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# The Rise and Fall of Eastman Kodak

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by MICHELE • SEPT. 25, 2011

## Bumbling the future: a tale of two companies

*Disclaimer: I have no financial interest of any kind in Eastman Kodak, either long or short, and no plans to take any position in the company - ever. I have never held any shares of EK so what follows isn't sour grapes. I am not an insider and have no inside information.*

Back in 1988 Douglas K. Smith wrote a book called *Fumbling the Future: How Xerox Invented, then ignored the First Personal Computer*. He went into fascinating and gory detail of the fumbling and bumbling that went on in Xerox management that led to one disastrous blunder after another.

What does this have to do with **Kodak**? The parallels are striking. Both companies are based in Rochester, NY (Xerox subsequently moved their headquarters to Connecticut but maintains its base of operations in Rochester). Both companies were started by men of genius with a unique product and boundless drive. Both companies grew like mad on the success of their products and innovation.

And both companies subsequently lost their way. Xerox invented the world's first viable personal computer and Kodak invented the first digital camera. Both companies failed to realize the significance of that. And just as the PC demolished Xerox's highly profitable core business of photocopiers, the digital camera killed Kodak's main profit center of photographic film.

Both companies went through a series of strategic blunders. I'll leave Xerox now with the suggestion that you read Smith's book and concentrate on Kodak.

## A timeline of shame



World's 1st digital camera

In **1975**, Kodak invented the digital camera. Then ignored it - for more than 20 years. Little did anyone suspect at the time that this odd-looking ungainly box would eventually be the company's undoing.

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Kodak instant film camera

In **1976**, Kodak decided to enter the field of instant photography, essentially the sole domain of rival and powerhouse Polaroid. Several years later, Polaroid sued Kodak in a now famous case and won a whopping \$1 billion settlement, back in the days when \$1B was a lot of money.

Kodak was obligated to stop making that product and never returned. The irony is that Kodak instant prints were far superior to anything Polaroid had. The further irony is that Polaroid then completely squandered their windfall and ended up going bankrupt in 2008.



Kodak Ektaprint 150 copier

Also in **1976**, Kodak decided for some reason it would be a good idea to start making copiers. This venture managed to last until 1997. In yet another irony, by the late 80's Kodak's copiers were better than those of cross-town rival Xerox. The opportunity was there for a while, and they blew it.

**In 1982**, Kodak employment hit 60,000 in Rochester alone. It is Kodak's heyday. It's the largest employer by far in the Rochester region. Local stores run full page ads targeting Kodak employees to spend their bonuses with them. They're particularly popular with car dealers. Times are good.



### Kodak 4000 disc camera and film

But already there are signs of trouble on the horizon, signs that the film business is becoming mature. In 1982, Kodak introduced the disc film system. If there's a more inefficient way of arranging negatives on a carrier, I can't think of it. The only advantage of this system was that it allowed the camera to be thinner and this had an undeniable wow factor.

But the tiny negatives had an undeniable ugh factor. Disc images were so bad that even ordinary snapshot consumers, the kind of people who were content to watch color TV with green and purple faces, complained. The format nevertheless managed to survive until 1998. I doubt many people were still using it by then. The camera itself was axed in 1989.



### Kodak 8 mm video cassette deck

In **1984**, Kodak decided to enter the video recording arena with an 8 mm. video cassette unit in an increasingly crowded market already full of VHS and then Beta machines. Three years later, they pulled the plug on this product after some serious marketing miscues.

**1987:** Kodak invents the OLED (organic LED) - and proceeds to ignore that too for 20 years.

**1990:** In a gorgeous coffee table book titled *The Story of Kodak*, author Douglas Collins proclaims, "*film remains and will continue to remain the preferred medium for picture taking.*" New hires in the Kodak Research Labs get a free copy of this book as a welcome gift.

Also in 1990, Kay Whitmore replaces Colby Chandler as CEO.



Short answer: no

**1993:** Kodak hires ex-Motorola head honcho George Fisher as president and CEO. This is probably the one move more than any other that doomed Kodak. He lasted until 2000. By then, the damage was done.

George, you're getting an entire chapter all to yourself in my forthcoming book, *The Decline and Fall of Eastman Kodak*.

