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LITIGATION

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RECORD HARVEST

How Monsanto turned a huge verdict against DuPont into a bigger license for its soybeans.

By Anne Stuart

Plus:

Banks lose early rulings in MBS suits.

Ted Franks wins class action settlement challenges.

Monsanto outside counsel
George Lombardi
of Winston & Strawn



Seeds of a Settlement

A decade after Monsanto licensed its soybean patents to DuPont, the two companies signed a second licensing deal. In between came bitter court fights, an embarrassing sanctions order, and a record-setting jury verdict.

BY ANNE STUART

THEY WERE THE KIND OF EMAILS THAT EXECUTIVES everywhere send dozens of times daily—quick requests for information, written in an almost telegraphic style. The kind of emails that the writers probably forgot about immediately as they moved on to other matters. The kind of emails that no one expected would undergo word-by-word scrutiny in a lawsuit years later. But that’s exactly what happened with emails written by officials at E.I. du Pont de Nemours and Company and one of its subsidiaries that became key pieces of evidence in a patent infringement suit brought by Monsanto Company. The emails led to a blistering sanctions order against DuPont and a massive damages award for Monsanto, which in turn led to a \$1.75 billion settlement between the two companies.

The emails focused on a 2002 agreement in which Monsanto granted a restricted license for some of its genetically modified soybean seed patents to the DuPont subsidiary, then known as Pioneer Hi-Bred International Inc. DuPont said it believed that the agreement permitted Pioneer to develop its own modified soybeans by “stacking” or combining, Pioneer’s gene traits with Monsanto’s traits. But Monsanto insisted that the license specifically banned stacking, and that officials at DuPont and Pioneer knew this, as shown by their emails.

U.S. District Judge E. Richard Webber, who presided over the case in Monsanto’s hometown of St. Louis, also believed that the emails proved that Wilmington-based DuPont recognized that it was in the wrong. He liberally quoted from the messages in a December 2011 sanctions order in which he wrote that the defendants “knowingly committed a fraud upon the court.”

Monsanto relied heavily on additional emails written by DuPont and Pioneer officials when the case went to trial last summer. “We thought the evidence showed that DuPont was fully aware of restrictions on stacking and went forward and stacked anyway,” says Monsanto lead counsel George Lombardi of Winston & Strawn. He adds, “It wasn’t any single one [email]—the totality established that.”

Donald Flexner of Boies, Schiller & Flexner and Leora Ben-Ami, who moved from Kaye Scholer to Kirkland & Ellis two months before the trial started, led the defense for DuPont and Pioneer. (Flexner didn’t respond to requests for comments for

this story. Ben-Ami referred requests to DuPont, which declined to comment beyond its previous press releases.) Unable to argue that their clients thought the licensing agreement included stacking rights, Ben-Ami and Flexner instead pointed out that Pioneer never sold any seeds that incorporated Monsanto’s technology.

Monsanto argued that it didn’t matter whether the defendants had actually brought any stacked seeds to market—they could resume their plans to do so after Monsanto’s patent expired. The company’s damages expert used DuPont and Pioneer’s own financial projections to estimate that this “illegal head start” was worth between \$800 billion and \$1.2 billion in potential lost royalties. The jurors sided with Monsanto, and on August 1 they awarded the company \$1 billion in damages, the third-largest verdict of 2012.

Eight months after that verdict, however, Monsanto and DuPont made up. On March 26 the companies jointly announced a long-term licensing deal involving the next generation of Monsanto’s soybean seed patents. DuPont will make fixed royalty payments of \$802 million through 2017, plus at least another \$950 million in variable payments through 2023. As part of their agreement, the companies dropped their suits against each other and agreed to move for dismissal of the jury verdict, though the sanctions order remains under appeal. In media statements, executives from both companies described their renewed partnership as the start of a new era of cooperation and innovation. (DuPont general counsel Thomas Sager and Monsanto general counsel David Snively declined to talk about the case for this article.)

But before the truce, there was the war.

