

UNITED STATES DISTRICT COURT
NORTHERN DISTRICT OF NEW YORK

FASTER FORM CORPORATION,

Plaintiff,

-vs-

DAVID B. YEAWORTH,

Defendant.

U. S. DISTRICT COURT
N. D. OF N. Y.
FILED
DEC 20 2002
COMPLAINT
AT O'CLOCK
LAWRENCE K. BAERMAN, Clerk
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Jury Trial Demanded

Plaintiff ("Faster Form"), for its Complaint against defendant, alleges as follows:

JURISDICTION AND VENUE

1. This action is brought pursuant to 28 U.S.C. §§2201 and 2202. The claim in this case involves an actual controversy within the jurisdiction of this court and seeks the declaration of the rights or other legal relations of the parties to this litigation. Jurisdiction is based upon 28 U.S.C. §§1332 and 1338.
2. Upon information and belief, defendant does, or transacts, business in New York and in this judicial District, and is subject to the personal jurisdiction of this court.
3. Venue is proper in this District pursuant to 28 U.S.C. §§1391 and 1400.
4. The amount in controversy between the parties exceeds \$75,000.00, exclusive of interest, costs and attorneys' fees.

PARTIES

5. Plaintiff is a New York corporation with its principal place of business in New Hartford, New York.
6. Upon information and belief, defendant is a resident of Pennsylvania who regularly does, or transacts, business in this state and in this District.

JUDGE HURD

MAGISTRATE JUDGE DIBIANCO

7. Effective September 29, 1999 the parties entered into a License Agreement, a copy of which is attached as Exhibit "A". Pursuant to this License Agreement, the parties agreed that Faster Form would manufacture and produce for sale certain floating object games that the parties developed or plan to develop, distributing the net proceeds from the sale or sublicensing of said floating object games equally.

8. On or about November 18, 2002, defendant advised plaintiff that it was in breach of the License Agreement and obligated to pay defendant royalty amounts relating to sales of certain floating object games. In addition to notifying plaintiff of its purported breach of the License Agreement defendant advised plaintiff that it had thirty (30) days to cure this claimed breach of the License Agreement, and that if it failed to cure the breach within that time, defendant would terminate the License Agreement and exercise his rights to an audit of plaintiff's records.

9. Thereafter, on or about December 2, 2002, defendant again advised plaintiff of its purported breach of the License Agreement and concomitant obligation to pay royalties relating to all sales of certain floating object games which were the subject matter of U.S. Patent Nos. D400,933 and D409,250 and United States Patent Application Nos. 29/104,317 and 60/107,843.

10. Defendant expressly accused plaintiff of infringing the claims of said patents, reiterated that it intended to terminate the License Agreement, audit plaintiff's records, and file suit for breach of the License Agreement as well as infringement of its patents. Defendant also advised plaintiff that if the License Agreement terminated, then plaintiff's customers would also be infringing his patents, that he would notify plaintiff's customers of that

infringement and that he intended to join them as defendants in the lawsuit he would bring against Faster Form.

11. An actual controversy exists between Faster Form and Yeaworth with respect to the manufacture and sale of the floating object games defined by the License Agreement and whether Faster Form has breached that Agreement.

12. Plaintiff has sold or offered for sale products which defendant contends infringe one or more of its patents.

13. The products sold by the plaintiff do not infringe any of the defendant's patents; in fact, plaintiff's patents are invalid.

14. An actual controversy exists between Faster Form and Yeaworth with respect to the manufacture and sale of the floating object games defined by the License Agreement and whether the sale of, or offer to sell, said games infringe the defendant's patent claims.

WHEREFORE, plaintiff demands that these matters be tried by a jury and further demands judgment against defendant as follows:

- (1) That the Court declare and adjudge the relative rights, responsibilities and liabilities of the parties pursuant to the License Agreement;
- (2) That the Court adjudge defendant's U.S. Patent Nos. D400,933 and D409,250 invalid and not infringed by plaintiff.
- (3) That plaintiff have the costs and disbursements of this action and such other and further relief as may be just and proper.