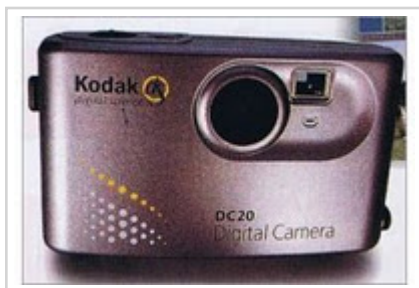
**1994:** Kodak spins off its chemical division into a new company called Eastman Chemical. This one move was probably the worst decision Kodak ever made. Kodak's fate was sealed from this moment on. Eastman Chemical opened in 1994 at 21.12. It most recently closed at 38.19. Kodak opened 1994 at 44.19 and now trades just above one dollar.



Picture Kiosk

Kodak **also** sold its holdings in drug maker Sterling Winthrop to Sanofi Aventis. And Kodak **also** sold its rights to Bayer aspirin and the Bayer name and trademarks to SmithKline Beechman for \$2.9 billion. 1994 was a big year for Kodak. They also sold their clinical diagnostics unit to Johnson & Johnson for yet another billion dollars. Where did all this cash go? Read on.

Also in **1994**, Kodak came out with the *Picture Kiosk*, a strange walk-up device that someone thought was a good idea. People were going to stand there in the store and edit their photos digitally, then print them. Our local grocery store had one of these. I never saw anyone actually using it. Finally one day, it looked like this. The sign reads "Out of Order". While I got the impression that this kind of summed up the whole project, I have been informed that this particular venture was actually a success.. You'd never know it from this particular machine though. It is no longer there, having been unceremoniously removed years ago.



Kodak DC-20

In **1996**, Kodak decided to get into the digital camera business (finally) with their first offering, the DC-20. A horrible cheaply made product that took absolutely awful pictures, even by 1996 standards, at \$350 back then, the DC-20 was not a hit. Digital was always the poor stepchild at Kodak - mostly because it wasn't film. By the time they finally got serious, the market had moved on again.

Today, digital cameras are losing ground to the ubiquitous camera-equipped cell phones. One has to wonder what they were thinking, replacing a high profit low-competition item like film with a low-profit product like digital in an industry with cut-throat competition.



Kodak Advantix APS film

Also in **1996**, Kodak rolled out APS, the Advanced Photo System, with a line of Advantix cameras and film. Introduced with great fanfare, APS was sort of a last ditch effort to extend the life of film and illustrates the deep commitment of Kodak to this product. The juxtaposition of Advantix and the DC-20 in the same year is telling.

Technically well-executed, feature-laden, and visually appealing, APS nonetheless was unable to stem the digital tsunami. Advantix film production ceased in 2011.



EK monthly, 1997-2002

Perhaps coincidentally, EK hit its all-time high stock price of \$94.75 early in **1997**. With Kodak closing last week at \$2.38 that's sort of hard to remember. Back then Kodak was also a member of the Dow, the bluest of blue chips.

Also in **1997**, Kodak finally threw in the towel on copiers, selling its entire Office Imaging business to Danka Business Systems.

In **1998**, Kodak opened a plant in Ireland to mass produce writeable CD's, just before CD's became a commodity item. The world was awash with CD's (remember getting one in the mail from AOL once a week?)

Then hard disk drive storage capacities exploded, first through multimegabytes, then gigabytes, and now terabytes, obviating the need for CD's entirely. In 2001 Kodak exited the CD production business. Also in 1998, Kodak shut down their disc film line.

In **1999**, Kodak continues cutting its way to success by selling its digital printer and copier division to Heidelberg Druckmaschinen AG.



Would you buy a used camera from this man?

In **2000**, Kodak announced that it would become "a leader in digital cameras". Issues stock options to employees with strikes in the mid 70's, as an "incentive" to improve performance. That price would never be realized. Dan Carp replaced George Fisher as CEO. As Bloomberg Businessweek put it:

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*"Dan Carp had better watch out. As chief executive of Eastman Kodak Co. since Jan 1., he has already run into deep trouble, even before finishing his first year on the job. Now, he faces the prospect of joining the list of Kodak executives who have bungled the company's transition from traditional film to the digital world"*

**In 2001**, Kodak acquired online photo sharing business Ofoto and renamed it Kodak EasyShare Gallery. Subsequently renamed again simply Kodak Gallery in 2005, they managed to run this into the ground too, announcing in late 2011 they were trying to unload it.