AFTER ITS FOUNDING IN 1901, MONSANTO MADE A WIDE range of chemicals before choosing to focus on agricultural chemicals after World War II. In the mid-1970s the company developed a particularly effective herbicide called Roundup, based on an active ingredient called glyphosate. Roundup was the world’s best-selling weed-killer until 2000, when Monsanto’s patent expired and other glyphosate-based herbicides began to enter the market.

During the 1990s, Monsanto began developing soybean seeds that were genetically modified to withstand exposure to glypho-



MONSANTO OUTSIDE COUNSEL GEORGE LOMBARDI OF WINSTON & STRAWN SAYS THAT DUPONT'S INTERNAL EMAILS PLAYED A KEY ROLE IN HIS CLIENT'S WIN.



sate. In other words, if fields are sprayed with a glyphosate-based herbicide, weeds will die, but crops grown from glyphosate-resistant seeds will survive. Significantly, this allows for no-till or reduced-till farming, saving farmers' time and preventing soil erosion. In 1997 Monsanto received a patent for the soybeans, which it sold under the Roundup Ready brand. The product now accounts for more than 95 percent of all soybeans grown in the United States, according to the company, which has since developed Roundup Ready seeds for alfalfa, canola, corn, cotton, and sugar beets.

Since its founding in 1802, DuPont has manufactured everything from gunpowder to cookware coatings to the Kevlar fiber used in body armor. It too has moved into the agriculture and biotechnology business in recent decades, both in its own product development and through its acquisitions. In 1997 DuPont bought 20 percent of Des Moines-based Pioneer, and two years later acquired the rest for about \$7.7 billion.

Pioneer was founded in 1926 by Henry Wallace—then an editor of

MONSANTO'S ROUNDUP HERBICIDE IS ONE OF ITS TOP PRODUCTS.

a farm journal, later a vice president under President Franklin Roosevelt—in order to produce high-yield corn hybrids. The company later expanded into other crops, and added soybeans in 1973, the same year it went public. Today, Pioneer is the nation's largest hybrid seed producer. After DuPont acquired Pioneer, both companies emphasized that it would operate much as it always had. Still, there's never been any question about who's in charge. Both companies' press releases have always referred to Pioneer as "a DuPont subsidiary," and in July 2012 its name was formally changed to DuPont Pioneer.

Monsanto and Pioneer weren't strangers, since both were in the seed business. In the 1980s Monsanto sold an earlier line of its genetically modified seeds through Pioneer's massive sales network. In 1992 the two companies signed an agreement that granted Pioneer a limited license to make and sell glyphosate-resistant soybean seeds. And most significantly, Monsanto agreed to license its Roundup Ready soybean technology to Pioneer in the 2002 deal that eventually became the focus of their litigation.

But by that point, Pioneer was a DuPont subsidiary. And in 2006, Pioneer publicly announced plans to sell its own line of herbicide-resistant soybean seeds. According to Monsanto, Pioneer executives said during several investor presentations and conferences in early 2009 that their soybeans would stack Optimum GAT and Roundup Ready traits. That was too much for Monsanto, which filed suit against DuPont and Pioneer in May 2009 for patent infringement, breach of contract, and unjust enrichment. DuPont responded with a countersuit in June 2009 accusing Monsanto of multiple antitrust violations and patent fraud.

THE INFRINGEMENT LAWSUIT REVOLVED AROUND A SINGLE word: "stack." Simply put, stacking involves combining multiple genetic traits. According to Monsanto's court filings, in 2005 Pioneer's researchers began stacking the company's own antiherbicide trait, Optimum GAT (short for Glyphosate ALS Tolerant, and often abbreviated in internal and

A BUMPER CROP OF LITIGATION

The Monsanto/DuPont battle started with one licensing deal and ended with another.

1976: Monsanto begins selling a glyphosate-based herbicide called Roundup, which later becomes the world's top-selling weed-killer.

1990, 1994: Monsanto files first and second patent applications for Roundup Ready soybean seeds, which produce plants that can survive applications of glyphosate.

1991: Pioneer becomes the top soybean seller in North America.

