

Steven L. Holley
Andrew G. Dietderich
Brian D. Glueckstein
Michael H. Torkin
SULLIVAN & CROMWELL LLP
125 Broad Street
New York, New York 10004
Telephone: (212) 558-4000
Facsimile: (212) 558-3588

*Counsel to the Debtors and
Debtors in Possession*

**UNITED STATES BANKRUPTCY COURT
SOUTHERN DISTRICT OF NEW YORK**

| | | |
|---|---|-------------------------------|
| In re: |) | |
| |) | Chapter 11 |
| EASTMAN KODAK COMPANY, <i>et al.</i> , ¹ |) | |
| |) | Case No. 12-10202 (ALG) |
| |) | |
| Debtors. |) | (Jointly Administered) |
| |) | |
| EASTMAN KODAK COMPANY, |) | |
| Plaintiff, |) | |
| v. |) | |
| |) | Adv. Proc. No. 12-_____ (ALG) |
| APPLE INC. AND |) | |
| FLASHPOINT TECHNOLOGY, INC., |) | |
| Defendants. |) | |
| |) | |

ADVERSARY COMPLAINT FOR DECLARATORY AND INJUNCTIVE RELIEF

¹ The Debtors in these chapter 11 cases, along with the last four digits of each Debtor's federal tax identification number, are: Eastman Kodak Company (7150); Creo Manufacturing America LLC (4412); Eastman Kodak International Capital Company, Inc. (2341); Far East Development Ltd. (2300); FPC Inc. (9183); Kodak (Near East), Inc. (7936); Kodak Americas, Ltd. (6256); Kodak Aviation Leasing LLC (5224); Kodak Imaging Network, Inc. (4107); Kodak Philippines, Ltd. (7862); Kodak Portuguesa Limited (9171); Kodak Realty, Inc. (2045); Laser-Pacific Media Corporation (4617); NPEC Inc. (5677); Pakon, Inc. (3462); and Qualex Inc. (6019). The location of the Debtors' corporate headquarters is: 343 State Street, Rochester, NY 14650.



Eastman Kodak Company (“Kodak”), as Plaintiff and a debtor in these chapter 11 proceedings, on behalf of itself and its affiliated debtors and debtors in possession (collectively, the “Debtors”), by and through its attorneys, Sullivan & Cromwell LLP and Young Conway Stargatt & Taylor, LLP, for its Complaint against Defendants Apple Inc. (“Apple”) and FlashPoint Technology, Inc. (“FlashPoint” and, together with Apple, “Defendants”), alleges upon knowledge as to itself and its conduct and upon information and belief as to all other matters, as follows:

NATURE OF THE ACTION

1. This adversary proceeding is necessary to protect Kodak and its affiliated debtors from attempts by Apple and FlashPoint to delay and derail Kodak’s efforts to sell a collection of Kodak patents relating to digital imaging, known as the Digital Capture Portfolio, pursuant to section 363 of title 11 of the United States Code (the “Bankruptcy Code”).² Kodak’s planned sale of the Digital Capture Portfolio is an important element of the Debtors’ reorganization efforts. Monetization of the Digital Capture Portfolio is contemplated by the Debtors’ debtor-in-possession financing, and is important to the Debtors’ emergence from chapter 11.³ To facilitate a sale of the Digital Capture Portfolio and the KISS Portfolio, the Debtors filed on June 11, 2012, a motion authorizing a sale of the patent assets free and clear of claims or interests, and authorizing bidding and notice procedures. [Docket No. 1361.] The Debtors’ sale procedures contemplate an auction occurring on August 8, 2012.

² The Debtors also are pursuing a sale of the Kodak Imaging Systems and Services Portfolio, referred to as the KISS Portfolio. Neither Apple nor FlashPoint has asserted an ownership claim to any of the patents in the KISS Portfolio.

³ See Declaration of Antoinette P. McCorvey Pursuant to Rule 1007-2 of the Local Bankruptcy Rules for the Southern District of New York in Support of First Day Pleadings ¶¶ 40-41, dated Jan. 18, 2012. [Docket No. 2.]

