

UNITED STATES DISTRICT COURT
WESTERN DISTRICT OF NEW YORK

EASTMAN KODAK COMPANY,

Plaintiff,

v.

ABILITY ENTERPRISE COMPANY, LTD.

Defendant.

Civil Action No. _____

Judge: _____

**COMPLAINT
JURY TRIAL DEMANDED**

Plaintiff Eastman Kodak Company (“Kodak”), for its Complaint against Ability Enterprise Co., Ltd. (“Ability”), hereby alleges as follows and demands a jury trial on all the issues so triable.

NATURE OF THE ACTION

1. This civil action arises under the laws of the United States and New York and is brought to redress Ability’s breach of its agreement to compensate Kodak for its use of Kodak’s patented digital camera technology.

2. Founded in 1892, Kodak has a long history of innovation in photography and image processing. Among many other significant inventions, Kodak and its founder, George Eastman, invented photographic plates in 1879, roll-up film in 1883, and the hand-held camera in 1888. Kodak engineers also designed and built the camera that Neil Armstrong used on the first walk on the moon.

3. Kodak’s innovations have continued in the age of digital photography. In 1975, Kodak invented the first digital camera. Since then, Kodak has invested billions of dollars in research and development of digital imaging technology. Kodak’s significant investment in research and development has resulted in a continuing stream of improvements to

digital imaging technology—improvements that have led to more than 1,000 Kodak patents in the field of digital imaging. Recognizing the value of Kodak’s innovations, most manufacturers of digital camera devices have taken licenses to Kodak’s digital imaging patents.

4. Kodak and Ability entered a license agreement on August 18, 2003 (“Agreement”), under which Kodak granted Ability the right to use Kodak’s patented digital camera technology in its products in exchange for royalty payments and compliance with other requirements. Kodak brings this action because Ability has made extensive use of Kodak’s digital camera technology but has failed to properly and completely pay for the use of that technology as required by the Agreement.

5. The Agreement allows Ability to manufacture and sell digital cameras using Kodak’s patented technology under its own tradename. It also allows Ability to act as an Original Equipment Manufacturer (“OEM”) and sell digital cameras to third parties that in turn sell the cameras under their tradename. The Agreement requires Ability to pay royalties to Kodak on all of these digital camera sales.

6. Ability admits that it sells digital cameras as an OEM. In direct violation of the Agreement, however, Ability refuses to pay royalties on OEM sales to all of its third party customers. Ability has reaped enormous benefits by using Kodak’s patented technology to make and sell cameras to these customers, but refused to compensate Kodak for that use despite promising in the Agreement to do so.

7. The Agreement also requires Ability to pay interest on all overdue royalty payments. All of Ability’s unpaid royalties on OEM camera sales are overdue and accruing interest.

8. The Agreement further requires Ability to submit quarterly royalty reports in the month following the close of each calendar quarter summarizing, among other things, the companies that purchased OEM cameras from Ability and royalties owed under the Agreement. Ability has failed to submit accurate quarterly reports. It has omitted all OEM sales to certain third party customers, effectively hiding the royalties it owes Kodak for these sales.

9. The Agreement also permits Kodak to audit Ability's royalty records once a year to verify the amount of royalties paid under the Agreement. Ability, however, concealed the extent of its underpayment by refusing to provide Kodak's auditors required access to its records. Ability's actions have enabled it to avoid any audit of its royalty payments and related practices and impaired Kodak's ability to determine whether Ability complied with the Agreement.

10. As a result of these actions and others described below, Kodak seeks: (1) a declaration pursuant to 28 U.S.C. § 2201 and Fed. R. Civ. P. 57 that the Agreement is valid and that Ability has certain obligations under the Agreement; (2) damages resulting from Ability's breach of contract; (3) an order and award of specific performance requiring Ability to comply with the terms of the Agreement; and (4) all other appropriate remedies to which Kodak is entitled.

PARTIES, JURISDICTION, AND VENUE

11. Kodak is a corporation organized and existing under the laws of New Jersey with a principal place of business at 343 State Street, Rochester, New York 14650.

12. Upon information and belief, Ability is a Taiwanese corporation with its principal office at 4Fl., No. 8, Lane 7, Wuchiuan Rd., Wugu Shiang, Taipei, Taiwan 248, R.O.C.

13. This Court has jurisdiction under 28 U.S.C. § 1332 based on diversity of citizenship. The amount in controversy exceeds \$75,000.