Dated: December 18, 2002

Yours, etc.

HARRIS BEACH LLP

By: Paul J. Yesawich, III

Paul J. Yesawich, III
David Edwards
Attorneys for Plaintiff
99 Garnsey Road
Pittsford, NY 14534
Tel: 585-419-8800

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EXHIBIT A

LICENSE AGREEMENT

Parties: DAVID B. YEAWORTH ("Yeaworth")
 a U.S. citizen
 172 Morgantown Road
 Honey Brook, PA 19344
 Fax: (610) 913-0776

 FASTER-FORM CORP. ("Faster-Form")
 a New York corporation
 1 Faster-Form Circle
 New Hartford, New York 13413
 Fax: 315-792-9543

Effective Date: September 29, 1999

Background

WHEREAS, the parties hereto have both independently engaged in the development of floating object games; and

WHEREAS, Yeaworth owns two patents and has patent applications pending in connection with a floating object game; and

WHEREAS, the parties have agreed that Faster-Form should manufacture and produce for sale such floating object games as the parties have, jointly or separately, developed and plan to develop with the net proceeds from the sale or sublicensing to be divided equally,

NOW, THEREFORE, in consideration of the above, and the mutual promises set forth in this Agreement, and for other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties agree as follows:

SECTION 1: DEFINITIONS

For the purpose of this Agreement, the following words and phrases (whether in singular or plural form) shall have the following meanings:

- 1.:1 "Faster-Form's Override" means two and one-half percent (2.5%) of Net Sales.
- 1.:2 "Hold Back Fund" has the meaning set forth in Section 5.1.
- 1.:3 "License" means the licenses granted to Faster-Form under Section 2.1, 2.2, 4.3(a), and 4.3(b).
- 1.:4 "Floating Object Game" means the subject matter of: U.S. Patent Nos. D400,933 and D409,250 and United States Patent Application Nos. 29/104,317 and 60/107,843.

1:5 "Licensed Technology" means rights in the subject matter of: U.S. Patent Nos. D400,933 and D409,250 and United States Patent Application Nos. 29/104,317 and 60/107,843 all U.S. patents resulting from such applications or patents, as well as the subject matter of any other U.S. patent application or issuing patent owned by Yeaworth for inventions in the field of Floating Object Games, and any corresponding foreign patent applications and patents which Yeaworth may acquire or control during the term of this Agreement, it being understood that this Agreement shall be considered automatically amended from time to time by the addition hereto and inclusion hereof of any further patents or applications as provided in this Section 1.5.

1:6 "Yeaworth Distribution" has the meaning set forth in Section 5.2.

1:7 "Manufacturing Cost" (with respect to Floating Object Games) means the sum of: the actual cost of materials; freight costs; packaging costs; allocated overhead; design/creativity costs; and actual labor costs allocatable to the manufacture of such Floating Object Games.

1:8 "Minimum" has the meaning set forth in Section 2.4.

1:9 "Net Margin" means, for the relevant period, Net Sales less: Manufacturing Cost associated with such Net Sales; Yeaworth's Override; Faster-Form's Override; and sales commissions actually paid to sales representatives (but not to exceed fifteen percent (15%) of Net Sales); and amounts allocated to the Hold Back Fund for the relevant period.

1:10 "Net Sales" means Faster-Form's gross sales (the gross invoice amount billed customers) of Floating Object Games sold or otherwise distributed, less deductions for trade and quantity discounts actually taken, returns for damaged goods actually credited (and supported by credit memoranda actually issued to customers), and sales taxes (if applicable).

1:11 "Person" means any individual, sole proprietorship, joint venture, partnership, corporation, association, trust estate, governmental agency, regulatory agency, regulatory authority, or any other entity.

1:12 "Yeaworth's Override" means two and one-half percent (2.5%) of Net Sales.