2. Apple is the single largest infringer of patents in the Digital Capture Portfolio and also a potential purchaser of those patents. All of the patents in the Digital Capture Portfolio are assigned to Kodak, and therefore are presumed to be property of the Debtors' estates as defined in section 541 of the Bankruptcy Code. The patents in the Digital Capture Portfolio have been openly licensed and litigated by Kodak for many years. Since 2001, Kodak has generated more than \$3 billion in revenue from licensing the patents in the Digital Capture Portfolio to 37 sophisticated parties in arm's length transactions.

3. Apple voluntarily appeared in the Debtors' chapter 11 proceedings on the first day of the case and claimed that it, not Kodak, owns U.S. Patent No. 6,292,218 (the "'218 patent") and certain other Kodak patents that Apple declined to identify at that time. Apple finally identified nine additional Kodak patents in March 2012—two months after the Debtors filed for chapter 11 protection in this Court—which Apple said that it owns. Those are: U.S. Patent Nos. 5,493,335; 5,828,406; 6,147,703; 6,441,854; 6,879,342; 7,210,161; 7,453,605; 7,742,084; and 7,936,391 (the "Nine Additional Kodak Patents", together with the '218 patent, the "Claimed Kodak Patents"). FlashPoint also voluntarily appeared in the Debtors' chapter 11 proceedings and asserted that it, and not Apple or Kodak, is the owner of the Claimed Kodak Patents.

4. Apple has articulated two bases for claiming that it owns the ten Claimed Kodak Patents: (a) inventorship of the Claimed Kodak Patents, and (b) breach of contract based on a December 1994 agreement between Kodak and Apple (the "December 1994 Agreement"). Apple's claims arise from joint development work between Kodak and Apple that occurred in the early 1990's—nearly 20 years ago. FlashPoint contends that a 1996 agreement between Apple and FlashPoint assigned any rights Apple has in the Claimed Kodak Patents to FlashPoint.

Both Apple and FlashPoint were on constructive or actual notice of any potential claims to the Claimed Kodak Patents many years ago, and therefore all of their ownership claims are barred by the applicable statutes of limitations and/or the equitable doctrine of laches.

5. Apple's strategy has been to use its substantial cash position to delay as long as possible the payment of royalties to Kodak, and to interfere with the Debtors' planned section 363 sale of the Digital Capture Portfolio. Each patent in that portfolio—including the Claimed Kodak Patents—is property of the estate as defined in section 541 of the Bankruptcy Code. Apple and FlashPoint are seeking to benefit from Kodak's difficult financial position, which will be exacerbated if the Debtors cannot obtain fair value for the patents in the Digital Capture Portfolio. Any interference with the planned section 363 sale will cause obvious harm to the Debtors and all of their stakeholders.

6. In this action, Kodak seeks, pursuant to sections 105, 541 and 363 of the Bankruptcy Code, (i) a declaration that Apple and FlashPoint have no interest in any of the ten Claimed Kodak Patents, (ii) a declaration that the Debtors are permitted to sell the Claimed Kodak Patents pursuant to section 363 of the Bankruptcy Code free and clear of any interest of Apple or FlashPoint, and (iii) an injunction barring Apple and FlashPoint from asserting ownership claims under any theory, including inventorship, to the Claimed Kodak Patents.

JURISDICTION AND VENUE

7. On January 19, 2012 (the "Petition Date"), each of the Debtors, including Kodak, commenced with this Court a voluntary case under chapter 11 of the Bankruptcy Code. The Debtors' chapter 11 cases are being jointly administered pursuant to Rule 1015(b) of the Federal Rules of Bankruptcy Procedure (the "Bankruptcy Rules"). Since the Petition Date, the Debtors have been and continue to be authorized to operate their businesses and manage their

properties as debtors in possession pursuant to sections 1107(a) and 1108 of the Bankruptcy Code.

8. This Court has jurisdiction and authority over this adversary proceeding pursuant to 28 U.S.C. §§ 157, 1334, 2201, 2202, and Bankruptcy Rules 7001(2), (7) and (9), and 7003.

9. This is an adversary proceeding initiated by the Debtors pursuant to Bankruptcy Rules 7001(2), (7), and (9), and 7003. The Court has jurisdiction over this adversary proceeding pursuant to 28 U.S.C. §§ 157, 1334, 1338, 2201, and 2202.

