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Supreme Court Bolsters Patent Owner Rights in Self-Replicating Technologies

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Legal Update

In the second U.S. Supreme Court opinion this term to address the "exhaustion" of intellectual property rights, the Court unanimously held that the doctrine of patent exhaustion does not permit purchasers of certain types of patented, self-reproducing articles to reproduce the patented articles without the patent owner's permission. The case, *Bowman v. Monsanto Co.*, involved a farmer, Bowman, who planted and harvested soybeans that were the progeny of first generation soybeans embodying Monsanto's patented technology. Justice Kagan, writing for the majority, explained that Monsanto's sale of the first generation soybeans only exhausted its rights in that generation, not in subsequent generations.

Under the doctrine of patent exhaustion, a patent owner's rights in a product are exhausted by the first sale of that product to a buyer. Once the product has been purchased, the patentee has no right to restrict the product's use. According to Bowman's proposed theory of the patent exhaustion doctrine, however, patent rights in a self-replicating technology are exhausted not only for the sale of the first generation product, but also for subsequent generations produced from the first generation. Moreover, Bowman argued, only some of the soybeans that he replanted were purchased directly from Monsanto—which only sells the patented soybeans pursuant to an express licensing agreement prohibiting the replanting and harvesting of future generation soybeans. The remainder of the soybeans was purchased from a "grain elevator" with no express use restrictions. The Court flatly rejected Bowman's arguments for both types of seeds and confirmed that there are no exceptions under the patent exhaustion doctrine for self-replicating technologies.

That some of the soybeans were sold pursuant to an express licensing agreement prohibiting Bowman's behavior did not appear to impact the Court's decision. Rather, the Court's reasoning was primarily motivated by the need to create incentives for innovation by providing inventors with rewards commensurate to their effort. "[I]f simple copying were a protected use," the Court reasoned, "a patent would plummet in value after the first sale of the first item containing the invention . . . [a]nd that would result in less incentive for innovation than Congress wanted." Thus, although the actual holding is somewhat narrow, the policy concerns raised in the opinion have a much broader reach that could potentially sway future disputes over patents for self-replicating technologies in the patentee's favor.

However, the decision also highlights the importance of use-restricting licensing agreements for protecting self-replicating technologies. Although the licensing agreement in this case did not have any impact, the opinion does not address the situation where a self-replicating technology is sold without an express licensing agreement. The majority opinion also cautioned against applying the holding to other self replicating technologies, particularly where "self replication might occur outside the purchaser's control" or where self replication is "a necessary but incidental step in using the item for another purpose." Therefore, to secure protection for self-reproducing technologies in view of *Monsanto*, it would be prudent for patent owners to continue to employ licensing agreements that limit replication of self-replicating products, particularly where replication is outside the user's control or where it is a "necessary but incidental step in using the item for another purpose."

This advisory was prepared by Nutter's Intellectual Property practice. For more information, please contact your Nutter attorney at 617.439.2000.

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