1:13 The word "including" means "including but not limited to."

SECTION 2: FASTER-FORM'S RIGHT TO MANUFACTURE

2:1 During the term of this Agreement, Faster-Form shall have the exclusive right to manufacture, market and sell Floating Object Games which incorporate any Licensed Technology previously developed by either party or such additional Floating Object Games as may be developed by either or both of the parties during the term of this Agreement.

2:2 Faster-Form may not sublicense or subcontract its rights under this Agreement without Yeaworth's prior written consent, within Yeaworth's discretion. Yeaworth shall not

unreasonably withhold his written consent. The terms and conditions for each sublicense or subcontract will be determined on a case-by-case basis.

SECTION 3: CERTAIN OBLIGATIONS OF LICENSEE

3.1 **Manufacturers/Suppliers.** Faster-Form will be responsible for payments to all outside manufacturers/suppliers for any components or materials for producing Floating Object Games. Faster-Form will use its best efforts to produce the highest quality product, it being understood, however, that manufacturing must be done at the lowest cost basis. Yeaworth will be responsible for sources and overseas manufacturing quotations.

3.2 **Marketing Efforts.** Faster-Form will use its best efforts to procure the highest level of Net Sales of Floating Object Game, and to make and maintain adequate arrangements for their manufacture, distribution, advertising and promotion.

3.3 **Proprietary Markings.** Faster-Form agrees to include such markings and notices concerning Yeaworth's copyrights, trademarks, patents, patents pending or other proprietary rights on or in connection with the Floating Object Games, as Yeaworth may direct from time to time, within Yeaworth's discretion.

SECTION 4: CERTAIN RIGHTS AND OBLIGATIONS OF LICENSOR

4.1 **Yeaworth as Sales Representative.** Yeaworth shall have the right to market and sell Floating Object Games on any television sales venue, including QVC and Home Shopping Network. Faster-Form shall manufacture and supply Floating Object Games to meet Yeaworth's requirements in connection with the sales so made by Yeaworth. Yeaworth will be responsible for any financial sales losses that are incurred as a result of such marketing and sales activities by Yeaworth. Faster-Form shall pay to Yeaworth a fifteen percent (15%) sales commission for sales so made by Yeaworth, in accordance with Yeaworth's standard form of sales representative agreement, a copy of which is attached as Exhibit 4.1 to this Agreement.

4.2 Yeaworth as Consultant

(a) Yeaworth will use its reasonable good faith efforts to consult with Faster-Form in connection with the marketing and sales of Floating Object Games. Yeaworth will provide Faster-Form with all relevant information pertaining to the cost, manufacture, marketing and sales of Floating Object Games that Faster-Form may request from time to time.

(b) Yeaworth will, at Faster-Form's request, attend and represent Faster-Form at relevant trade shows and media events to promote the Floating Object Games, provided that Yeaworth's attendance at any such trade show or media event does not present a scheduling conflict for Yeaworth.

(c) All of Yeaworth's expenses incurred in connection with the services set forth in this Section 4.2 (b) shall be reimbursed from the Hold Back Fund to the extent not

covered by commissions, under Section 5.1, within forty-five (45) days after Yeaworth presents to Faster-Form a request for any such reimbursement.

4.3 Artistic Control: Copyright, Trademark and Trade Dress. Yeaworth will have complete creative control and ownership over all visible and/or functional aspects of each Floating Object Game that incorporates any Licensed Technology, including but not limited to design and engineering, degree of difficulty, packaging, trademarks, trade dress and advertising, and Faster-Form shall bear all expenses in connection therewith, and such expenses shall be a Manufacturing Cost for the Floating Object Game.