10. Venue is proper in this Court under 28 U.S.C. §§ 1408 and 1409(a).

11. This is a core proceeding pursuant to 28 U.S.C. § 157(b)(2) and this Court has the power to enter final findings of fact and conclusions of law, subject to review pursuant to 28 U.S.C. § 158.

12. The statutory predicates for the relief requested herein are sections 105, 363, and 541 of the Bankruptcy Code.

PARTIES

13. Plaintiff Kodak is a Debtor in these chapter 11 cases and a New Jersey corporation with its principal place of business at 343 State Street, Rochester, New York 14650.

14. Defendant Apple is a California corporation with its principal place of business at 1 Infinite Loop, Cupertino, California 95014.

15. Defendant FlashPoint is a privately held company with its principal place of business at 20 Depot Street, Suite 2A, Peterborough, New Hampshire 03458. Defendant FlashPoint was created in 1996 as a spin-off of the Imaging Division of Apple.

STATEMENT OF FACTS

A. Background and the Claimed Kodak Patents

16. Kodak is a digital imaging and material sciences company with a long history of innovation and successful commercialization of proprietary technologies. Kodak has invested significantly in research and development for more than a century. In 1976, Kodak designed and built the first operating digital camera, and since then has invested billions of dollars in research and development in the field of digital imaging technology. Kodak's significant investment in research and development has produced an ongoing stream of innovations in digital imaging technology—innovations that have generated thousands of patents. Today, Kodak owns approximately 10,700 patents, including all of the Claimed Kodak Patents.

17. Apple and Kodak participated in joint development efforts relating to certain digital camera technology at various times between 1992 and 1994 under the Apple project names Adam, Aspen and Phobos. The December 1994 Agreement related to Projects Aspen and Phobos, and provided, generally, that each party expressly retained ownership of its respective intellectual property, which is listed on an attached schedule. There is no provision of the December 1994 Agreement that provides any basis for Apple or FlashPoint to claim ownership of the '218 patent or the Nine Additional Kodak Patents.

18. On December 30, 1994, Kodak filed an application with the U.S. Patent and Trademark Office ("PTO") and, on September 18, 2001, the PTO issued the '218 patent, which named Kenneth A. Parulski and Timothy J. Tredwell as inventors and claimed priority to the 1994 application.⁴ By valid assignment from the two inventors, Kodak is the owner of all

⁴ The '218 patent is a division of application No. 08/367,399, filed on December 30, 1994.

rights, title and interest in and to the '218 patent. Kodak similarly is the recorded assignee of the

Nine Additional Kodak Patents in the PTO's records:

- U.S. Patent No. 5,493,335 (the "'335 patent"), entitled "Single Sensor Color Camera with User Selectable Image Record Size," was issued on February 20, 1996. It names as its inventors Mr. Parulski, Richard M. Vogel, and Seishi Ohmori, and lists Kodak as the assignee of the patent.
- U.S. Patent No. 5,828,406, entitled "Electronic Camera Having a Processor for Mapping Image Pixel Signals into Color Display Pixels," was issued on October 27, 1998. It names as its inventors Messrs. Parulski and Tredwell, and lists Kodak as the assignee of the patent.
- U.S. Patent No. 6,147,703, entitled "Electronic Camera with Image Review," was issued on November 14, 2000. It names as its inventors Michael Eugene Miller and Richard William Lourette, and lists Kodak as the assignee of the patent.
- U.S. Patent No. 6,441,854, entitled "Electronic Camera with Quick Review of Last Captured Image," was issued on August 27, 2002. It names as its inventors Mr. Lourette, Mr. Miller, Peter Fellegara, Linda M. Antos, and Robert H. Hibbard, and lists Kodak as the assignee of the patent.
- U.S. Patent No. 6,879,342, entitled "Electronic Camera with Image Review," was issued on April 12, 2005. It names as its inventors Messrs. Miller and Lourette, and lists Kodak as the assignee of the patent.
- U.S. Patent No. 7,210,161 (the "'161 patent"), entitled "Automatically Transmitting Images from an Electronic Camera to a Service Provider Using a Network Configuration File," was issued on April 24, 2007. It names as its inventors Mr. Parulski, Joseph Ward, and James D. Allen, and lists Kodak as the assignee of the patent. The '161 patent is a continuation of application No. 09/004,046, filed on January 7, 1998.
- U.S. Patent No. 7,453,605 (the "'605 patent"), entitled "Capturing Digital Images To Be Transferred to an E-Mail Address," was issued on November 18, 2008. It names as its inventors Mr. Parulski, Mr. Ward, and Michael C. Hopwood, and lists Kodak as the assignee of the patent. The '605 patent is a continuation of application No. 09/821,152, filed on March 29, 2001, which is a continuation of application No. 08/977,382, filed on November 24, 1997.
- U.S. Patent No. 7,742,084 (the "'084 patent"), entitled "Network Configuration File for Automatically Transmitting Images From an

