boundary thing 002406 (*Jazz DZ50*)

Since 1986 the Japanese company Fuji Photo sold the first one-time-use camera called Quick Snap. Disposable cameras became often used by tourists and people traveling. Fuji's lens fitted film packages exists out of an outer plastic casing that holds a shutter, a shutter release button, a lens, a viewfinder, a film advance mechanism, a film counting display, and for some models a flash assembly and battery. The casing of the camera also contains a holder for a roll of film and a container into which the exposed film is wound. The camera comes with a film already loaded. The casing is sealed by ultrasonic welding or light-tight latching and has a cardboard cover. Between 1987 and 1990, Fuji registered several patent applications directed to various features of the camera. On October 19, 1987, Fuji first attempted to register a U.S. design patent for the lens fitted film package. When the application was first filed, Fuji's patent attorney brought to the attention of existing prior design patents in the U.K. by Prontor-Werk and also Kodak. On December 26, 1989, after four amendments, Fuji was granted a notice of allowance by the examiner and the application of a design patent proceeded.

* * *

Once the film of the Fuji Quick Snap camera is removed, the remaining camera shells are discarded. Several companies worldwide purchase Fuji's discarded lens fitted film packages and recycle these by reloading the camera with a new film. The Jazz Photo corporation and its subsidiary, Jazz Photo Hong Kong acquire these recycled cameras and resell them. Jazz was founded in 1995 by Jack Benun. Shortly after he founded Jazz, Benun approached Fuji for a license to sell the recycled cameras. Fuji refused to grant Jazz a license. Starting in 1995, Jazz began importing and selling the refurbished cameras in the United States.

* * *

In 1991 in response to protests on their waste Fuji also started a recycling program. In February 1998 Fuji began an action in front of the International Trade Commission against 27 companies, including Jazz Photo Corporation, Dynatec International and Opticolor, for infringement of fifteen patents. The charge was based on the importation of re-used throwaway cameras called "lens-fitted film packages". These had been refurbished for reuse in various facilities worldwide such as Boshi, Ginfax, Vastfame, Leader Peak, Mass Chance, Rino, Peji and Wingkai. Fuji claimed that the importation into the United States of articles that infringe a valid and enforceable United States patent was illegal. Eight companies did not respond to the complaint, ten more failed to appear and one was dismissed. Eight respondents participated in the hearing. They argued that the cameras have a useful life longer than the single use proposed by Fuji, that the patent right has been exhausted as to these articles, and that the patentee can not restrict their right to refit the cameras with new film by the procedures necessary to insert the film and reset the mechanism. They stated that the cameras were permissibly repaired. Many of the twenty-six companies send little information regarding their repair processes. The processes of recycling was described as removing the cardboard cover, cutting open the plastic casing, inserting a new film and a container to receive the film, replacing the winding wheel for certain cameras, replacing the battery for flash cameras, resetting the counter, resealing the outer case and adding a new cardboard cover. On June 28, 1999, the case *Fuji v. Jazz, etc...* took place at the United States International Trade Commission. The administrative judge, Paul Luckern, of the commission held that the refurbishment of the

used cameras is prohibited "reconstruction", as opposed to permissible "repair" and determined that twenty-six companies infringed all or most of the claims in suit of fourteen Fuji patents, and issued a general exclusion order. Three companies, among Jazz, made an appeal. In addition to the actions before the States International Trade Commission, on June 23, 1999, Fuji also filed suit against Jazz and their president and Jack Benun for patent infringement directly in the United States District Court for the District of New Jersey. On August 21, 2001, the court case *Jazz v. I.T.C. and Fuji* took place at the United States Court of Appeal in relation to the decision by the International Trade Commission. Judge Pauline Newman held that:

> ***The Law of Permissible Repair and Prohibited Reconstruction*** *The distinction between permitted and prohibited activities, with respect to patented items after they have been placed in commerce by the patentee, has been distilled into the terms "repair" and "reconstruction". The purchaser of a patented article has the rights of any owner of personal property, including the right to use it, repair it, modify it, discard it, or resell it, subject only to overriding conditions of the sale. Thus patented articles when sold "become the private individual property of the purchasers, and are no longer specifically protected by the patent laws". [...] However, the rights of ownership do not include the right to construct an essentially new article on the template of the original, for the right to make the article remains with the patentee. [...] Th[e] right of repair, provided that the activity does not "in fact make a new article", accompanies the article to succeeding owners. [...] Underlying the repair/reconstruction dichotomy is the principle of exhaustion of the patent right. The unrestricted sale of a patented article, by or with the authority of the patentee, "exhausts" the patentee's right to control further sale and use of that article by enforcing the patent under which it was first sold.*
>
> ***Application of the Law*** *The [commission] ruled that the remanufacturers were engaged in prohibited reconstruction. The Commission adopted the [judge]'s findings and conclusions that the remanufacturers were not simply repairing an article for which either the producer or the purchaser expected a longer useful life, pointing out that the purchaser discarded the camera after use. [...] The ruling of reconstruction as to these patents is incorrect, because the remanufacturing processes simply reuse the original components, such that there is no issue of replacing parts that were separately patented. If the claimed component is not replaced, but simply is reused, this component is neither repaired nor reconstructed.*
>
> ***License*** *These package instructions are not in the form of a contractual agreement by the purchaser to limit reuse of the cameras. There was no showing of a "meeting of the minds" whereby the purchaser, and those obtaining the purchaser's discarded camera, may be deemed to have breached a contract or violated a license limited to a single use of the camera. [...] We conclude that no license limitation may be implied from the circumstances of sale.*

The Process Patent *The 649 patent claims two methods for loading lens fitted film packages with film and a film cartridge. In the method of claim 1, the film is wound from the cartridge onto a roll in a darkroom; both the film roll and the empty cartridge are then inserted into the lens fitted film packages and the casing is sealed. In the method of claim 9, a film cartridge is placed in the lens fitted film package and the film leader is attached to a spool in the unexposed film chamber; the casing is then sealed, and an external apparatus winds the film into the unexposed film chamber. The administrative law judge found that the procedures of reloading film into the lens fitted film package shells, in the overseas operations for which evidence was provided, infringed claims 1 and 9 of the 649 patent. [...] Thus when the same process was used, the patent right for that process was exhausted upon the lens fitted film packages' first sale in the United States. Again, however, for respondents who refused to provide evidence to show the methods they were practicing, we have no basis on which to reverse the commission's judgment.*

Summary *For those respondents' activities that were shown to be limited to those steps considered by the administrative law judge [...] and affirmed by the Commission, we conclude that these activities constitute permissible repair.*

Validity and Enforceability of the 649 Patent *The only patent whose validity or enforceability was challenged is the 649 process patent. [...] The findings on the issues of materiality and intent are supported by substantial evidence, and are affirmed. The Commission's ruling that inequitable conduct was not established is affirmed.*

Design Patents *For original cameras that have been permissibly repaired, the principle of exhaustion applies to the design patents as well as to the utility patents. The design patent right, like all patent rights, is exhausted by unrestricted first sale in the United States, and is not infringed by the importation and resale of the repaired articles in their original design. The judgment of infringement of the design patents is reversed, for those cameras for which the United States patent right was exhausted as discussed herein.*

The court reversed with respect to lens fitted film packages for which the patent right was exhausted by first sale in the United States, and that were permissibly repaired. Permissible repair was limited to the steps of removing the cardboard cover, cutting open the casing, inserting new film and film container, resetting the film counter, resealing the casing, and placing the device in a new cardboard cover. The commission's orders were vacated. Fuji appealed. Fuji, in its submissions of the second procedure, sought to identify and rely upon 11 additional procedures not covered by the companies' stipulated list of repair, including for example grinding off the Fuji logo. On February 25, 2003, the second procedure, the court case *Fuji v. Jazz and Jack Benun* took place at the United States District Court in New Jersey. Judge Faith Hochberg held that:

Background *The primary focus of this patent infringement lawsuit involves the manner in which the*

cameras sold by Jazz are "refurbished". [T]here is a significant distinction in the law of patents between "repairing" a patented item, such that its useful life is preserved, and "reconstruction" of the item, which is tantamount to making new patented product on the template of the original after its useful life is spent. The former is permissible, as the right of "repair" inheres in the rights of a purchaser under the patent laws. The latter, however, is not, as "reconstruction" of a patented product runs afoul of the patent holder's right to seek and obtain a royalty on patented items newly-made.

I. REPAIR vs. RECONSTRUCTION

Legal Principles. *Under the Supreme Court's formulation, reconstruction consists of "a second creation of the patented entity"*[1]*. While this rule is easily stated, it has proven difficult to implement. [...] The first line involves situations where a patented item is refurbished in order to make it useable after the item, considered as a whole, has become spent. Courts have held that refurbishment of the spent item constitutes impermissible reconstruction. [...] The second line of cases involves the replacement of a spent, unpatented element of a patented combination in order to preserve the useful life of the combination as a whole. [...] A final category of cases involves the modification or replacement of a non-patented part in order to enable the patented machine to perform a different function from its intended use. [...] Such modification has been held by the following courts to be repair or "kin" to repair. [...] The instant case falls between the first and second lines of cases. [...] [T]hus, will be considered permissible repair - if the part refurbished by the alleged infringer was "readily replaceable". The present case, however, cannot be decided solely on the basis of [...] readily replaceable test. Indeed, [...] the extreme difficulty faced by courts drawing a line between the first and second lines of cases where the parts at issue are not "readily replaceable". [...] Fuji argues that the Federal Circuit's decision in* Jazz v. ITC forecloses a holding of repair as to any refurbishment procedures beyond the eight common processes endorsed by the Federal Circuit. [...] This Court does not agree. [...] The repair doctrine does not turn on a consideration of the number of acts performed, or minor details such as what tool was used in the refurbishment process. Rather, the proper focus is on "the remaining useful capacity of the article, and the nature and role of the replaced parts in achieving that useful capacity"[2].

Jury Verdict. The [11] additional procedures [listed by Fuji] must be analyzed in order to determine whether a refurbishment process involving all nineteen procedures crosses the line from permissible repair to impermissible reconstruction. The parties stipulated that the Court would conduct this analysis, which is an application of law to the facts found by the jury.

Application of Law to Fact.

[1] *Aro Mfg. Co. v. Convertible Top Replacement Co.*, 365 U.S. 336, 346, 81 S.Ct. 599, 5 L.Ed.2d 592 (1961)