SECTION 5: DISTRIBUTION OF PROCEEDS

5.1 Hold Back Fund. Faster-Form shall, on an on-going basis, set aside ten percent (10%) of the Net Sales and place such Net Sales in a bank account segregated from Faster-Form's other bank deposits (the "Hold Back Fund"). Faster-Form shall use the money in the Hold Back Fund solely in connection with the payment of out-of-pocket advertising and marketing expenses and patent and other intellectual property costs and disbursements for the Floating Object Games. Upon termination of this Agreement for any reason, Yeaworth shall distribute all moneys in the Hold Back Fund fifty percent (50%) to Yeaworth and fifty percent (50%) to Faster-Form, after payment of any expenses that are properly to be paid from the Hold Back Fund.

5.2 Yeaworth Distribution. Faster-Form agrees to pay on a quarterly basis, within forty-five (45) days following the end of each calendar quarter, the following moneys ("Yeaworth Distributions") to Yeaworth in U.S. dollars:

- (a) Yeaworth's Override for Net Sales during the preceding quarter, and
- (b) Fifty percent (50%) of the Net Margin for the preceding quarter.

5.3 Quarterly Statements and Payments. During the term of this Agreement, within forty-five (45) calendar days following the end of each calendar quarter, Faster-Form shall deliver a statement to Yeaworth, certified by an officer of Faster-Form as being true and correct, which statement shall set forth: (a) the number of units of Floating Object Game that Faster-Form manufactured or had manufactured during the preceding calendar quarter; (b) the number of units of Floating Object Game sold during the preceding calendar quarter; (c) an itemized accounting of Net Sales for the preceding calendar quarter, including the gross invoice amount billed customers, deductions for trade and quantity discounts actually taken, returns for damaged goods actually credited and sales taxes (if applicable); (d) an itemized accounting of all deposits and withdrawals from the Hold Back Fund during the preceding quarter; (e) an itemized accounting of the Manufacturing Cost for the preceding calendar quarter, including the actual cost of materials; freight costs; packaging costs; and actual labor costs allocatable to the manufacture of such Floating Object Games; and withdrawals from the Hold Back Fund; and (f) an itemized accounting of the Net Margin for the preceding calendar quarter, including Manufacturing Cost; Net Sales; Yeaworth's Override; Faster-Form's Override; and sales commissions actually paid to sales representatives.

5.4 **Audit.** Yeaworth shall have the right during the term of this Agreement to inspect, audit and/or copy the relevant records maintained by Yeaworth conducted by an independent accountant, which inspection, audit and/or copying shall be conducted during regular business hours at Yeaworth's offices, upon ten (10) business days prior written notice. This audit right shall be limited to once per year unless a discrepancy is shown, in which case such an audit may be conducted more frequently. Faster-Form shall promptly pay Yeaworth the amount of any underpayment revealed by the audit. Yeaworth shall be responsible for the fees and costs of such audit; provided, however, that if an audit reveals an underpayment of fees and/or royalties of more than ten percent (10%), then in addition to paying the amount of such underpayment, Faster-Form shall also promptly pay for the costs and fees associated with such audit.

5.5 **Interest.** Any payment which is delayed for more than forty-five (45) days beyond the due date shall be subject to an interest and service charge of one percent (1%) per month, payable in United States currency, compounded daily from the date such payment first became due until paid.

SECTION 6: CONFIDENTIALITY

In the course of the performance of this Agreement either party (the "Source Party") may provide information to the other party (the "Receiving Party") relating to the Source Party's business, business plans, patents, trademarks, trade dress, trade secrets and products which is non-public, confidential and/or proprietary in nature (which information, whether or not specifically identified as proprietary or confidential, and in whatever manner provided or by whatever media represented, is referred to herein as "Confidential Information"). Both parties agree to maintain the Confidential Information as confidential and secret, using at least the same degree of care to avoid unauthorized disclosure, use, or publication of the Confidential Information as they employ with respect to their own proprietary or Confidential Information. The parties agree not to use the Confidential Information for any purpose other than performance of their obligations under this Agreement. Upon receipt of the prior written approval of the Source Party, the Receiving Party shall obtain the execution of such confidentiality and non-disclosure agreements as deemed appropriate by the Source Party before the Receiving Party discloses any Confidential Information to any third party. Upon the expiration or termination of this agreement the Receiving Party will promptly return all materials comprising the Confidential Information of the Source Party, and certify to such disposal.