Electronic Still Camera,” was issued on June 22, 2010. It names as its inventors Messrs. Parulski, Ward, and Allen, and lists Kodak as the assignee of the patent. The ‘084 patent is a continuation of application No. 09/783,437, filed on February 14, 2001, which is a division of application No. 09/004,046, filed on January 7, 1998.

- U.S. Patent No. 7,936,391 (the “‘391 patent”), entitled “Digital Camera with Communications Interface for Selectively Transmitting Images Over a Cellular Phone Network and a Wireless LAN Network to a Destination,” was issued on May 3, 2011. It names as its inventors Messrs. Parulski, Ward, and Allen, and lists Kodak as the assignee of the patent. The ‘391 patent is a continuation of application No. 11/692,224, filed on March 28, 2007, which is a continuation of application No. 09/783,437, filed on February 14, 2001, which is a division of application No. 09/004,046, filed on February 7, 1998.

19. Since 2004, Kodak has instituted numerous patent infringement actions to enforce the ‘218 patent in the International Trade Commission (“ITC”) and the U.S. District Court for the Western District of New York. Kodak has also sought to protect the Nine Additional Kodak Patents and other patents in the families. Every one of Kodak’s patent infringement actions that has been resolved thus far has resulted in a settlement with a royalty-bearing licensing agreement in favor of Kodak. Kodak’s successful efforts to enforce the ‘218 Patent and other patents have been highly publicized and widely reported over the last eight years.

20. On January 10, 2012, Kodak filed a complaint with the ITC claiming patent infringement by Apple and HTC Corporation of four more Kodak patents— the ‘161 patent, the ‘605 patent, the ‘084 patent, and the ‘391 patent. Despite the fact that Kodak has thousands of patents, Apple (and then FlashPoint) claimed for the first time in Bankruptcy Court that they own these four patents as well.

B. Other Litigation Relating to Apple’s Ownership Claim To the ‘218 Patent

21. In February 2010, pursuant to Kodak’s request, the ITC commenced an investigation into Apple’s importation of products that infringe Kodak’s ‘218 patent, No. 337-TA-703 (the “ITC 703 Proceeding”). In defense to Kodak’s patent infringement claims, for the first time, Apple raised an ownership claim to the ‘218 patent in the ITC 703 Proceeding. Concurrent with commencement of the ITC 703 Proceeding, Kodak filed a lawsuit for patent infringement against Apple in the U.S. District Court for the Western District of New York, Civil Action No. 6:10-cv-06021-MAT (the “W.D.N.Y. Action”). The W.D.N.Y. Action was stayed at Apple’s request pending a final decision in the ITC 703 Proceeding.⁵

22. Apple had a full and fair opportunity to obtain discovery and prosecute its ownership claim to the ‘218 patent in the ITC 703 Proceeding. Discovery was extensive, including the production of more than 3.5 million pages of documents and depositions of more than 60 witnesses. Following a six-day hearing in September 2010, Apple’s ownership claim to the ‘218 patent was squarely rejected by Chief Administrative Law Judge Paul Luckern—both on inventorship and contract grounds.