[2] *Jazz v. ITC*, 264 F.3d at 1106

All but one of the nineteen procedures found by the jury to have been actually performed in connection with the cameras sold by Jazz fall within one of these four categories of permissible processes. [...] The remaining procedure - grinding off Fuji's logo-is of little, if any, significance in considering the repair/reconstruction issue. This procedure is closely akin to the removal the cardboard packaging, which contains Fuji's trademarks, and its replacement with packaging containing Jazz's marks - both of which the Federal Circuit expressly permitted as part of the repair process in Jazz v. ITC. *This Opinion addresses no trademark issues, nor any consumer protection issues, as these issues have not been put before the Court in this patent trial. [...] This Court therefore finds that the refurbishment procedures found by the jury [...] constitute permissible repair.* ***Finding As To Number Of Cameras Repaired.*** *At trial, Jazz adduced the following evidence on repair/reconstruction: (1) a videotape recording taken in the spring of 1998 at the refurbishing facilities of a single Jazz supplier, Boshi; and (2) the testimony of Mr. Lorenzini, Jazz's current Chairman of the Board of Directors, who was present during the making of the Boshi Video and who also visited two other Jazz suppliers, Peji and Ginfax, in 1997 and 1998. [...] Thus, on the evidence adduced by Jazz at trial, only those cameras refurbished by Boshi, Peji and Ginfax are found to have been permissibly repaired. [...] Thus, the processes employed in refurbishing the cameras obtained by Jazz from Vastfame, Leader Peak, Mass Chance, Rino and Wingkai are not proven. This Court "cannot exculpate unknown processes from the charge of reconstruction"*[3]*.[...] In the absence of any evidence as to the processes employed by suppliers other than Boshi, Peji and Ginfax, Jazz has failed to satisfy its burden to prove repair with respect to any cameras refurbished by such other suppliers. [...] The Court, however, has searched in vain for evidence in the record as to the actual number of cameras sold by Jazz that were produced by these three factories. [...] The only testimony on this issue was that of Mr. Lorenzini, who testified that Boshi supplied Jazz with approximately 10% of its cameras. Accordingly, the evidence of record in this case will support a finding of permissible repair with respect to 10% of the 40.099.369 refurbished cameras sold by Jazz during the relevant period.* ***Conclusion.*** *Jazz has proven that 4.009.937 of the cameras it sold from 1995 to August 21, 2001 were permissibly repaired. The Court further finds that Jazz has failed to satisfy its burden to prove the affirmative defense of permissible repair with respect to the remaining 36,089,432 cameras at issue.*

II. "EXHAUSTION" BY FIRST SALE *This Court?s finding of repair with respect to approximately 4 million cameras does not end the inquiry, because a refurbished disposable camera infringes unless it was permissibly repaired from an empty camera shell first sold in the United*

[3] *Jazz v. ITC*, 264 F.3d at 1109

> *States.* [4] *This requirement of domestic first sale derives from the principle of patent "exhaustion".*
> ***Legal Principles.*** *A patentee's United States patent rights are not exhausted unless the patented product is first sold under the United States patent. [...] The record on appeal in* Jazz v. ITC, *however, placed the issue before the Circuit, which held that in order for a sale to be "under the United States Patent" such that the patentee's rights are exhausted, the sale must be "in the United States". [...] Thus, the Federal Circuit has ruled that Fuji?s patent rights are exhausted only with respect to cameras refurbished from shells first sold in the United States. This court is bound by that ruling.*
> ***The Jury's Verdict.*** *Fuji's witness, Mr. David Field testified that Fuji's examination of reloaded cameras showed that approximately 86% of the cameras examined came from Japan, that a "very small amount" came from Europe, and that the remainder of cameras came from the United States. [...] The jurors concluded that approximately 9.5% of the cameras sold by Jazz were refurbished from shells of U.S. origin.*
> ***Application of Law to Fact.*** *Fuji's patent rights have been exhausted with respect to 3.809.442 cameras refurbished from shells first sold in the United States*

The court concluded that Jazz was liable for infringement of Fuji's patents with respect to 40.928.185 cameras sold by Jazz during the period 1995 through August 21, 2001. Multiplying this number by the jury's reasonable royalty award of 56 cents per infringing camera, this Court finds that Fuji was damaged by Jazz's infringing sales in the amount of $ 22.919.783,60. Benun was found liable for inducement of infringement with respect to 39.103.664 cameras. Both Jazz and Fuji appealed this decision. On January 14, 2005, the court case *Fuji v. Jazz and Jack Benun* took place at the United States Court of Appeals, Federal Circuit. Judge Randall Rader affirmed that the district court did not clearly err in weighing Jazz's evidence to determine its liability for direct infringement and correctly applied this court's Jazz exhaustion precedent, that substantial evidence supported the jury's finding of Benun's inducement and that the district court did not abuse its discretion in refusing to enhance damages and in denying Fuji a permanent injunction.

[4] *Jazz v. ITC*, 264 F.3d at 1098-99, 1103-1107, 1110-11.