Talk of a business they never should have entered. This is a low profit, low barrier-to-entry operation, the exact opposite to what Kodak does best. Anyone with a PC and a big hard drive can start a photo sharing service. Another *what were they thinking* moment.



Revolving Door Russo

Also in **2001**, Kodak hired Patricia Russo, who had just come off a stint of running Lucent Technologies into the ground, to perform the same job at Kodak as President and COO. She barely lasted nine months before pulling the ripcord on her golden parachute.

According to a 2003 article in Businessweek, *"Russo likes to recite Winston Churchill's famous quote: 'Never, never, never give up.'"* Except for Kodak, I guess. There's a funny story about Kodak and Russo contributed by a reader, but you'll have to buy the upcoming book to find out.

In **2002**, Kodak announced that they were cutting their dividend to pay for a strategy concentrating on growth in digital. Also in 2002, Kodak moved the production of disposable "single use" cameras to China and Mexico. Another 500 Rochester workers are now jobless. 23,000 now remain.

In **2004**, With its stock now in the mid-20's, Kodak was kicked out of the Dow. Also in 2004, Kodak sold its Government Systems group to ITT.





"This company will be booming!"

In **2005** Fitch downgraded Kodak's bonds to BB from BB+ on a negative rating outlook. Also in **2005**, Dan Carp wisely pulled the ripcord on his golden parachute to be replaced by noted hatchet man Antonio Perez. His reign (from Spain) led Kodak down the drain.

- *"by 2007 this will be a \$60 stock."*, Ulysses S. Yannas, a broker at Buckman, Buckman & Reid. I'll bet he regrets that now. (By 2007 it was a \$25 stock).
- *"By 2008, Kodak will be the digital company I came here to run"*, Perez to investors meeting, Sept. 28, 2005. I think he forgot to add "into the ground".

**It gets worse...**



Bldg. 69 going up in smoke, 2007.

In **2007**, Kodak went on a rampage of blowing up unused buildings at their huge Kodak Park site in Rochester, because the property taxes on a vacant lot were lower than on an empty structure. Here's a good one: Kodak BLDGS 65,69 Implosion 10-06-07. This is Kodak's entire imaging science research lab going up in smoke. Total Kodak employment in Rochester now 9,200.

Also in **2007**, Kodak resigned its membership in the Better Business Bureau, before it was about to be kicked out.

Also in **2007**, Kodak sold off its health care imaging group to Onex, a Canadian company. Digital radiography was arguably the one business they had with growth potential, where they had a decent presence. So they dumped it. What were they thinking? Now called Carestream Health, they're doing quite well. I guess the need for cash is already showing.

**2008:** Kodak stock opens at \$21.81. It closes the year at \$6.58. This is the company Perez said he "came here to run" in 2005? By golly he really *did* mean "into the ground".

Also in **2008**, Kodak finally remembers they invented the OLED 20 years earlier and makes a half-hearted effort to productize it with a 7.6" OLED digital picture frame - for a whopping \$999. It was not a big seller.





R.I.P. Kodachrome, 2009

On **April 30, 2009**, Kodak announced it was suspending its dividend.

Also in **2009**, Kodak announces it will stop making Kodachrome film, arguably the most popular and successful film in history.

Also in **2009**, Kodak sold its OLED business to LG.

**January, 2010**, David Cok, Senior Research Associate, Kodak CTO, Imaging Science Lab director, bailed out after 28 years in the Research Labs (not to retire either).

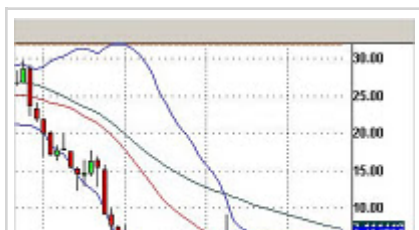
On December 17, **2010**, Kodak was kicked out of the S&P 500. Stock price now around 5 bucks.

