Kodak: Cloaking Justice in Celluloid

Ashcroft's NC-17 Nightmare at the Hands of Holder

December 7, 2012

On December 5, 2012 the Wall Street Journal reported that Kodak had received a $500 million bid for "some of its digital imaging patents" from a "collection of bidders." It's like Christmas a few weeks early for the bondholders who, clearly without inside information, were able to mysteriously guess that a minimum value of $500 million would be the valuation they'd use as a condition of closing their $830 million debt offering. Would that everybody get to put $500 million on their wish list and have it materialize moments later from unrelated parties!

While this just may be the next reel in the on-going saga of Kodak's celluloid dream of destiny initiated when management shunned digital imaging in favor of believing that film would die a much slower death than the market had ordained, this movie is getting more unfocused each day. And to think that it's all playing out under the cataract-clouded eyes of the Federal Trade Commission and the U.S. Department of Justice – neither of whom could actually review this transaction for its anti-competitive effects EVEN IF the material identities of the participants were disclosed. Kodak's "color management" strategy of the last decade has become message mismanagement and how colorful it's become. And under the sympathetic bench of U.S. District Judge Harold Baer who dismissed a shareholder lawsuit in early November in which damaged parties alleged that Kodak had made "false and misleading statements", it appears that Lady Justice is having a "wardrobe malfunction" that would make Janet Jackson and John Ashcroft blush.

As we reported last week, the Kodak digital imaging patent portfolio is not filled with high quality patents. Its value lies in the deterrent effect of having multiple patents that obfuscate what is actually an invention and what is the counterfeit allowed by unscrupulous U.S. Patent & Trademark Office examiners. Having completed a comprehensive underwriting of the Kodak patent portfolio, the minority of good patents are distributed across multiple technology sectors with a minority of the reported 1,100 digital imaging patents capable of withstanding independent novelty examination.

But what makes this story more problematic is the anti-competitive effects that the announced bid has to the consumer and the capital providers.

Analysis

When construed as an agreement between two or more patent owners to license one or more patents to one another and / or to third parties, the notion of a "patent pool" is explicitly linked, in case law, to operating, producing entities. Neither the undisclosed Kodak estate bidders nor their undisclosed affiliated, variously owned subsidiaries and enforcement shell corporations will likely produce any new product or offer any new product for sale. Therefore, any construction of law based on the presumption that these multiple

corporations are involved in any activity other than price fixing – through the use of litigation threat and action – is likely in error. As the undisclosed bidding group (save the illusory corporate unified interest for the purpose of the transaction) is unlikely to represent consolidated ownership, the anti-competitive risk of price fixing is remarkably high. As the Kodak portfolio is comprised of many 'pure substitute patents' that represent some, but not all patents necessary to effectively achieve a litigation avoidance, the harm to social welfare is more likely than an increased efficiency.

In cases where a patent pool has been seen as pro-competitive or pro-consumer (Secretary of the Navy aircraft pool in 1917; the Associated Radio Manufacturers / RCA pool in 1924; the MPEG-LA in 1997; and, the DVD and DVD-ROM in the late 1990's) all effected parties have been using and contributing their own and third party patents all belonging to horizontal 'competitors'.

Under the U.S. Department of Justice guidelines for the Licensing of Intellectual Property, procompetitive licensing would:

- Integrate complementary technology – Kodak's patents are not sufficient to represent complementary technology when they, in the main, were filed subsequent to digital imaging innovations made by other truly innovative companies;
- Reduce transaction costs – The Kodak portfolio, if deployed by asserting parties, adds transaction costs (both in the form of proposed 'protection' and 'IP defense' surcharges);
- Clear blocking positions – Kodak's digital imaging patents (and their owners) do not have the power to clear any position as they do not own controlling intellectual property in the digital imaging field and hold both essential and non-essential patents that would require third party, non-affiliated licenses to fully clear blockages;
- Avoid costly litigation – There is a suggestion that at least some of the potential bidders are explicitly litigation optimized or litigation avoidance parties whose sole revenue is threatening litigation tariffs; and,
- Promote the dissemination of technology – Kodak's portfolio enables questionable claims against entities where the industry is already making and selling products and any infringement claims and threatened claims are *post facto*.

In short, little to no procompetitive benefit can be argued given the fact that, the only thesis (avoiding litigation) is an unmet condition as the Kodak portfolio does not convey a controlling interest in digital imaging technology and only offers protection from its OWN threat of litigation.

To be clear, the anticompetitive standards are met as 'excluded' firms have to reserve litigation contingencies (a cost to the consumer) and bidder firms have to pass along an anti-competitive negotiated premium (price-fixing) to consumers.