1992: Monsanto and Pioneer sign an agreement granting Pioneer a limited license to make and sell glyphosate-resistant soybean seeds.

1997: Monsanto receives a patent for



its glyphosate-resistant soybeans, which it sells under the Roundup Ready brand.

1999: DuPont acquires Pioneer for \$7.7 billion.

2000: Monsanto's patent for Roundup expires, and other glyphosate-based her-

bicides begin entering the market.

2002: Monsanto and Pioneer agree to a restricted license allowing Pioneer to sell Roundup Ready soybean and corn seeds.

2003: Monsanto asks the Patent and Trademark Office to reissue its patent for Roundup Ready soybean seeds to correct errors in the 1990 and 1994 filings.

2006: Pioneer announces that it will start marketing herbicide-tolerant seeds with its own herbicide-tolerant gene trait, Optimum GAT, within the next few years.

January–March 2009: According to Monsanto, Pioneer executives discuss plans to stack Optimum GAT

and Roundup Ready traits in soybeans during several investor presentations and conferences.

May–September 2009: In May, Monsanto sues DuPont and Pioneer for patent infringement, breach of contract, and unjust enrichment. In June, DuPont files an antitrust countersuit against Monsanto. In September, Judge E. Richard Webber in St. Louis grants Monsanto's motion to separate the patent and antitrust cases, hearing the patent case first. (The antitrust trial is later scheduled for October 2013.)

December 2009: Pioneer announces that it will delay the launch of its herbicide-tolerant seeds from 2011 to 2013 or 2014, citing regulatory issues.

court documents as GAT or OGAT) with Monsanto's Roundup Ready trait (abbreviated as RR). The goal, according to Monsanto, was to create Pioneer's own line of glyphosate-tolerant crops.

In Monsanto's view, this research clearly violated the 2002 licensing agreement. "The license says, 'You can't stack multiple traits with our Roundup Ready trait,'" according to Monsanto counsel Lombardi. "You can use the Roundup Ready trait, but you can't stack it."

Pioneer and DuPont officials insisted that they always believed the license included stacking rights, but that claim slowly unraveled before Judge Webber. In January 2010 he ruled that the Roundup Ready licensing agreement was unambiguous and didn't contain stacking rights. In December 2010 he granted Monsanto's motion to compel DuPont and Pioneer to turn over emails and other documents connected to the case. After reviewing those emails, Webber issued a sanctions order in December 2011 in which he declared that Pioneer and DuPont always knew they didn't have stacking rights.

The judge's order and the documents he drew upon—including the emails—were all sealed by Webber at the time. But last November he unsealed his order, which contains excerpts from the defendants' emails. Following are some selected passages (the names of participants are redacted in Webber's order, and the individuals are only identified by titles):

■ In an internal email from March 2002, written just before the Roundup Ready licensing agreement with Monsanto was finalized, a Pioneer executive wrote: "By the way, I just found out section 2.09 [of the agreement] may be a problem" if Pioneer planned to stack its traits with Monsanto's. The executive recommended returning to less-restrictive language used in the 1992 licensing agreement between Monsanto and Pioneer.

■ In a September 2007 exchange between two Pioneer in-house attorneys, one asked, "What is our current advice to R&D on stacking RR and Optimum GAT in [soy]beans, based on the foregoing?" (The reference was to a "field of use" section in the 2002 agreement that limited Pioneer's use of the Monsanto traits.) The second attorney



LEORA BEN-AMI (LEFT) AND DONALD FLEXNER LED DUPONT'S DEFENSE AT TRIAL.

responded: "Current: They can stack but no commercial rights." The first attorney asked: "Because of the field of use limitation?" The second attorney's answer: "Yes." ■ In a January 2008 email exchange between two DuPont vice presidents, one asked, "Do we have stacking rights with RR today, I am not clear on this." The other replied: "Check with [the Pioneer in-house attorney who negotiated the 2002 license agreement] but I am sure we do have have [sic] stacking rights." The first responded: "Just did [check;] we don't have commercial rights."