14. This Court also has jurisdiction pursuant to the laws of New York, including the state's long-arm statute, C.P.L.R. § 302(A)(1)-(3), because Ability has contracted to do business in New York. Ability: (1) entered into the Agreement, which is governed by New York law; (2) contracted to supply royalty payments to Kodak in New York; (3) contracted to provide royalty reports to Kodak in New York; (4) breached the Agreement in New York by failing to provide proper royalty payments; and (5) breached the Agreement in New York by failing to provide accurate royalty reports. In addition, upon information and belief, the digital camera products that Ability makes and that are at issue in this dispute are distributed in New York.

15. Venue is proper under 28 U.S.C.A. § 1391 because Ability is subject to personal jurisdiction in this district and events giving rise to Kodak's claims occurred in New York.

FACTUAL ALLEGATIONS

A. Kodak Licensed Its Digital Camera Technology To Ability

16. Kodak and Ability signed the Agreement on August 18, 2003. The Agreement is effective through December 31, 2014 and is governed by New York law. The parties agreed that the Agreement constitutes the entire agreement between the parties and can only be modified by a writing signed by both parties.

17. Kodak has an extensive portfolio of digital camera patents. Under the terms of the Agreement, Kodak granted Ability a license to make and sell digital camera products using certain Kodak inventions in exchange for royalties on Ability's sales.

B. Ability Breached Its Agreement To Pay Royalties On Its Digital Camera Sales And Interest On Any Late Payments

18. Under the terms of the Agreement, Ability is permitted to sell licensed digital camera products under its own tradename or as an OEM under a tradename owned by a third-party.

19. Ability agreed to pay a specific royalty rate on its OEM sales of licensed digital camera products and a specific royalty rate on sales of licensed digital camera products under its own tradename. (Agreement at § 4.2).

20. The Agreement requires Ability to pay royalties on all sales of licensed products, with the sole and obvious exception of digital camera products that it may sell to Kodak. (*Id.* at §§ 1.13, 4.13).

21. Ability agreed to pay royalties on its digital camera sales within one calendar month following the close of each calendar quarter. (*Id.* at § 5.1). It further agreed that, if it failed to pay any royalties within the prescribed time period, it owes Kodak interest on the unpaid royalties. (*Id.* at § 4.9). The owed interest accrues from the date the royalties are due to the date payment is made. (*Id.*).

22. Contrary to these unambiguous terms of the Agreement, Ability has failed to pay any royalties on the digital cameras that it sold – and, upon information and belief, continues to sell – to some of its third party customers. More specifically, in letters dated February 17, 2009, March 6, 2009, May 15, 2009, January 20, 2010, and March 18, 2010 (all of which are incorporated herein), Kodak notified Ability that it had not paid royalties on digital camera sales to at least two companies. These companies also have paid no royalties on these sales. As a result, Kodak remains uncompensated for these sales and the interest due on the late payment for such sales.

23. Kodak repeatedly has demanded payment of the royalties and interest Ability owes for these sales and Ability repeatedly has refused to satisfy its obligations under the Agreement. As a result, Ability has violated the Agreement each and every quarter that it failed

to pay royalties on these digital camera sales and for its failure to pay the owed interest that continues to accrue.

C. Ability Breached Its Agreement To Submit Quarterly Royalty Reports Identifying All Sales Of Licensed Products And Owed Royalties

24. Ability also agreed to submit written royalty reports to Kodak within one calendar month following the end of each calendar quarter. (*Id.* at § 5.1). These quarterly reports must include, among other information, all of Ability's sales of licensed digital cameras, a list of its OEM customers, and the royalties due on the sales of licensed digital cameras. (*Id.*).

25. Ability has failed to submit accurate royalty reports, which, in addition to violating the Agreement, enabled Ability to conceal its unpaid royalties. As explained in Kodak's correspondence to Ability, including the February 17, 2009, March 6, 2009, May 15, 2009, January 20, 2010, and March 18, 2010 letters referenced above and incorporated herein, Ability's royalty reports omit all the sales it has made to particular third party customers and the royalties accruing as a result of those sales.

26. Ability has violated the Agreement for each quarter in which it submitted a royalty report that did not include the required information.

D. Ability Breached Its Agreement To Allow Audits Of Its Royalty Records

27. Ability agreed to maintain complete and accurate records regarding the royalties it owes. (*Id.* at § 5.3.). Ability must retain these records for at least 3 years after it submits the royalty reports to which they pertain. (*Id.*).

