United States District Court,
N.D. California.

PENEDERM INCORPORATED,
Plaintiff.
v.
ALZO, INC,
Defendant.

No. C 95-1222-FMS

Dec. 6, 1996.

FINDINGS OF FACT AND CONCLUSIONS OF LAW

FERN M. SMITH**, District Judge.**

INTRODUCTION

This matter was tried to the Court from May 28, 1996 through May 30, 1996. Following the submission of evidence, the Court considered both oral and written closing arguments and issued several preliminary rulings. Having fully considered all of the evidence in this matter, the briefs and pleadings submitted, and the argument of counsel, the Court now issues Findings of Fact and Conclusions of Law which supersede and take precedence over any preliminary rulings which may be inconsistent with the findings and conclusions herein.

CONCLUSIONS OF LAW

1. Penederm Incorporated ("Penederm") alleges that Alzo, Inc. ("Alzo") infringes, either directly, contributorily, or by inducement, claim one of each of United States Patents Nos. 4,971,800, 5,045,317 and 5,051,260 (collectively "the patents"), of which Penederm is the exclusive licensee. This Court's jurisdiction is based on 28 U.S.C. s. 1338, and venue is proper under 28 U.S.C. s.s. 1391, 1400.

Claim Interpretation

2. The formula set out in claim one of each of the patents describes the same hydroxy-terminated urethane compound, with two components identified as "R" and "R^1." The patents are distinguished primarily by the different applications for which the urethane compound is claimed. In addition, the '260 patent claims a method for using the patented compound in a topical composition.

3. Claim interpretation is a matter of law, solely within the province of the Court. Markman v. Westview Instruments, 52 F.3d 967, 978 (Fed. Cir.), *aff'd,* 116 S.Ct. 1384 (1996). The Court interprets the meaning of the claim terms as would one skilled in the art. Loctite Corp. v. Ultraseal, Ltd., 781 F.2d 861, 867 (Fed. Cir. 1985). Because the inventor may be his or her own lexicographer, Autogiro Co. of American v. United

States, 384 F.2d 391, 397 (Ct. Cl. 1967), the Court may also determine whether a word or term used in the claims was intended to have a meaning which differs from the meaning used in the art.

4. Where there is question about the meaning that those skilled in an art give a term used in the claim, the specification and prosecution history (which contains the patent application as filed and the official record of the proceedings before the Patent and Trademark Office ("PTO")) can provide relevant information about the scope and meaning of the claim. Specialty Composites v. Cabot Corp., 845 F.2d 981, 987 (Fed. Cir. 1988). To ascertain the meaning of the claims, the Court considers these three sources: the claims, the specification, and the prosecution history. Unique Concepts, Inc. v. Brown, 939 F.2d 1558, 1561 (Fed. Cir. 1991). The patent specification, in particular, is the principal source for determining the meaning of ambiguous terms used in a patent claim. Standard Oil Co. v. American Cyanamid Co., 774 F.2d 448, 452-53 (Fed. Cir. 1985); *see also* Specialty Composites, 845 F.2d at 987.

5. It is inappropriate to read limitations into the claims from the specification wholly apart from any need to interpret what the patentee meant by particular words or phrases in the claim. E.I. Du Pont de Nemours & Co. v. Phillips Petroleum Co., 849 F.2d 1430, 1433 (Fed. Cir.), *cert. denied,* 488 U.S. 986 (1988).

6. Because the terms "linear" and "branched" do not appear in, nor are they required by, the language of the claims-in-suit, the claims do not contain any limitation based on the "linear" or "branched" nature of the claimed composition, or of its ingredients.

7. The claims also do not require the claimed urethane molecule to have been created by synthesizing an isocyanate with a diol, as opposed to a triol.

8. Thus, a person of ordinary skill in the art at the time the invention was made would understand that "R," as used in the claims, can be an alkylene or alkenylene radical containing from one to about 20 carbon atoms, or a cycloalkylene or cycloalkenylene radical containing from about 5 to about 10 carbon atoms, or a mononuclear or fused ring arylene radical containing from about 6 to about 10 carbon atoms, all of which may be unsubstituted or substituted with one or more lower alkyl, lower alkoxy, lower alkoxy-substituted lower alkyl, nitro or amino groups or halogen atoms.

