

Keywords: Technology Agreement; Federal Rule of Civil Procedure 37(b); forum selection and damages clause; sanctions; reasonable royalty damages; liquidated damages

General: Federal district court did not err in striking defendant's pleadings and entry of judgment for plaintiff in view of defendant's intentional spoliation of evidence and other misconduct during and before litigation, nor did the court err in determining a reasonable royalty based on the judgment for patent infringement.

Monsanto Co. v. Ralph
72 USPQ2d 1515 (Fed. Cir. 2004)
Decided September 7, 2004

I. Facts

Monsanto holds patents to genetically modified plant seeds that are resistant to certain herbicides. Monsanto provides nonexclusive, restricted-use licenses to various seed companies and farmers under a "Technology Agreement" limiting the use of the seeds to a single season. The Technology Agreement further provides that no plants (or seeds produced from these plants) produced from the purchased seeds can be replanted. The Technology Agreement further provided a forum selection and damages clause indicating that the grower agrees that damages will include a claim for liquidated damages which will be based on 120 times the applicable technology fee.

The Ralph brothers (hereinafter "Ralph") purchased a number of Monsanto's seeds in 1998 and 1999, and, in so doing, signed the Technology Agreement. Subsequently, Monsanto brought action against Ralph for patent infringement and breach of contract under the Technology Agreement.

During the trial court proceedings, the district court found that Ralph saved a large number of Monsanto's seeds for replanting, in violation of the Technology Agreement. The court further found that during the discovery process, Ralph engaged in repeated intentional obstruction of the discovery process and was uncooperative in meeting his obligations of disclosure. The court further found that Ralph repeatedly lied under oath, refused to comply with court orders by intentionally destroying evidence and completely undermined the judicial process through repeated deceptive conduct.

At a hearing in 2001, the court exercised its discretion under Rule 37(b) to sanction Ralph by striking all of his pleadings in the case as a penalty for, *inter alia*, intentionally violating court orders and repeatedly lying under oath. The court concluded that "that was the only appropriate remedy because 'Monsanto, like the Court, will never have any comfort that it knows the truth, and that it can properly prepare this case for trial.... The integrity of this Court and our judicial system...has been undermined by almost every aspect of the Ralph brothers [sic] conduct in this case.'" Accordingly, the court entered judgment for Monsanto on liability and ordered the case to trial on damages only.

In 2002, the jury returned a verdict for Monsanto for what it deemed to be a reasonable royalty for Ralph's patent infringement. The Court trebled the damages for willfulness and added prejudgment interest, costs and attorney fees, resulting in a total award of almost 3 million dollars for patent infringement. The jury also awarded Monsanto, in the alternative, liquidated damages based on the 120 multiplier in the damages clause of the Technology Agreement. After adding prejudgment interest, costs and attorney fees, the Court granted a total award of approximately 2.7 million dollars for the breach of contract. Because the patent infringement and breach of contract claims were filed in the alternative, the Court concluded that satisfaction of the higher patent infringement award would extinguish the lesser breach of contract award.

Ralph appealed from the orders striking his pleading under the Rule 37(b) and imposing monetary sanctions for litigation misconduct, from judgment entering a jury award in favor of plaintiff and granting plaintiff's motion for permanent injunction, and from denial of the defendant's post-judgment motion to set aside the damages award.

II. Issues

- A. Did the district court abuse its discretion in striking defendant's pleading and entering judgment for Monsanto on liability or in awarding Monsanto sanctions for defendant's misconduct?
- B. Did the court err in its determination of a reasonable royalty in awarding damages to Monsanto?
- C. Did the court err in determining the contract-based damages in accordance with the 120 multiplier of the Technology Agreement?

III. Discussion

- A. No. On appeal, Ralph argued that the district court abused its discretion by striking his pleadings and entering judgment for Monsanto on liability and contends that the appropriate sanction for intentional spoliation of evidence would have been simply to declare a rebuttable presumption regarding the destroyed seeds. Ralph further argued that the court should have considered his defenses regarding patent invalidity for failure to disclose the best mode of invention.

Monsanto responded by arguing that the district court's sanction was commensurate with Ralph's deliberate and wide-ranging abuses. According to Monsanto, no lesser sanction would have served the purposes of punishments and deterrents. Monsanto further argues that the district court's selection of sanction is entitled to substantial deference and the court did not abuse its discretion by striking Ralph's pleadings.

In reviewing sanction orders, the court applies the law of the regional circuit from which the case arises. The Federal Circuit noted that the Eighth Circuit has held that striking a party's pleadings under Rule 37 is within the range of appropriate sanctions when a party demonstrates a blatant disregard for the court's orders and the discovery rules, engaging in a pattern of deceit by presenting false and misleading answers and testimony under oath in order to prevent their opponent from fairly presenting its case. The court further notes that the facts of the present case are far more egregious than the cited case.

In defending their pervasive deception, Ralph presented compelling arguments such as "if Ralph has been less than completely forthcoming in some of his responses..., it was because he realized that complete answers would get his friend in trouble." Further, Ralph argued that he only destroyed evidence the day after the discovery period ended. Ralph even argued that Monsanto was not prejudiced by any of its perjured testimony since Monsanto eventually uncovered all of the facts on its own. Not surprisingly, the Federal Circuit was unmoved.

Accordingly, the Federal Circuit found the district court did not abuse its discretion and affirmed the district court's striking of defendant's motions and sanctions awards.

- B. No. The court held that the district court did not err in its determination of a reasonable royalty. The Federal Circuit noted that "the jury's damages award 'must be upheld unless the amount is grossly excessive or monstrous, clearly not supported by the evidence, or based only on speculation or guesswork'." The Federal Circuit noted that the record reveals that the jury was

instructed in the factors set forth in *Georgia-Pacific* for determination of a reasonable royalty and based its determination of a reasonable royalty on the testimony of an expert witness who was cross-examined by defendant's attorney. The court further noted that Ralph chose to withdraw his own expert witness on the day on which he was to testify and cannot now complain that the only expert witness to testify was on Monsanto's payroll. Regardless, the court noted that Ralph did not satisfy his burden of showing that the award is, in view of all of the evidence, so outrageously high as to be unsupportable as an estimation of a reasonable royalty.

- C. Yes. Based on the court's prior decision in *Monsanto v. McFarland*, the court did vacate the damages award for breach of contract. Recall that in *Monsanto v. McFarland* the court held that because the 120 multiplier is applicable to certain types of seeds, based on the rate of replication of the seeds from one year to the next, that the liquidated damages clause of the agreement was unenforceable and that actual damages would have to be determined. However, while the court did vacate the holding regarding the liquidated damages in the present case, the court noted that because this was an alternative argument and because damages were awarded in the patent infringement suit and that those damages were in excess of the liquidated damages award, that no further determination need be made in the present case.