indicates that the refusal to license the saving and replanting of second-generation seed in this case would not support a monopolization claim. Consistent with the principle that the

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[11] Accord *Hartford-Empire Co.* v. *United States*, 323 U.S. 386, 432 (1945) ("A patent owner is not in the position of a quasi-trustee for the public or under any obligation to see that the public acquires the free right to use the invention. He has no obligation either to use it or to grant its use to others."); *Bement* v. *National Harrow Co.*, 186 U.S. 70, 90 (1902) ("[The patentee's] title is exclusive, and so clearly within the constitutional provisions in respect of private property that he is neither bound to use his discovery himself nor permit others to use it.").

right to exclude is at the heart of a patentee's legal monopoly, lower courts have correctly held that the unilateral unconditional refusal to issue a license for a valid patent does not give rise to liability as an improper refusal to deal under Section 2. See, *e.g.*, *In re Indep. Serv. Orgs. Antitrust Litig.*, 203 F.3d 1322, 1325-1328 (Fed. Cir. 2000), cert. denied, 531 U.S. 1143 (2001); *Miller Insituform, Inc.* v. *Insituform of N. Am., Inc.*, 830 F.2d 606, 609 (6th Cir. 1987), cert. denied, 484 U.S. 1064 (1988); *SCM Corp.* v. *Xerox Corp.*, 645 F.2d 1195, 1204-1207 (2d Cir. 1981), cert. denied, 455 U.S. 1016 (1982); but cf. *Image Technical Servs., Inc.* v. *Eastman Kodak Co.*, 125 F.3d 1195, 1219 (9th Cir. 1997) (permitting antitrust liability if refusal to issue license is "pretextual"), cert. denied, 523 U.S. 1094 (1998); see generally U.S. Dep't of Justice, *Report of the Department of Justice's Task Force on Intellectual Property* 41 (Oct. 2004) ("It is well established under United States law that an intellectual property owner's decision not to license its technology to others cannot violate the antitrust laws.").[12]

In addition, it is far from clear whether a requirement that respondent issue licenses to allow the saving and replanting of Roundup Ready seed would have any beneficial effects on competition or for consumers. Under such a requirement, respondent could charge a fee

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[12] This case does not present the question whether respondent engaged in actual or attempted monopolization under Section 2. See p. 16 n.10, *supra*. Nevertheless, the Section 2 cases discussed in text are relevant in assessing the validity of the contractual restraint challenged in this case, because the unilateral refusal to grant a license is simply the obverse of the contractual use limitation at issue here, and the legal justification for each—namely, the statutory rights conferred by the patent grant—is the same.

for allowing farmers to save and replant seed (as petitioner appears to concede, see Pet. 10).[13] Moreover (as petitioner also appears to concede, see Pet. 5), requiring respondent to issue such self-renewing licenses (with attendant monitoring costs) could create disincentives for seed manufacturers to produce Roundup Ready seed, with the result that the price of such seed could actually increase, net of the new fee charged by respondent under petitioner's proposed rule. The absence of any clear evidence that it would be procompetitive to require respondent to issue a license on petitioner's desired terms provides further support for the conclusion that petitioner cannot assert a valid Section 1 claim.

Petitioner contends (Pet. 13) that the court of appeals' decision conflicts with *Mannington Mills, Inc.* v. *Congoleum Industries, Inc.*, 610 F.2d 1059 (3d Cir. 1979), and *In re Yarn Processing Patent Validity Litigation*, 541 F.2d 1127 (5th Cir. 1976), cert. denied, 433 U.S. 910 (1977). Both of those cases, however, are readily distinguishable. In *Mannington Mills*, the court

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[13] Citing the lower price of Roundup Ready seed in Argentina, petitioner contends (Pet. 6) that the price of Roundup Ready seed in the United States would in fact be lower if respondent were required to issue licenses for saving and replanting. But it is not clear why the shift to charging an additional fee for the use of second-generation seed, as opposed to forbidding such use via licensing agreements, would result in lower prices, assuming an equivalent level of effective intellectual-property protection. The economist on whom petitioner relies based his conclusion on a General Accounting Office report, which noted that (1) Roundup Ready seed is not patented in Argentina, and respondent therefore does not collect a licensing fee on its sale; (2) an estimated 25% to 50% of soybean seeds grown in Argentina were sold in violation of Argentina's seed law, which provides another form of intellectual-property protection; and (3) soybean prices generally were lower in Argentina than in the United States. C.A. App. 732, 735, 739.

held only that a licensee could state a valid antitrust claim based on its termination by a patentee that was acting in concert with competing licensees. 610 F.2d at 1073. In so holding, however, the court expressly recognized that a patentee could impose license restrictions "vertically" on a licensee "in pursuit of the patentee's own marketing strategy." *Ibid.* And in *Yarn Processing*, the court invalidated a horizontal agreement under which a patentee agreed to pay the manufacturers of its machine a fixed percentage of royalty income generated by use of the machine, on the ground that the patentee had "effectively fixed the price of the machinery." 541 F.2d at 1136. The court, however, did not purport to invalidate *all* profit sharing between a patentee and its licensees, and expressly recognized that the patentee "had the right to license the use of the machinery separately from its manufacture and sale." *Id.* at 1135. Because petitioner does not identify a valid conflict between the decision below and any decision of this Court or a court of appeals, further review is unwarranted.[14]

CONCLUSION

The petition for a writ of certiorari should be denied.

Respectfully submitted.

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[14] Petitioner suggests (Pet. 12) that the D.C. Circuit's analysis of copyright law in *United States* v. *Microsoft Corp.*, 253 F.3d 34, cert. denied, 534 U.S. 952 (2001), conflicts with the decision below. *Microsoft*, however, did not address refusals to license intellectual property, and the court of appeals in this case did not purport to hold that "owning patents on all products covered by a licensing agreement * * * immunize[s] the agreements from antitrust scrutiny." Pet. 12. Instead, the court addressed only the particular license agreement and claims before it, which involved a "unique set of facts." Pet. App. 11.

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MAY 2005

APPENDIX

UNITED STATES DISTRICT COURT
EASTERN DISTRICT OF MISSOURI
EASTERN DIVISION

Civil Action No.: 4:00CV00084CDP

MONSANTO COMPANY, PLAINTIFF

v.

HOMAN MCFARLING, DEFENDANT

[Filed: Jan. 14, 2003]

ORDER UNDER RULE 54(B)
CERTIFYING AS FINAL THIS COURT'S DISMISSAL
OF DEFENDANT'S COUNTERCLAIM

This cause came on before the Court on a motion of Defendant for an order certifying as final this Court's dismissal of Defendant's counterclaim. The Court finds that there is no just reason for delay in entering a final judgment of dismissal of the counterclaim. All issues with respect to Defendant's counterclaim were fully and finally resolved in the Order of November 5, 2002.

Accordingly, final judgment is hereby entered on Defendant's counterclaim pursuant to Federal Rule of Civil Procedure 54(b).

ORDERED, this 14th day of January, 2003.

/s/ CATHERINE D. PERRY
U.S. DISTRICT JUDGE