9. Such person would also understand that "R^1," as used in the claims, can be any alkylene or alkenylene radical, which may be the same or different alkylene or alkenylene radical as "R," and which may also be unsubstituted or substituted in various ways, including but not limited to substitutions with one or more lower alkyl, lower alkoxy, lower alkoxy-substituted lower alkyl, nitro or amino groups or halogen atoms. The patent does not limit the number of carbon atoms in "R^1."

10. Neither the claims nor the specification of the patents-in-suit define the term "substituted," and that term is not discussed in the file history. Based on the expert testimony and other extrinsic evidence presented at trial, however, the Court concludes that a "substituted" alkylene is limited to alkylenes in which a pendant hydrogen atom has been replaced with one or more similarly pendant non-hydrogen atoms or groups of atoms. "Substituted" therefore does not include replacements made within the carbon backbone of the alkylene or alkenylene radical.

11. The integer "m" as used in the claims is selected so that the ($O\text{-}R^1$) moiety has a molecular weight between about 40 and about 6000. The integers "n" and "n^1" as used in the claims are the same or different

integer from 0 to 30, inclusive, and are selected so that the molecular weight of the final urethane compound is up to about 200,000 for the '800 and '317 patents and from about 220 up to about 200,000 for the '260 patent.

12. The terms "topical carrier," "cutaneous delivery," "pharmacologically active agent" and "effective," are clearly defined in the specification, and have the meanings set forth therein.

Direct Infringement

13. Except as otherwise provided in the patent statute, the unauthorized making, using or selling of any patented invention within the United States during the term of the patent infringes the patent. 35 U.S.C. s. 271(a). Patent infringement is a question of fact to be decided by the jury or by the Court in a bench trial. Minnesota Min. & Mfg. Co. v. Johnson & Johnson Orthopaedics, Inc., 976 F.2d 1559, 1570 (Fed. Cir. 1992).

14. Infringement under the doctrine of equivalents requires proof of insubstantial differences between the claimed and accused products. Hilton Davis Chemical Co. v. Warner-Jenkinson Co., 62 F.3d 1512, 1521 (Fed. Cir. 1995) (en banc), *cert. granted,* 116 S. Ct. 1014 (1996). To determine whether the differences between the accused compound and the patented compound are insubstantial, the fact finder focuses on the element of the accused device which differs from the claimed element. Evidence of copying is also relevant to the question of infringement under the doctrine of equivalents. Hilton Davis, 62 F.3d at 1519.

15. Evidence of infringement may be circumstantial and the plaintiff need not produce the actual infringing composition. Alco Standard Corp. v. Tennessee Valley Auth., 808 F.2d 1490, 1503 (Fed. Cir. 1986), *cert. dismissed,* 483 U.S. 1052 (1987). The defendant's own representations about the accused composition may sufficiently demonstrate that the composition meets the elements of the claims. Alco Standard, 808 F.2d at 1501 (a manual and a letter indicating that the accused device performed certain functions were sufficient to establish that the device met the elements of the claim). Expert testimony may also provide evidence of infringement. Snellman v. Ricoh Co., 862 F.2d 283, 287 (Fed. Cir. 1988), *cert. denied,* 491 U.S. 910(1989).

Inducement

16. One who actively induces infringement of a patent shall be liable as an infringer. Inducement is the active and knowing aiding and abetting of another's direct infringement. 35 U.S.C. 271(b). Water Technologies Corp. v. Calco, Ltd., 850 F.2d 660, 668 (Fed. Cir.), *cert. denied,* 488 U.S. 968 (1988); Hewlett-Packard Co. v. Bausch & Lomb Inc., 909 F.2d 1464, 1469 (Fed. Cir. 1990). Direct infringement by a third party is required, but may be inferred from evidence that the accused compound has no practical use other than in an infringing composition. Preemption Devices, Inc. v. Minnesota Min. & Mfg. Co., 803 F.2d 1170, 1173 (Fed. Cir. 1986).