C. Apple’s and FlashPoint’s Requests for Relief In This Court

23. Undeterred by its loss in the ITC 703 Proceeding, Apple voluntarily appeared before this Court on the first day of this chapter 11 case to oppose the Debtors’ debtor-in-possession financing and to assert that it was the owner of the ‘218 patent and other

⁵ On August 25, 2010—less than a week before the start of the hearing in the ITC 703 Proceeding—Apple filed a complaint in the California state court against Kodak asserting state statutory and common law claims and seeking a declaration that Apple is the owner of the ‘218 patent. After the action was removed to federal district court in California, the court issued an order staying the action and finding that all of Apple’s claims were compulsory counterclaims to patent infringement claims asserted by Kodak in the W.D.N.Y. Action. As a result, Apple voluntarily dismissed the California state court action and filed an amended answer and counterclaims in the W.D.N.Y. Action asserting an ownership claim to the ‘218 patent.

unidentified Kodak patents. Apple continued to interfere with administration of this chapter 11 case by seeking relief from the automatic stay to proceed with the W.D.N.Y. Action and to transfer that action to the U.S. District Court for the Southern District of New York, thereby removing from this Court the ability to expeditiously resolve Apple's claims to the Debtors' valuable property.

24. On March 8, 2012, the Court denied Apple's motion for relief from the stay, noting that "Apple's proposed relief would hardly move the matter forward with the expedition needed for there to be any hope of determination on the ownership issue." (Hr'g Tr. 64:9-12, Mar. 8, 2012.) During the March 8 hearing, FlashPoint appeared before the Court and announced that it too has an ownership interest in the '218 patent that was derivative of Apple's ownership claim. (Hr'g Tr. 38:20-21, Mar. 8, 2012.)

25. On March 16, 2012, nearly two months *after* the Petition Date, Apple asserted that it owns nine other Kodak patents included in the Digital Capture Portfolio. Like the '218 patent, many of these patents have been successfully licensed and litigated by Kodak for years without any hint of an ownership claim being raised by Apple. Meanwhile, this Court authorized the Debtors to serve document requests pursuant to Bankruptcy Rule 2004 to investigate Apple's ownership claims. [Docket No. 707.] In response, Apple produced only a subset of the documents it had previously produced to Kodak in the ITC 703 Proceeding and another ITC proceeding initiated by Apple against Kodak that addressed Kodak's joint development efforts with Apple in the 1990's. Apple did not produce a single new document in support of its ownership claims, and no documents specific to its new ownership claims to the Nine Additional Kodak Patents.

26. Despite repeated requests from the Debtors, FlashPoint has declined to provide any evidence to substantiate its ownership claim to any of Kodak's patents, which has never been formally asserted. FlashPoint disclosed for the first time in its opposition to the Debtors' Motion and Memorandum of Law in Support of Their Request for an Order in Aid of an Asset Sale Pursuant to Section 363 of the Bankruptcy Code ("Motion in Aid of Sale") [Docket No. 1184] that FlashPoint believes Apple assigned to FlashPoint all of Apple's digital camera-related patents and interests therein in a 1996 agreement between the companies. On June 13, 2012, this Court heard argument on the Debtors' Motion in Aid of Sale. At that hearing, FlashPoint made clear that it is asserting an ownership interest, based on its 1996 agreement with Apple, in all ten Claimed Kodak Patents.⁶ (H'rg Tr. 56:2-3, June 13, 2012.)

27. At the June 13 hearing regarding the Debtors' Motion in Aid of Sale, the Court observed that Debtors "can obtain a final determination as to Apple and FlashPoint's ownership rights quickly" through the "commencement of an adversary proceeding." (H'rg Tr. 70:6-9, June 13, 2012.) This Complaint seeks to do that in order to facilitate the planned sale of the Digital Capture Portfolio pursuant to section 363 of the Bankruptcy Code, which is slated to go forward on August 8, 2012, subject to Court approval.

COUNT I
(Declaratory Judgment)

28. Kodak repeats and realleges, and incorporates by reference, each and every allegation contained in paragraphs 1 through 27 as if fully set forth herein.

⁶ FlashPoint has waffled in correspondence with the Debtors and before this Court as to whether its purported interest in the Claimed Kodak Patents is derived from Apple's purported interest or is instead direct against Kodak. While FlashPoint has sought to reserve its rights to contend that it has a direct ownership interest in the Claimed Kodak Patents, the only stated basis for such an interest is based on FlashPoint's 1996 agreement with Apple.

29. Each of the ten Claimed Kodak Patents is property of the Debtors' estates under section 541 of the Bankruptcy Code. Apple and FlashPoint each claim to be the owner of every one of the ten Claimed Kodak Patents.