28. The Agreement also provides that, once every year, Kodak is entitled to audit Ability's royalty records. (*Id.*).

29. On or about November 2, 2009, Kodak notified Ability that it was exercising its right under the Agreement to conduct an audit of Ability's royalty payments and suggested that

the independent accounting firm KPMG conduct the audit. Ability, however, refused to submit to an audit and would not make its records available to the auditors.

30. Ability has violated the Agreement by refusing to allow Kodak's auditors access to its royalty records. With the work of its auditors impeded, Kodak was unable to determine Ability's compliance with the Agreement and, more fundamentally, could not confirm whether Ability had paid all royalties owed.

CAUSES OF ACTION

COUNT I: DECLARATORY JUDGMENT AS TO LICENSE AGREEMENT

31. Kodak incorporates by reference paragraphs 1 through 30 as if set forth here in their entirety.

32. There is a justiciable controversy between Kodak and Ability regarding Ability's obligations under the Agreement. Kodak contends that Ability has breached the Agreement by failing to pay all royalties due under the Agreement, failing to pay accrued interest for overdue payments, failing to submit accurate royalty reports, and failing to allow Kodak's independent auditor access to its records. Ability disputes this contention and asserts that it has satisfied its obligations under the Agreement.

33. Based on the foregoing allegations, declaratory judgment is necessary to clarify and settle the legal rights and duties of the parties under the Agreement and afford relief to Kodak from the uncertainty, insecurity and controversy associated with Ability's efforts to evade the requirements of the Agreement.

34. Pursuant to 28 U.S.C. §2201 and Federal Rule of Civil Procedure 57, Kodak seeks a declaration that the Agreement:

- (i) Is valid and enforceable;

(ii) Requires Ability to pay royalties on all of its sales of digital cameras to third parties;

(iii) Requires Ability to pay interest on all late royalty payments;

(iv) Requires Ability to submit accurate royalty reports that include information on all of its digital camera sales; and

(v) Requires Ability to give Kodak's auditors access to its relevant records.

COUNT II: BREACH OF CONTRACT

35. Kodak incorporates by reference paragraphs 1 through 34 as if set forth here in their entirety.

36. The Agreement is a valid and binding contract that was duly executed by Kodak and Ability on August 18, 2003.

37. Kodak has fully performed all of its duties and obligations under the Agreement. Ability has breached the Agreement by, among other actions:

(i) Failing to pay royalties on all of its digital camera sales to third parties;

(ii) Failing to pay interest on late and unpaid royalty payments;

(iii) Failing to submit accurate quarterly royalty reports that include, among other requirements, information on all of Ability's digital camera sales to third parties; and

(iv) Refusing to permit a required independent audit of its relevant records.

38. Ability separately breached the Agreement each time it failed to pay royalties or interest, accurately report its sales, and submit records to Kodak's auditors in accordance with the terms of the Agreement.

39. As a direct and proximate result of Ability's breach of the Agreement, Kodak has suffered, and continues to suffer, injuries. Damages include, but are not limited to: amounts owed under the Agreement, including unpaid royalties and interest (which continues to accrue); the increased costs due to Ability's failure to report sales accurately, including the time, money and other resources Kodak expended trying to determine whether Ability was in compliance with the Agreement; the time, money and other resources Kodak expended negotiating with Ability to conduct a required audit of Ability's royalty records; the time, money and other resources Kodak expended negotiating with Ability to obtain royalties due under the Agreement and otherwise to enforce the Agreement; and other monetary and non-monetary losses for which Ability is liable. Exact damages will be proven at trial.

PRAYER FOR RELIEF

40. Kodak respectfully requests the following relief:

- (i) A declaration as described in Paragraph 34 and an order and award of specific performance in accordance with that declaration;
- (ii) Judgment in favor of Kodak and against Ability for damages Kodak has suffered due to Ability's breach of the Agreement, including unpaid royalty payments, interest on all overdue royalty payments, damages related to Ability's failure to submit accurate royalty reports, damages related to Ability's failure to provide Kodak's auditors access to its records, and pre-judgment and post-judgment interest as permitted by law; and
- (iii) Such other and further relief as this Court deems just and proper.

Respectfully submitted,

EASTMAN KODAK COMPANY

By its attorneys,

Dated: June 22, 2010

/s/ Paul J. Yesawich, III

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