Contributory Infringement

17. Contributory infringement is the sale of a component of a patented composition or method, by one who knows that the component is especially made or especially adapted for use in an infringement of the patent, and not a staple article or commodity of commerce suitable for substantial noninfringing use. 35 U.S.C. s. 271(c). Direct infringement by a third party is required.

18. The patentholder's right to sell or "vend" its patented invention -- and thus to prevent others from selling

the patented invention or contributorily infringing components -- is not strictly limited to transactions which constitute a "sale" under the law of sales. United States v. Masonite Corp., 316 U.S. 265, 278 (1942).

Exceptional Case

19. If the Court determines that a case is "exceptional" pursuant to 35 U.S.C. s. 285, it may, in its discretion, "award reasonable attorney fees to the prevailing party." 35 U.S.C. s. 285. The Court may consider various factors in making such a determination, including willful infringement of the patents and the defendant's conduct of the litigation. S.C. Johnson & Son, Inc. v. Carter-Wallace, Inc., 781 F.2d 198, 200 (Fed. Cir. 1986).

20. Willfulness is determined from the totality of the circumstances, King Instruments Corp. v. Otari Corp., 767 F.2d 853, 860 (Fed. Cir. 1985), *cert. denied,* 475 U.S. 1016 (1986), and must be proven by clear and convincing evidence. E.I. Du Pont, 849 F.2d at 1440; Gustafson, Inc. v. Intersystems Indus. Prods. Inc., 897 F.2d 508, 510 (Fed. Cir. 1990). Copying, either of the patent or a commercial embodiment of the patented invention, provides particularly probative evidence of willful infringement. Read Corp. v. Portec, Inc., 970 F.2d 816, 828 n.7 (Fed. Cir. 1992). Failure to "obtain competent legal advice before infringing or continuing to infringe" also supports a finding of willful infringement. Minnesota Min. & Mfg. Co. v. Johnson & Johnson Orthopaedics, Inc., 976 F.2d 1559, 1580 (Fed. Cir 1992); Ryco, Inc. v. AG-Bag Corp., 857 F.2d 1418, 1428 (Fed. Cir. 1988) (citation omitted).

21. The Court may in exceptional cases award reasonable attorney fees to a prevailing party. U.S.C. s. 285. In assessing the exceptionality of this case, the Court should consider all the circumstances, including both parties' conduct of this litigation. Brooktree Corp. v. AMD, Inc., 977 F.2d 1555, 1582 (Fed. Cir. 1992). In determining the amount of fees to be awarded, the Court must take into account the extent to which the patentee, having lost with respect to several of the accused products, can be considered the prevailing party in the action. *See* Slimfold Mfg. Co. v. Kinkead Inds., Inc., 932 F.2d 1453, 1459 (Fed. Cir. 1991)

FINDINGS OF FACT

Infringement

22. Alzo has developed a number of hydroxy-terminated urethane compounds for use in cosmetics, moisturizing creams and lotions, shampoos, sunscreens and other applications. This line of products, which is marketed under the "Polyderm PPI" name, includes the following hydroxy-terminated urethane compounds: Polyderm PPI, Polyderm PPI-D, Polyderm PPI-4, Polyderm PPI-50, Polyderm PPI-TA, Polyderm PPI-SA, Polyderm PPI-PE, Polyderm PPI-CO, Polyderm PPI-GH, Polyderm PPI-G7, Polyderm PPI-SI, and Polyderm PPI-8.

23. It is part of Alzo's standard practice to prepare technical data sheets called "Technical Bulletins" which describe the composition and characteristics of its Polyderm PPI compounds. It is also part of Alzo's standard practice to prepare Formularies, or recipes, for suggested applications for the Polyderm PPI compounds. These Technical Bulletins and Formularies are routinely distributed to Alzo's customers, often in conjunction with samples. The Technical Bulletins and Formularies suggest various ways in which the Polyderm PPI product may be used.