30. There is thus an actual controversy that is of sufficient immediacy to warrant judicial relief under 28 U.S.C. § 2201. A prompt resolution of the dispute regarding ownership of the Claimed Kodak Patents is necessary in advance of the Debtors' planned sale of the Digital Capture Portfolio pursuant to section 363 of the Bankruptcy Code.

31. Kodak requests a declaratory judgment finding that Apple and FlashPoint have no interest in the Claimed Kodak Patents, including both the '218 patent and the Nine Additional Kodak Patents.

COUNT II
(Declaratory Judgment)

32. Kodak repeats and realleges, and incorporates by reference, each and every allegation contained in the paragraphs 1 through 31 as if fully set forth herein.

33. Each of the ten Claimed Kodak Patents is property of the Debtors' estates under section 541 of the Bankruptcy Code. The Debtors may sell property of their estates in accordance with section 363 of the Bankruptcy Code if authorized to do so by the Court. Apple and FlashPoint have sought to prevent the Debtors from selling the Claimed Kodak Patents free and clear by asserting spurious ownership claims to those assets of the Debtors' estates.

34. There is thus an actual controversy that is of sufficient immediacy to warrant judicial relief under 28 U.S.C. § 2201. A prompt resolution of the dispute regarding ownership of the Claimed Kodak Patents is necessary in advance of the Debtors' planned sale of the Digital Capture Portfolio pursuant to section 363 of the Bankruptcy Code.

35. Kodak requests a declaratory judgment finding that the Debtors are permitted to sell the ten Claimed Kodak Patents pursuant to section 363 of the Bankruptcy Code in due course, free and clear of any interest of Apple or FlashPoint.

COUNT III
(Injunctive Relief)

36. Kodak repeats and realleges, and incorporates by reference, each and every allegation contained in the paragraphs 1 through 35 as if fully set forth herein.

37. Kodak requests an injunction barring Apple and FlashPoint from asserting ownership claims under any theory, including inventorship, to the Claimed Kodak Patents, or otherwise attempting to prevent, hinder or delay the free and clear sale of those patents under section 363 of the Bankruptcy Code.

38. The Debtors' reorganization efforts are proceeding well, but the Debtors will continue to suffer serious harm if Apple and FlashPoint are permitted to continue their public campaign to create uncertainty as to ownership of the Claimed Kodak Patents. The administration of the Debtors' chapter 11 case will be impaired in the absence of the requested injunction, thereby harming the Debtors and all of their stakeholders. Moreover, the public interest weighs in favor of seeing the Debtors successfully emerge from bankruptcy as soon as practicable.

PRAYER FOR RELIEF

WHEREFORE, Plaintiff Kodak respectfully requests that the Court enter judgment in favor of Plaintiff, as follows:

(1) Declaring that Apple and FlashPoint have no interest in any of the Claimed Kodak Patents, including the '218 patent and the Nine Additional Kodak Patents;

(2) Declaring that the Debtors are permitted to sell the ten Claimed Kodak Patents pursuant to section 363 of the Bankruptcy Code in due course, free and clear of any interest of Apple or FlashPoint;

(3) Enjoining Apple and FlashPoint from asserting ownership claims under any theory, including inventorship, to the Claimed Kodak Patents, or otherwise attempting to prevent, hinder or delay the free and clear sale of those patents under section 363 of the Bankruptcy Code;

(4) Awarding Kodak reasonable attorneys' fees; and

(5) Granting the Debtors such other and further relief as the Court deems just and equitable.

Dated: June 18, 2012
New York, New York

/s/ Andrew G. Dietderich

Steven L. Holley
Andrew G. Dietderich
Brian D. Glueckstein
Michael H. Torkin
SULLIVAN & CROMWELL LLP
125 Broad Street
New York, New York 10004
Telephone: (212) 558-4000
Facsimile: (212) 558-3588

Pauline K. Morgan
Joseph M. Barry
YOUNG CONAWAY STARGATT &
TAYLOR, LLP
1270 Avenue of the Americas, Suite 2210
New York, New York 10020
Telephone: (212) 332-8840
Facsimile: (212) 332-8855
*Counsel to the Debtors and Debtors in
Possession*