SECTION 7: INSURANCE

During the term hereof and for a period of twelve (12) months thereafter, Faster-Form shall maintain separate product liability insurance coverage with a reputable insurer duly licensed in New York rated "A" or better by Best's, in amounts and in the type customarily maintained by retailers, manufacturers or distributors similarly situated, but in no event less than One Million Dollars (\$1,000,000) per occurrence, with an aggregate limit of Two Million Dollars (\$2,000,000). Yeaworth shall be named as an additional insured in all such insurance policies, which shall also provide that such policy cannot be canceled, terminated or non-renewed, without the insurer providing Yeaworth at least ten (10) days' prior written notice thereof. A Certificate of Insurance as proof of said insurance shall be delivered to Yeaworth within forty-five (45) days after the date hereof.

SECTION 8: INDEMNIFICATION

Faster-Form will assume all liability for all warranty and product claims of whatever nature for goods produced, distributed or sold by Faster-Form in connection with this Agreement. Faster-Form will indemnify, defend and hold Yeaworth harmless of, from and against any suit, action, proceeding at law or in equity, claim (groundless or otherwise), liability, loss, damage, payment, deficiency, settlement, penalty, fine, cost and legal and other expense (including reasonable attorney fees and disbursements) which Yeaworth may incur or be obligated to pay in any action, claim or proceeding against Yeaworth for or by reason of any acts, whether of omission or commission, that may be claimed to be or are actually committed or suffered by Faster-Form in connection with any warranty or product claims or with Faster-Form's performance of this Agreement. The provisions of this paragraph and Faster-Form's obligations under the same will survive the expiration of this Agreement.

SECTION 9: INFRINGEMENT

9:1 If either party discovers that any of the Licensed Technology or other proprietary rights in any of the Floating Object Games is or may be infringed, it shall promptly notify the other party of the details of the infringement or possible infringement.

9:2 Yeaworth may, but shall not be obligated to, take all necessary action at its own cost to curtail and stop the infringement by initiation of law suits against the infringing parties, to protect the rights and interests of the parties to this Agreement and to stop the infringement. Faster-Form shall cooperate with Yeaworth in this regard, including voluntarily agreeing to being named as a party in any complaint or counterclaim against an infringing party, and signing any and all reasonable documentation in connection therewith.

9:3 Any proceeds of any settlement or awards will be shared by the parties, after the reimbursement of expenses, pro rata in accordance with their respective contributions to the expenses incurred therewith.

SECTION 10: TERM, RENEWAL AND TERMINATION

10:1 Term. Unless sooner terminated under the provisions hereof, this Agreement shall continue until the expiration of the last expiring patent comprising the Licensed Technology.

10:2 Early Termination

(a) Breach by Faster-Form. In the event that Faster-Form: (1) materially breaches any of its duties or obligations hereunder, which breach shall not be cured within thirty (30) days after written notice is given by Yeaworth specifying the breach; or (2) repeatedly breaches any of its duties or obligations hereunder and fails to cure and cease committing such repeated breaches within forty-five (45) days after being given written notice specifying the breach, then Yeaworth may, by promptly giving written notice thereof to Faster-Form, terminate this Agreement as of a date specified in such notice of termination.

(b) Bankruptcy. If the Faster-Form files a petition (or is the subject of an involuntary petition) in bankruptcy; or is or becomes insolvent; or admits of a general inability to pay its debts as they become due; then this Agreement shall immediately terminate automatically and without notice.

(c) Misrepresentations. Yeaworth may terminate this Agreement immediately upon the discovery by Yeaworth of any material, false statement or other misrepresentation made or submitted to Yeaworth by Faster-Form.