24. It is also part of Alzo's standard practice to formulate each of its compounds into compositions, and to test them in order to determine the characteristics of the compound and the composition. This information is

also used to develop the marketing materials such as the Technical Bulletins and Formularies.

25. Alzo marketing literature describes the general characteristics of its entire Polyderm PPI line of products as film forming, water resistant, adhesive, imparting gloss and conditioning. The suggested applications for the Polyderm PPI compounds include suntan lotions, lipsticks, lotions for dry skin, moisturizing creams and conditioning shampoos, soaps and antiperspirants.

26. The Court finds, based on Alzo's marketing materials for the Polyderm PPI compounds, the testimony of Dr. Sanders, and other evidence presented at trial, that each of the Polyderm PPI compounds will, in use, "facilitat[e] the adherence of an agent applied to hair or skin" as claimed by claim one of the '800 patent, constitute "method[s] of moisturizing skin, comprising applying to skin surface a composition containing ... a locally administrable topical composition containing a topical carrier" as claimed in claim one of the '260 patent, and "achieve[] enhanced cutaneous penetration of a dermally applied pharmacologically active agent, comprising ... a therapeutically effective amount of a pharmacologically active agent" as claimed in claim one of the '317 patent.

27. The chemical composition of the Polyderm PPI compounds was not disputed at trial. Based on the evidence at trial, the Court makes the following findings with respect to each element of the hydroxy-terminated urethane formula claimed in the patents-in-suit.

28. With respect to the structure of each Polyderm PPI compound, the integer "m" is 1. Each Polyderm PPI except Polyderm PPI-8 has an (O-R^1) moiety having a molecular weight which falls within the claimed range of between about 40 and about 6000.

29. Although Polyderm PPI-8 has an (O-R^1) moiety with a molecular weight of 8000, the Court finds, based on the evidence presented at trial, and in particular the testimony of Dr. Sanders, that this difference represents an insubstantial change over the claimed molecular weight range of between about 40 and about 6000.

30. The "n" and "n^1" components of each Polyderm PPI compound fall within the claimed range of 0-30. The average molecular weight of each Polyderm PPI compound falls within the claimed range of up to about 200,000 for the '800 and '317 patents and from about 220 up to about 200,000 for the '260 patent.

31. Polyderm PPI, Polyderm PPI-D, Polyderm PPI-4, Polyderm PPI-50, Polyderm PPI-TA, Polyderm PPI-SA, Polyderm PPI-PE, Polyderm PPI-CO, Polyderm PPI-GH, Polyderm PPI-G7, and Polyderm PPI-8 each has an "R" component which meets the claimed structure.

32. Polyderm PPI-SI does not meet the "R" claim element of claim one of the patents because Polyderm PPI-SI is formed by the reaction of a silicone-based diol (dimethiconol) instead of IPDI, a carbon-based diol. The use of silicone-based diol is not an insubstantial change over the carbon-based diols.

33. Polyderm PPI, Polyderm PPI-D, Polyderm PPI-4, Polyderm PPI-50, Polyderm PPI-8, and Polyderm PPI-G7, each has an "R^1" component which is a substituted or unsubstituted alkylene or alkenylene radical as claimed in the patents. Polyderm PPI-4 and Polyderm PPI-8 are "unsubstituted." Polyderm PPI, Polyderm PPI-D, Polyderm PPI-50 and Polyderm PPI-G7 each have an "R^1" component which is "substituted" as that term is used in the claim -- that is, a hydrogen atom has been replaced with some other

kind of atom or group of atoms.

34. Because Polyderm PPI-PE, Polyderm PPI-TA, Polyderm PPI-SA, Polyderm PPI-GH and Polyderm PPI-CO each have "R^1" components which include replacements within the carbon backbone of the alkylene or alkenylene radical, these compounds do not meet the definition of "R^1" as claimed in each of the patents.