In the Summit and VISX case, the Department of Justice and the Federal Trade Commission were concerned with price fixing and the FTC was particularly concerned with the fact that the patent pool was protecting an invalid patent. That many of Kodak's patents would be unenforceable on re-examination by the United States Patent and Trademark Office is a high probability.

Can't M•CAM say SOMETHING nice?

Kodak has some good patents. They have some patents with a rather high probability of enforcement if challenged. Some of these are even in the digital imaging and image management space. There, we said something nice. But we'll actually say even more. And we encourage the reader to read carefully. We've

selected a series of Kodak patents that have relatively high likelihood of being upheld if subjected to re-exam. In the table below, we've looked at the patents' prosecution history and shown a nuance totally neglected by competiveness reviews. See it turns out that sometimes a potential bidder may actually acquire a patent that serves as a means to challenge the validity of patents they already own. Sometimes a bidder may actually buy a patent that, unknowingly is invalidated by a patent they hold. The matrix below provides some interesting perspectives informed by the prosecution history of selected Kodak patents. A GREEN highlight indicates a condition in which the Kodak patent actually precedes key filings by the company in question in which Kodak's patent could be seen as a potential invalidation pathway for certain patents held by the companies in the column headings. For example, Kodak patent U.S. 6,115,717 would be seen as a competitive predecessor to efforts undertaken by many of the firms listed. A YELLOW highlight indicates a condition in which parties have overlapping and co-pending patent applications where the Kodak property might be interchangeable with properties held by the indicated company. For example, Kodak patent U.S. 6,046,723 could be interchanged with Fuji's holdings with potential equivocal effect. A RED highlight indicates a condition in which the patents held by the company listed in the column heading would likely afford invalidation sources for the Kodak patents. In this subset, you can clearly see that Canon has more ammunition against Kodak's patents than Xerox (for example). So these two parties' experience of owning the same Kodak properties would have entirely different legal enforcement bearing and consumer competitive effects.

	Canon	Microsoft	IBM	Fujifilm	Sony	Xerox	Digimarc	Epson	HP	Samsung	Google	Yahoo	Adobe	GE	Sharp
US6046723															
US6115717															
US6154253															
US6728416															
US6804393															
US6822760															
US6859210															
US7116838															
US7120593															
US7522773															
US7593043															

In the case of Kodak, it's also worth noting that much of the prior art that would be use to threaten their patent validity would be from Kodak's own uncited prior art! The amount of redundant patenting on the part of Kodak – particularly in the digital imaging space – is far and away the biggest threat to the portfolio's value.

Would that the scales of Justice tip towards the public interest! In that event, a judge could interrupt the current two-bit matinee and actually get real actors with a real screenplay to avert the rotten tomatoes at the end of this show. The bondholders may get their minimum bid (lucky for Citibank) and Kodak may begin its emergence. But the theatrics are far from over and when the curtain falls, it will be more than a nipple that Lady Justice exposes. Hopefully, someone will have a Canon camera at the ready to YouTube the event! But alas, then we'd have an FCC issue…

For a more detailed examination of the KODAK patents mentioned in this report, please contact us at patentlyobvious@m-cam.com**.**

Appendix A

Sampling of the Kodak Digital Imaging Portfolio

Document #	Title	Assignee Name	Priority	File	Issue
US 6,046,723	Method and apparatus for achieving color-appearance matching for an image viewed in surrounds of different relative luminances	Eastman Kodak Company	7-May-93	17-Nov-97	4-Apr-00
US 6,115,717	System and method for open space metadata-based storage and retrieval of images in an image database	Eastman Kodak Company	23-Jan-97	30-Jun-97	5-Sep-00
US 6,154,253	Object detection mechanism for imaging devices with automatic focusing	Eastman Kodak Company	6-Feb-96	24-Oct-96	28-Nov-00
US 6,728,416	Adjusting the contrast of a digital image with an adaptive recursive filter	Eastman Kodak Company	8-Dec-99	8-Dec-99	27-Apr-04
US 6,804,393	Method of calculating noise from a digital image utilizing color cross correlation statistics	Eastman Kodak Company	2-Jan-01	2-Jan-01	12-Oct-04
US 6,822,760	Method of processing and paying for an extended color gamut digital image	Eastman Kodak Company	5-Apr-00	5-Apr-00	23-Nov-04
US 6,859,210	Method for representing a digital color image using a set of palette colors based on detected important colors	Eastman Kodak Company	6-Jul-01	6-Jul-01	22-Feb-05
US 7,116,838	Enhancing the tonal and spatial characteristics of digital images using selective spatial filters	Eastman Kodak Company	25-Oct-02	25-Oct-02	3-Oct-06
US 7,120,593	Method and system for ordering image related goods and services	Eastman Kodak Company	31-Mar-00	31-Mar-00	10-Oct-06
US 7,522,773	Using time in recognizing persons in images	Eastman Kodak Company	28-Apr-05	28-Apr-05	21-Apr-09
US 7,593,043	Image processing device and white balance adjustment device	Eastman Kodak Company	18-May-05	16-Nov-05	22-Sep-09

M·CAM's Patent Glossary

Aligned Sector: The business sector in which the product(s) resulting from the patent(s) is currently or intended to be sold.