(d) Minimum. Yeaworth shall have the option to terminate this Agreement within thirty (30) days after receipt of the quarterly anniversary date of this Agreement, if the Net Sales during the preceding twelve (12) months is less than two hundred thousand dollars (\$200,000).

10:3 Effect of Termination

(a) Upon termination of this Agreement, the ownership of all copyright, trademark and trade dress rights to any Floating Object Games that were sold through the date of termination, and patent rights to Floating Object Games jointly developed during that term of this Agreement, shall belong to both parties jointly, each of whom shall be free to make such use of such intellectual property as it sees fit. Notwithstanding the foregoing, the ownership of the Licensed Technology shall at all times remain with Yeaworth. Upon termination, Faster Form shall have non-exclusive rights to the Licensed Technology during the remaining life of the patent(s) for which it shall pay Yeaworth, on a quarterly basis, two and one-half percent (2.5%) of Net Sales and fifty percent (50%) of the Net Margin.

SECTION 11: MISCELLANEOUS

11:1 Notices. All notices, consents, or other communications required or permitted to be given under this Agreement shall be in writing and shall be deemed to be duly given if and when (a) delivered personally, (b) transmitted by facsimile, (c) mailed by first class certified mail, return receipt requested, postage prepaid, or (d) sent by a nationally recognized express

courier service, postage or delivery charges pre-paid, to the parties at the respective addresses set forth on the first page of this Agreement or to such other addresses of which the parties may give notice in accordance herewith.

11.2 Relationship between Parties. The relationship between Yeaworth and Faster-Form is that of independent contractors, and not partners, joint ventures or agents. Neither party has any authority to bind the other party in any manner. Neither party will be liable for any debts or liabilities of the other party, and, except as otherwise provided in this Agreement, each party will be responsible for its own expenses incurred in performing its obligations under this Agreement.

11.3 Entire Understanding. This Agreement, states the entire understanding between the parties with respect to the subject matter hereof and supersede all earlier and contemporaneous oral and written communications and agreements with respect to the same subject matter. Except as expressly provided herein, this Agreement, may not be amended or modified except in a written document signed by both parties.

11.4 Additional Documents. Each of the parties hereto shall take or cause to be taken all actions, or do or cause to be done all things, or execute and deliver any and all documents, instruments and writings, necessary, convenient, proper or advisable to consummate, make effective, and carry out the terms and provisions of this Agreement.

11.5 Parties in Interest. This Agreement will bind, benefit, and be enforceable by Yeaworth and Faster-Form, and their respective successors and, to the extent permitted hereby, assigns. Yeaworth may not assign or transfer its rights or obligations under this Agreement except with the express written consent of Faster-Form.

11.6 Mutual Negotiation. This Agreement has been negotiated and prepared at the joint request, direction, and construction of the parties, at arms length, with the advice and participation of counsel for each party, and shall be interpreted in accordance with its terms and without favor to any party.

11.7 No Waivers. No failure to exercise, delay in exercising, or single or partial exercise of any right, power or remedy by either party, and no course of dealing between the parties, will constitute a waiver of, or will preclude any other or further exercise of, the same or any other right, power or remedy.

11.8 Severability. If any provision of this Agreement is construed to be invalid, illegal or in unenforceable, then the remaining provisions will not be affected thereby and will be enforceable without regard thereto.

11.9 Counterparts. This Agreement may be executed in any number of counterparts, including faxed counterparts, each of which when so executed and delivered will be an original hereof, and it will not be necessary in making proof of this Agreement, and will not affect its interpretation.


11:10 Section Headings. Section and subsection headings are for convenience of reference only, do not constitute part of this Agreement, and will not affect its interpretation.

11:11 Governing Law. This Agreement shall be interpreted and construed in accordance with the laws of the Commonwealth of Pennsylvania, without reference to choice of law principles.

WITNESS THE DUE EXECUTION AND DELIVERY HEREOF AS OF THE DATE FIRST STATED ABOVE.

FASTER-FORM CORP.


DAVID B. YEAWORTH

By: 
Name: _____
Title: 