35. The Court concludes that the structures of Polyderm PPI, Polyderm PPI-50, Polyderm PPI-4, Polyderm PPI-D and Polyderm PPI-G7 literally meet every claim element of the hydroxy-terminated urethane compound claimed in claim one of each of the patents. In addition, the Court finds that the structure of Polyderm PPI-8 meets every element of the hydroxy-terminated urethane compound claimed in claim one of each of the patents under the doctrine of equivalents.

36. In light of the evidence at trial that Alzo formulates and tests its Polyderm PPI compounds for their suggested applications, the Court finds that for each Polyderm PPI compound, Alzo has made and used a formulation having the properties claimed in claim one of each of the patents-in-suit.

37. Based on the above findings, the Court concludes that Alzo has literally infringed claim one of each of the patents in suit with respect to Polyderm PPI, Polyderm PPI-50, Polyderm PPI-4, Polyderm PPI-D and Polyderm PPI-G7, and that Alzo has infringed Polyderm PPI-8 by the doctrine of equivalents.

Inducement

38. The Court finds that Penederm has not established that Alzo actually intended and instructed its customers to use the Polyderm PPI compounds in an infringing manner.

Contributory Infringement

39. The Court finds, based on the Alzo marketing materials and other evidence presented at trial, that Alzo specifically and knowingly markets its Polyderm PPI compounds for use in infringing compositions by its customers or potential customers.

40. Alzo did not present any credible evidence of substantial non-infringing uses for the Polyderm PPI compounds. In particular, the testimony of Alzo's witnesses which purported to establish substantial non-infringing uses was not supported by the personal knowledge of the witnesses. The proffered speculation about hypothetical uses for the Polyderm PPI compounds is insufficient to establish substantial non-infringing uses for Alzo's products.

41. In addition, Chesebrough-Pond's USA received samples of Polyderm PPI and Polyderm PPI-4 from Alzo, formulated those compounds into infringing products, and thus directly infringed the patents-in-suit.

42. The Court concludes that with respect to Polyderm PPI and Polyderm PPI-4, Alzo has contributorily infringed claim one of each of the patents-in-suit.

Exceptional Case

43. Alzo deliberately analyzed and then copied Penederm's patented product, either directly or through the

efforts of its agent, Dr. Guy Knafo.

44. Alzo learned of the patents-in-suit in mid-1993. Despite having been formally notified of its alleged infringement of the patents in December, 1994, Alzo failed to obtain any competent opinion of counsel as to whether any of the claims of the patents covered Alzo's compounds, or with respect to the validity of such claims.

45. The totality of circumstances, including Alzo's initial copying of Penederm's product and Alzo's failure to obtain a competent opinion of counsel, establish by clear and convincing evidence that Alzo willfully infringed Claim One of each of the Patents in Suit by its manufacture and use of PPI, PPI-4, PPI-8, PPI-50, PPI-D and PPI-G7. Alzo's subsequent efforts to design around Penederm's patents were in good faith and succeeded in avoiding Penederm's patents.

46. The Court also finds by clear and convincing evidence that Alzo's litigation behavior, prior to the appearance of its trial counsel in March, 1996, was highly improper and amounted to misconduct, as described more fully in the Court's September 15, 1995 Order disqualifying Mr. Cipolone from any further appearances in the case. That misconduct which is well documented in the record, caused both Penederm and the Court to needlessly expend time and resources. Alzo's litigation conduct since trial counsel appeared for Alzo has been both appropriate and competent.

47. Based on the Court's finding of infringement as to six of the 12 accused products, the Court finds that Penederm is the prevailing party in this litigation. The Court also finds, however, that Penederm unnecessarily expanded its claims in this lawsuit to accuse additional products that were not within the scope of its patents.

48. In view of the totality of the circumstances, including the measure of Penederm's success in this lawsuit, Alzo's initial copying of Penederm's product and the litigation conduct of both parties, this case is partially exceptional within the meaning of 35 U.S.C. s. 285, and Penederm is entitled to recover a portion but not all of its attorney's fees reasonably expended in this action.

So Ordered.

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