

Recent Decisions In The United States

A recurring feature
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License Agreement Was Fraudulently Induced When Licensee Failed to Disclose Successful Tests of Licensed Product and Agreement Was Rescinded

In *Rhone-Poulenc Agro, S.A. v. DeKalb Genetics Corp.*, No. 00-1218, (Fed. Cir. Nov. 19, 2001), the Federal Circuit affirmed a district court's judgment against DeKalb Genetics Corp. (DeKalb) on fraudulent inducement to enter into a license agreement, trade secret misappropriation, patent infringement, and the award of punitive damages.

The litigation arose from disputes about several different technology transfers and licenses between Rhone-Poulenc Agro, S.A. (RPA) and DeKalb relating to herbicide-resistant corn. In 1985, DeKalb and non-party Calgene entered into an agreement for the joint development of crops containing genetic material patented by Calgene, and, in 1991, RPA assumed Calgene's rights and obligations under the 1985 agreement. At the same time, DeKalb and RPA were involved in a broader collaboration to produce herbicide-resistant corn in which RPA would create various genetic constructs and DeKalb would transform corn cells by placing these constructs into the cells.

In 1992, RPA provided one such construct (the RD-125 construct) to DeKalb for the transformation process, and DeKalb promised to provide RPA with the results of a testing program on corn containing RD-125. While disclosing certain initial test results, DeKalb failed to inform RPA of a highly successful field test of the RD-125 corn conducted in 1994. Instead, DeKalb immediately began backcrossing the successful corn plants with commercial varieties of corn to obtain a marketable product. Later in 1994, RPA and DeKalb entered into a new license agreement that dissolved the 1985 and 1991 agreements and which included a full paid-up license to RD-125 for DeKalb.

RPA filed suit after DeKalb successfully sold herbicide-resistant corn, including RD-125. In a first trial, the jury found that DeKalb fraudulently induced RPA into entering into the 1994 licensing agreement by not

disclosing the results of the 1994 field tests and awarded RPA \$1 in nominal damages, \$15 million for unjust enrichment and \$50 million in punitive damages. The district court also ordered rescission of the 1994 agreement. In a second trial, the jury found DeKalb liable for both patent infringement and trade secret misappropriation.

On appeal, the Federal Circuit affirmed. On the fraudulent inducement claim, the Federal Circuit applied North Carolina law, which requires that fraud be proven only by a preponderance of the evidence. The Federal Circuit found sufficient evidence to support the jury verdict, citing DeKalb's failure to disclose the favorable field tests conducted in 1994, the importance of these tests, correspondence from DeKalb to RPA which conspicuously lacked any mention of the field tests, and the fact that a DeKalb employee and a DeKalb lawyer who participated in the 1994 license negotiations knew of the field tests. The Federal Circuit further found that it was reasonable for RPA to rely on DeKalb's silence as signifying that the tests were a failure given the parties' close working relationship and DeKalb's prior practice of providing this type of information. Because the 1994 field tests produced important and unexpected results, and since those results were never disclosed, DeKalb gained an unfair advantage in the 1994 licensing negotiations, which the Federal Circuit determined supported the finding of fraud.

The Federal Circuit also affirmed the \$50 million punitive damages award. In determining whether the award was excessive, the Federal Circuit compared it to the \$15 million unjust enrichment award rather than to the nominal damages award of \$1, because the unjust enrichment gained by DeKalb was logically related to the harm or potential caused RPA and concluded that the relationship between those figures was reasonable.

The Federal Circuit further affirmed the district court's decision to rescind the 1994 licensing agreement and return the parties to the terms of the 1985 and 1991 agreements, which did not cover the RD-125 technology. As a result, DeKalb could not assert a licensing defense, and the Federal Circuit affirmed the holding of patent infringement and misappropriation of trade secrets.

Bona Fide Purchaser of Sublicense May Retain License Even Where Sublicensor Obtained License Through Fraud

In *Rhone-Poulenc Agro, S.A. v. DeKalb Genetics Corp.*, No. 00-1266, (Fed. Cir. Nov. 19, 2001), the Federal Circuit held that a sublicensee who obtained a license for value and without notice of any intervening equitable claim may invoke the bona fide purchaser rule and retain the license despite that the sublicensor obtained the license through fraud.

Rhone-Poulenc Agro, S.A. (RPA) obtained a patent (U.S. Patent No. 5,510,471) on an optimized transit peptide, which proved useful in developing herbicide-resistant corn plants. In 1994, RPA and non-party Calgene licensed technology relating to genetically engineered corn, including the '471 patent, to DeKalb Genetics Corp. (DeKalb). This license agreement included the right to grant sublicenses, and in 1996, DeKalb sublicensed its rights in the '471 patent to Monsanto.

In 1997, RPA filed suit against DeKalb and Monsanto seeking to rescind the 1994 licensing agreement and charging DeKalb and Monsanto with infringement of the '471 patent and misappropriation of RPA's trade secrets. The district court ordered that the 1994 license agreement be rescinded based on the jury verdict that DeKalb had obtained the license by fraud. At the same time, the district granted Monsanto's motion for

summary judgment that it had a valid license as a bona fide purchaser for value of the sublicense to the '471 patent and dismissed the infringement and misappropriation claims against Monsanto.

The Federal Circuit affirmed, extending the bona fide purchaser rule announced in *Heidelberg Harris, Inc. v. Loebach*, 145 F.3d 1454, 46 USPQ2d 1948 (Fed. Cir. 1998), to sublicenses. Under this rule, one who acquires an interest in a patent for valuable consideration from the legal title holder, without notice of an outstanding equitable claim or title, is entitled to retain the purchased interest free of any equitable encumbrance. Noting that other courts limited the bona fide purchaser rule to where there has been a transfer of title and that such issue had not been argued in *Heidelberg Harris*, the Federal Circuit held that there was sufficient discussion of the bona fide purchaser rule in *Heidelberg Harris* that the Court is bound to the holding that the bona fide purchaser rule applies to licensees.

The Federal Circuit further concluded that the bona fide purchaser rule was a matter of federal common law. While contractual rights in patents are generally governed by state law, the Court held that the bona fide purchaser rule is a matter of federal law because of the importance of having a uniform national rule. Finally, because Monsanto paid valuable consideration and there was no evidence that Monsanto was on notice of RPA's competing claims, the Court concluded that the bona fide purchaser rule applied and was a defense to infringement.