Applicant: The person or corporation that applies for a patent with the intent to use, manufacture or license the technology of the invention; under U.S. law, except in special situations, the applicant(s) must be the inventor(s).

Application: Complete papers submitted to the U. S. Patent and Trademark Office seeking a patent including oath, specification, claims, and drawings. This usually does not signify a Provisional Patent Application, but only a regular patent application.

Art: The established practice and public knowledge within a given field of technology. This also identifies a process or method used to produce a useful result. A term used in consideration of the problem of patentable novelty encompassing all that is known prior to the filing date of the application in the particular field of the invention.

Assignee: The person(s) or corporate body to whom the law grants or vests a patent right. This refers to the person or corporate entity that is identified as the receiver of an assignment.

Business Method Patent: A patent that controls the way a business process is undertaken. The issuance of these patents by the United States Patent and Trademark Office (USPTO) is new and controversial, since many allege that it is unfair to allow a patent on a way of doing business.

Citation: This may include patents or journal articles that the applicant or examiner deems relevant to a current application. A reference to legal authorities or a prior art documentation are examples of a citation.

Claim: The language in a patent application that defines the legal scope of the patent. Most patents have numerous claims. This is typically the single most important section in the application.

Concurrent Art: Concurrent art occurs when related patent applications are being examined by the USPTO at the same time. It is difficult for any company or inventor to know, at the time they file for a patent, whether a "related" patent application exists.

Filing Date: The date when a properly prepared application reaches the patent office in complete form.

Innovation Cycle: A description of the commercialization timeframe for the intellectual property.

Innovation Space: M·CAM's representation of the innovation(s) that occur before, during, and after the pending period of the subject patent. The innovation space is the first place to look for patents that are closely related to the subject patent and that may impact the defensibility of the subject patent or create opportunities for patent licensing.

Issue Date: Not to be confused with the filing date, which is the date the patent application was physically received by the U.S. Patent and Trademark Office. This is the date on which the patent actually issues.

Non-Aligned Sector: Any sector in which the patent can be used or sold, other than the sector for which the patent or resultant product was invented or intended.

Pod: A group of patents owned by a company that should be treated as a single unit of innovation (e.g., a certain group of patents that comprise a single product or multiple related products).

Prior Art: Any relevant patent that was issued before the patent being analyzed. If this previous patent was specifically mentioned in the new patent's application, the previous patent is referred to as "cited prior art". If it was NOT mentioned, then that previous patent is referred to as "uncited prior art".

Subsequent Art: Any patent that has a filing date with the USPTO that is after the issuance date of the subject patent. This subsequent art patent may or may not have cited (see "Citation" above) the subject patent. As subsequent art represents more recent innovation than the subject patent, it has great potential to shrink the market opportunity for the subject patent.

A Brief Primer on the Patent System

In recent years, the importance of patents and intellectual property rights as an important variable in the marketplace has come to the forefront of the public consciousness as world leaders declare their country's lead in the innovation race. Damaging intellectual property litigation is becoming increasingly common across all industries. This is exacerbated when patent rights are granted for non-novel ideas. A vast amount of precedent innovation is unconsidered by patent-granting authorities in the creation of new IP rights. Patent granting authorities including the United States Patent and Trademark Office (USPTO), European Patent Office (EPO), Japanese Patent Office (JPO), Chinese State Intellectual Property Office (SIPO), Korean Intellectual Property Office (KIPO) and many others are constrained by the use of patent classification systems which are routinely circumvented by patent applicants.

There is a two-way social contract underlying the patent system. In the United States, patent terms are generally limited to 20 years from the date of application. By statutory intention, once a patent has expired, the patent holder loses the right to exclude others from fully utilizing any innovation described in the patent. A large number of patents enter the public domain when they are "abandoned" – when owners discontinue paying patent maintenance fees. Patents also only provide an exclusionary right in the country for which the patent is filed. As demonstrated by the Global Innovation Commons[1] (G.I.C.), using intellectual property available in the public domain eliminates the need to pay licensing fees on those innovations in countries where the patent was never registered, or worldwide, if abandoned.

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[1] http://www.globalinnovationcommons.org/