**2011**: Kodak is no longer Rochester's largest employer. It's not even its second largest. Or third. With less than 7,000 employees remaining, it ranks behind the University of Rochester, Xerox Corp. and a local supermarket chain.

On **February 23, 2011**, President Obama appoints CEO Antonio Perez to his *Council on Jobs and Competitiveness*, for reasons that are still unclear but do make me wonder about his judgement. Obama obviously does not read the Night Owl. Or perhaps Perez was appointed as an example of what *not* to do, since he has clearly demonstrated he knows nothing about either competitiveness or jobs. Destroying yes, creating no..

**March 31, 2011**: Kodak sold 850 patents to Omnivision Technologies for \$65 million. That works out to \$76,471 per patent.

**April 5, 2011**: Kodak sold parts of its microfilm products and equipment business, along with its data conversion services business to a company called Eastman Park Micrographics as part of its strategy (if you can call slowly bleeding yourself to death a strategy) "to fund the completion of its transformation to a digital company."





EK monthly, 2007-2011

In **July 2011**, Kodak announced that it was shopping its patent portfolio around to create a "digital profitable and sustainable company by 2012." (see the 2000 announcement above). They are bandying about numbers like one or two billion dollars for 1,100 patents. But recall that they only got \$76K per patent for a sale of 850 patents earlier this year. Assuming the same rate of return, the whole portfolio is worth only \$84 million. Even if this estimate is low by an order of magnitude, they're still under a billion.

Also in July, Perez tells analysts in connection with inkjet printers,

“You will see that that business is going to be a gorgeous business for this company,”

Is he serious? By now inkjet printers are a commodity item. They come as prizes in Crackerjack boxes. The ink is more expensive than the printers. And now laser printers, which are far superior to inkjet in every respect, are in the same price range as high-end inkjets. And as far as photo printing goes, fewer images are being printed at all in favor of viewing on smart phones. A gorgeous business? I think Perez is giving Kodak the business.

On **August 1, 2011**, in a further sign of just how deeply their management is in denial, Kodak put in the poison pill to prevent a takeover, arguably the one thing left that could possibly still save this train wreck of a company.



EK daily, Sept. 1-23, 2011

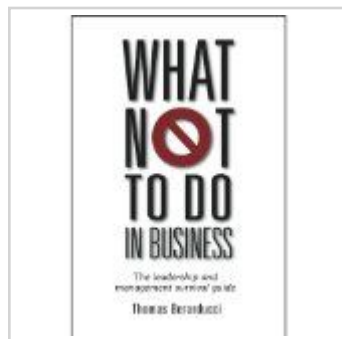
In **August, 2011**, Jiebo Luo, a young 15 year veteran Principal Senior Research Scientist and high-ranking member of the Inner Circle of Kodak's Imaging Science Laboratory in the legendary Kodak Research Labs in Rochester quit the company to take on a position as an Associate Professor at the University of Rochester.

Now why would such a highly placed individual, who can basically write his own ticket, bail after 15 years? Suddenly decided he wanted to teach? Mmm hmm - could be... (not).

Kodak currently lists all of 15 jobs openings in Rochester. One is for an intern, 5 are for financial auditors,

and none are in the research labs. 10 years earlier, there were hundreds of jobs listed at any given time.

On **September 23, 2011**, Kodak withdrew \$160 million from its revolving line of credit.



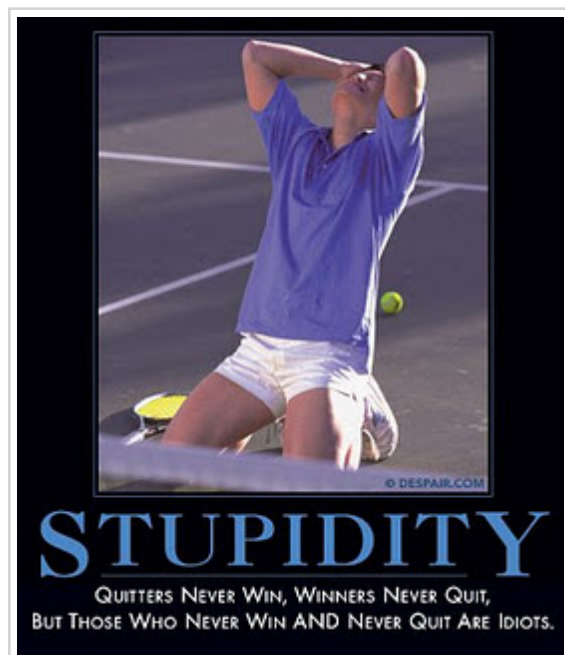
Too late for Fisher

On this day EK has a market cap of just \$640 million (9/30 update - make that \$210 million). And a short interest of a whopping 25.62%.

