

WILL APPLE DERAILED KODAK'S PATENT SALE?



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On January 19, the 130-year-old photography icon, Eastman Kodak, filed in New York for Chapter 11 bankruptcy protection after years of ailing and struggling to regain its footing. Investment banks Lazard Ltd and Jefferies & Company Inc are advising unsecured company creditors and are cooperating on plans for a sale of Kodak's digital imaging 1000-patent portfolio. Kodak hopes that this sale will bring in as much as \$2 billion via an auction process, the terms of which are specified in one or more loan agreements. The company is expected to disclose bidding procedures by mid-year.

This follows years of Kodak's relying upon income from patent licences and lawsuits for cash to fund its struggling imaging and printing businesses. It is in the process of transforming itself into a truly digital company. The company has licence agreements with more than 30 companies, including Samsung and LG which, collectively, have paid Kodak close to \$1 billion to use Kodak image-preview patents.

Kodak, a company whose many inventions include the hand-held camera, does not intend to sell all of its patents. For example, it plans to retain the many patents that cover its core printing business. Kodak is hoping that its investment of hundreds of millions of dollars into new lines of inkjet printers will begin to yield huge profits. Home photo printers, commercial inkjet printers, and workflow software will occupy the focus of the company going forward. The company has already sold its online photo services business to Shutterfly Inc, for more than \$20 million.

As reported by Nadia Damouni and Caroline Humer in a March 15, 2012, Reuters article, among the global competitors who are expected to emerge as interested parties—some of which are embroiled in patent litigation with Kodak—are Intel, Samsung, Apple and Fujifilm.

A battle royal is in progress between Kodak and Apple, which have for years been at each other's throats. Apple has pursued patent infringement claims against Kodak, involving technology which permits consumers to preview digital photographs on LCD screens. A bankruptcy judge is preventing Apple from pursuing litigation because of the pendency of Kodak's bankruptcy proceedings. In January 2010, Kodak brought International Trade Commission (ITC) infringement claims against Apple and HTC, asserting that their smartphones and tablets infringe five Kodak digital imaging technology patents. It seeks an injunction against Apple's importation of its iPhones, iPods and iPads.

In a new motion Kodak is complaining to a bankruptcy judge that Apple is seeking to interfere with and derail Kodak's efforts to auction off part of its patent portfolio, by Apple's asserting that it, not Kodak, is the rightful owner of at least 10 Kodak patents. Kodak, in its motion, requests the bankruptcy court for permission to investigate this Apple ownership claim.

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As reported in March 20, 2012, by Maria Chutchian in *Law360*, Kodak states that: “Apple's assertion of these baseless ownership claims to valuable IP belonging to the debtors is plainly designed to cloud title and thus seek to interfere with efforts to sell Kodak's digital imaging portfolio, an important element of the debtors' reorganization efforts.”

Faced with this challenge from Apple, Kodak argues to the bankruptcy court that the list of ownership-disputed patents include some which have already been “... successfully licensed and actively litigated by Kodak for years without any ownership claim from Apple”. “Apple has no right to restrict the flow of information to the debtors about an issue that Apple has sought to make central to these Chapter 11 cases,” the motion says.

Apple has fought back via motions which have sought declarations that a US ITC filing, as well as a district court (Western District of New York) filing does not violate the automatic stay provisions associated with bankruptcy. However, these motions have been denied by the bankruptcy court.

If Kodak wins or settles its patent battles with Apple and RIM, the potential windfall could approach or exceed \$1 billion in licence revenues. The fact that ITC proceedings move far faster than district court infringement actions is a factor that has added to the pressure upon Apple.

These patent battles have benefited patent litigators and IP counsellors, who are reaping the rewards of a legal practice specialty very much in demand. While the downturn in the US economy has hit law firms hard, IP and bankruptcy practices are thriving. In addition, President Obama's September 16, 2011, signing into law of the Leahy-Smith America Invents Act (HR 1249), with its many patent reforms, has only added to the need for top-notch experienced IP legal talent. ■

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