Webber wrote in his sanctions order that DuPont and Pioneer's defense was that these and other messages were taken out of context. According to the judge, the defendants claimed that the January 2008 email exchange reflected the Pioneer in-house lawyer's "conservative legal advice to research and development executives regarding [the lawyer's] most conservative interpretation of the license agreement—'the reading most likely to avoid a fight with litigious Monsanto.'" (The original filings by the defendants remain under seal).

But the judge didn't buy this argument. "Defendants have made a mockery of this proceeding and delayed this litigation by their insistence that they believed they had the right to stack and commercialize RR and OGAT," Webber wrote in his sanctions order. "The court finds that these emails show that defendants, at different times between 2002 [and] 2008, knew that the 2002 license agreements prohibited them from stacking and commercializing [Monsanto's gene traits]." The judge added, "Defendants knew that they lacked these rights, and yet, they stated throughout two years of litigation that they negotiated for [these] rights and *always believed* [his emphasis] that they had these rights." Webber granted Monsanto's requests to strike some of DuPont's counterclaims and to require DuPont to pay Monsanto's legal fees for defending against those claims.

After the judge unsealed his sanctions order last fall, DuPont denied any wrongdoing. General counsel Sager said in a statement, "DuPont told the truth and did not mislead the court."

AS THE FIGHT WITH MONSANTO INTENSIFIED, DUPONT AND PIONEER moved to delay the launch of Pioneer's brand of glyphosate-resistant soybean seeds. In December 2009 Pioneer bumped the launch date to as late as 2014, citing "changes in regulatory policy in key import markets." In June 2011 Pioneer postponed commercial sales indefinitely, stating in a press release that the move was due to "Monsanto's actions, which are preventing the regulatory review of the stack."

Shortly before the case went to trial last July, DuPont and Pioneer asked Webber for permission to submit evidence that they no longer planned to sell stacked soybeans. The judge rejected that request, ruling that because the case focused on intent at the time of infringement, "defendants' present intentions regarding commercialization of RR/OGAT soybeans are irrelevant." He did allow DuPont and Pioneer to present evidence that no sale of stacked seeds had ever occurred. Webber didn't inform the jury about his sanctions order or his other pretrial rulings, but he did permit Monsanto to tell the jury that he had found that DuPont did not have the right to stack.

Since Webber's pretrial order had decimated DuPont and Pio-

January 2010: Webber rules that the 2002 Roundup Ready licensing agreement between Monsanto and Pioneer is unambiguous and doesn't grant stacking rights.

December 2010: Webber grants Monsanto's motion to compel DuPont and Pioneer to turn over documents connected to the case, including emails.

June 2011: Pioneer postpones the introduction of its herbicide-tolerant seeds indefinitely, blaming Monsanto's suit.

December 2011: Webber issues a sealed order finding that DuPont and Pioneer "knowingly committed a fraud" by stating that their officials

believed they had the right to stack the Roundup Ready trait. The ruling strikes some of DuPont and Pioneer's counterclaims and orders DuPont to pay Monsanto's attorneys fees for defending those claims.

August 2012: After a three-week trial, a jury finds that DuPont and Pioneer committed patent infringement and awards Monsanto \$1 billion in damages. DuPont announces that it will appeal.

November 2012: Webber unseals his sanction order.

March 2013: Monsanto and DuPont settle by striking a new \$1.75 billion licensing deal.

neer's defense that they thought they had stacking rights, they adopted a new strategy for the trial—an attack on the validity of Monsanto's Roundup Ready soybean patent. The defendants focused on the fact that Monsanto asked the Patent and Trademark Office in 2003 to reissue the patent so that the company could correct errors in the patent applications that it made in 1990 and 1994. Monsanto said it made the request to correct what it described as an accidental mixing of information from previous patent filings. But DuPont claimed that Monsanto made the request in order to conceal information and extend the patent's tenure. "When Monsanto went to reissue its patent, it was not to correct an error," Ben-Ami told the jury in her closing argument, according to a Bloomberg report. "It was a strategy, an attempt to lengthen its exclusivity."