**September 26, 2011:** Thomas Berarducci publishes an ebook called *What Not to Do in Business*.

Amazingly, he got George Fisher to give this testimonial: "A great collection of lessons from the trenches rather than from the ivory tower." I guess if you want an expert on what not to do in business, George is your man.

### **The wrong stuff, too little, too late**



From despair.com, the Kodak memorial poster.

Does all this sound like a healthy company? No. How did this happen? The sad tale of EK is primarily one of too little, too late. Not only that, but going off in the wrong direction over and over. And never learning from their mistakes. All of these problems go directly back to the management of the company, that incredibly

remains in total denial of the obvious: Kodak is going down for the third time.

And it would be one thing if it was just denial, but denial coupled with arrogance is guaranteed fatal. For example, Dan Carp, then CEO, stood up in Kodak Theatre (a vast private auditorium in the Kodak Park complex) at a Research Division meeting one cold winter day in the early 2000's and announced that things weren't looking so hot. But the problem, he went on wasn't management's plan, it was the failure of the workers to execute the plan. That one statement speaks volumes and sums up Kodak's problems in a nutshell.

Clearly, this company is not long for this world, no matter what its delusional CEO has to say on the matter. It's really sad to see another great American icon go out in such a pathetic manner, and infuriating because it didn't have to end this way. Poor George Eastman must be just spinning in his grave. Bye bye, Eastman Kodak, it was fun while it lasted.

### Updates since the original post



EK, Sept. 2011

**September 30, 2011:** The *very day after* I originally wrote this piece six days ago, Kodak stock dropped from \$2.38 to \$1.74. Uh oh. Then both Moody's and Fitch cut Kodak's bond rating - again. Double uh oh. Then yesterday, one Gregg T. Abella, a byg wyg in EK stock holder Investment Partners Group wrote to the Kodak board,

“ *Kodak's long-term performance is simply unacceptable, and as such it has not earned the right to remain an independent company. Kodak's management has been given more than enough time and still has been unsuccessful in unlocking value for stockholders or bondholders.* ”

Big uh oh. (See the full story in the local Rochester paper here) And I'd say Gregg was being highly diplomatic there.

And finally, in a possible *coup de grace* this afternoon, EK crashed *again*, this time trading as low as **54 cents**, after both Bloomberg and the WSJ reported that the company was considering filing for bankruptcy. It then recovered, if you can call it that, to close at 80 cents. **Yikes**. Get the trumpet out, it's almost time to

play Taps. Very very sad.

**October 5, 2011:** Just when it seemed like there was really nothing else left to sell, Kodak sold its silver business, arguably the heart of the entire company, to an outfit called Rochester Silver Works. Contrary to rumors, Antonio Perez's office desk is not for sale. Yet.

**October 12, 2011:** Collins Ink Corp., which apparently made the ink used in Kodak's inkjet printers (I thought they made their own ink), cancels their contract with Kodak, citing "Kodak's financial condition".

**October 13, 2011:** Kodak makes the NYSE's "Threshold securities" list for the 6th consecutive day, reflecting its astonishing 27% short float.

**October 14, 2011:** In a dose of its own medicine, Kodak gets sued by Fujifilm over digital camera patents. Sow the wind, reap the whirlwind.

**October 20, 2011:** Kodak sues Collins Ink (see Oct. 12 above). Apparently, Kodak's main product is now lawsuits. Also, it comes out that Kodak apparently has yet to pay Collins for \$2.5 million worth of ink.