The defendants were still hobbled by their internal communications, however. Monsanto introduced a new set of emails at trial. According to Lombardi, these were emails "that we thought told the story of DuPont's infringement—the reasons for the infringement, the fact of the infringement, and the nature of infringement." Monsanto presented an expert to present its claim for damages of \$800 million to \$1.2 billion, representing lost royalties. "Whether [Pioneer and DuPont] sold the product or not, they used the patent," Lombardi says. "Once you infringe, patent law tells you to go through damages to establish a reasonable royalty. That's exactly what we did." DuPont provided its own expert on damages, but the jury sided with Monsanto and awarded it



DUPONT GC THOMAS SAGER (LEFT) OPPOSED MONSANTO GC DAVID SNIVELY.

ment, DuPont Pioneer gains the right to broadly stack additional traits" on both traits covered by the agreement, according to a DuPont release.

To many observers, the settlement seemed like a sensible outcome. "This is a positive step for both," says Ronald Cass, president of Cass & Associates P.C., a Great Falls, Virginia-based legal consulting firm. "Both companies get to focus on moving forward with business that's important to them," says Cass, who is also a dean emeritus of Boston University School of Law.

Asked why DuPont might have settled, Cass says: "I'm guessing that the people advising them said, 'You're going to be on the losing end more than you'll be on the winning end—you're better off striking a deal.'" And why was that? "My sense of this as an outsider is that Monsanto had the stronger patent claim," he says. Meanwhile, Cass adds, DuPont's antitrust lawsuit was unlikely to succeed because the U.S. Department of Justice, which had been investigating similar complaints against Monsanto, ended its probe last year without taking action against the company.

After the verdict, DuPont GC Sager said that the \$1 billion award was unjustified since his company had never sold any seeds with Monsanto's technology.

\$1 billion in damages. DuPont GC Sager said in a postverdict statement that the company believed the verdict was unjustified, "particularly considering that Pioneer has never sold a single Optimum GAT seed and has no plans to do so in the future."

PUBLICLY, AT LEAST, THE COMPANIES REMAINED AT WAR FOR another eight months. DuPont promised that it would appeal the verdict, but both sides were waiting for Webber to rule on several post-trial motions. Then, on March 26, the companies jointly announced the new licensing deal, which involves Monsanto's second-generation Roundup Ready technology. (The infringement suit involved Monsanto's first-generation patents.) In exchange for making \$1.75 billion in fixed and variable royalty payments through 2023, Pioneer will be able to sell soybean seeds containing the second-generation Roundup Ready traits, and will also be able to offer seeds that use another Monsanto trait that provides tolerance to both glyphosate and another herbicide, dicamba.

As part of the settlement, Monsanto agreed to drop its infringement suit (and to ask for the jury verdict to be set aside), while DuPont agreed to drop its antitrust suit, which had been scheduled to go to trial in Webber's courtroom in October. Only the sanctions order remains under appeal. As for stacking, it's no longer an issue. "With today's agree-

At the same time, Monsanto probably seized the opportunity to be done with at least one of its cases. (The U.S. Supreme Court is currently considering a patent infringement suit that the company brought against an Indiana farmer who maintains that Monsanto's Roundup Ready patent only covers first-generation seeds.) "At the end of the day, you have to ask, 'How much litigation do we want to have going on?'" Cass says.

IP specialist Bernard Chao wasn't surprised by the settlement. "The \$1 billion [award] was shocking," he says. "This isn't shocking." Continuing the court battle offered huge risk for both sides, says Chao, a founding partner of Chao, Hadidi, Stark & Barker, a Menlo Park, California-based IP law firm, who's also a law professor at the University of Denver and a court-appointed special master in a patent litigation over interactive telephone call-processing systems. "When you have that much at stake, you can avoid some of the business uncertainty by coming to a settlement."

None of the outside lawyers in the case were willing to discuss the settlement after it was announced. But Monsanto counsel Lombardi said in an earlier interview, "Monsanto has always made [its] technology available to others in the industry through its licensing program. But Monsanto has to be able to ensure that the technology is used consistently with the license agreement. That's what this case is about." ■