**October 21, 2011:** According to the WSJ, a group of Kodak bondholders have hired a lawyer of their own to "protect their interests". Also Kodak hires restructuring consulting firm FTI Consulting Global. And according to Debtwire, Kodak is meeting with Cerberus and Silverpoint Capital Management. Kodak short float is now 29.29%.

Also, the ITC kicks the can down the road again on its long awaited Apple/RIM patent decision. Supposedly, it's going to be November now, or maybe the "end of the year". Not quite sure which year though.

**October 24, 2011:** Kodak kicked off the S&P Midcap 400. Kindred Healthcare also had the honor of getting the boot today but while they were "promoted" to the Smallcap 600, Kodak was not.

**October 25, 2011:** Kodak and Collins Ink kiss and make up, resuming their ink arrangement - for an entire week. The whole deal apparently expires at the end of the year anyway, making one wonder just what all this odd posturing was about in the first place.

**November 3, 2011:** Kodak reports some stunningly bad Q3 numbers with a loss of 83 cents per share versus estimates of 44 cents. In an SEC filing, they state *"The Company's ability to continue its operations ... is dependent upon the ability to monetize its digital imaging patent portfolio through a sale or licensing of the relevant patents and/or the successful execution of the alternative actions, which could include the issuance of additional debt, listed above,"* This sort of announcement does not exactly give one the warm fuzzies.

Antonio Perez concludes his presentation with *"I kept saying that by the end of 2012, we're going to get to this self-standing digital company."* Oh puhleeze. EK stock closes at 1.12. (Transcript excerpt from *Seeking Alpha*, full transcript can be found [here](#).)

**November 7, 2011:** Kodak sells its Image Sensors Solutions to Platinum Equity for the proverbial "undisclosed amount of cash". This must mean they got a bad deal. Frankly, I was surprised to learn there was anything left over there to sell besides their much talked about patent portfolio.. It's ironic that this is the group that was responsible for the development of the digital camera, the invention that led Kodak to its doom. In addition to the mystery cash settlement, Platinum picks up the high rise research building 81 in Rochester's Kodak Park along with 200 Kodak employees, about 3% of the remaining Kodak workers in Rochester.

Also today, Moody's publishes a note to the effect that Kodak will run out of cash "by 2012" (meaning in less than 60 days) unless they get a "major infusion" of new financing. Much is still being made about their patent portfolio. See the entry for July 2011 above for an analysis of just how much they might really be worth.

**November 10, 2011:** Legg Mason calls it quits, announcing it dumped the last of its Kodak holdings, 7.9 million shares last month. They started accumulating shares in 2000 when the stock was at 60. It closed today at 1.14. Ouch!

**November 15, 2011:** A large Kodak shareholder, Investment Partners Asset Management asks Kodak to ditch the poison pill (see item from August 1, 2011 above) stating *"The poison pill should be removed immediately so that the market can determine the value of the company as an independent entity or as a potential acquisition target,"* IPAM also wants it put to a vote at the next Annual Meeting. Kodak had no comment. Should be an interesting meeting next May.

**November 16, 2011:** Kodak announces that they are selling Kodak Gallery, their online photo storage, sharing and printing business. A buyer has yet to be found.

**November 25, 2011:** Kodak ceases production of its Advantix APS film. Since Fuji has also bailed on APS, your APS camera is now a museum piece. Story here: [http://www.msnbc.msn.com/id/45439596/ns/local\\_news-rochester\\_ny/t/what-happened-kodaks-advantix-photo-system/](http://www.msnbc.msn.com/id/45439596/ns/local_news-rochester_ny/t/what-happened-kodaks-advantix-photo-system/)



Kodak HQ ghost town

**December 2, 2011:** In a story here Kodak announces they are shopping five empty buildings totalling 550,000 square feet in Kodak's Rochester headquarters complex to a local community college. The deal promises to get embroiled in local politics with a competing offer across town in an abandoned department

store. EK stock now trading at \$1.02.

**December 6, 2011:** Kodak dumps restructuring advisers Jones Day for the firm of Sullivan & Cromwell. This move at least hints at the prospect that Kodak may be pursuing an alternative to bankruptcy, most likely a takeover I'm guessing. By way of "explanation" Kodak announced "*we don't itemize the work any of our advisers do for us.*".

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