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## Former trailblazer Kodak files for Chapter 11

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ROCHESTER, N.Y. — Kodak's moment has come and gone.

The glory days, when Eastman Kodak Co. ruled the world of film photography, lasted for over a century. Then came a stunning reversal of fortune: cutthroat competition from Japanese firms in the 1980s and a seismic shift to the digital technology it pioneered but couldn't capitalize on. Now comes a wistful worry that this American business icon is edging toward extinction.

Kodak filed for Chapter 11 bankruptcy protection on Thursday, raising the specter that the 132-year-old trailblazer could become the most storied casualty of a digital age.

Already a shadow of its former self, cash-poor Kodak will reorganize in bankruptcy court, as it seeks to boost its cash position and stay in business. The Rochester, N.Y.-based company hopes to peddle a trove of photo patents and morph into a new-look powerhouse built around printers and ink. Even if it succeeds, it seems unlikely to ever resemble what its red-on-yellow K logo long stood for — a brand synonymous in every corner of the planet with capturing, collecting and sharing images.

"Kodak played a role in pretty much everyone's life in the 20th century because it was the company we entrusted our most treasured possession to — our memories," said Robert Burley, a photography professor at Ryerson University in Toronto.

Its yellow boxes of film, point-and-shoot Brownie and Instamatic cameras, and those hand-sized prints that made it possible for countless millions to freeze-frame their world "were the products used to remember — and really define — what that entire century looked like," Burley said.

"One of the interesting parts of this bankruptcy story is everyone's saddened by it," he continued.

"There's a kind of emotional connection to Kodak for many people. You could find that name inside every American household and, in the last five years, it's disappeared."

Kodak has notched just one profitable year since 2004. At the end of a four-year digital makeover during which it dynamited aged factories, chopped and changed businesses and eliminated tens of thousands of jobs, it closed 2007 on a high note with net income of \$676 million.

It soon ran smack into the recession — and its momentum reversed.

Years of investor worries over whether Kodak might seek protection from its creditors intensified in September when it hired major restructuring law firm Jones Day as an adviser. Its stock, which topped \$94 in 1997, slid below \$1 a share for the first time and, by Jan. 6, hit an all-time closing low of 37 cents.

Three board members recently resigned, and last week, the company announced that it realigned and simplified its business structure in an effort to cut costs, create shareholder value and accelerate its long-drawn-out digital transformation.

The human toll reaches back to the 1980s, when Tokyo-based Fuji, an emerging archrival, began to eat into Kodak's fat profits with novel offerings like single-use film cameras. Beset by excessive caution and strategic stumbles, Kodak was finally forced to cut costs. Its long slide had begun.

Mass layoffs came every few years, unraveling a cozy relationship of company and community that was perhaps unequaled in the annals of American business. Kodak has sliced its global payroll to 18,800 from a peak of 145,300 in 1988, and its hometown rolls to 7,100 from 60,400 in 1982.

Veteran employees who dodged the well-worn ax are not alone in fearing what comes next. Some 25,000 Kodak retirees in this medium-sized city on Lake Ontario's southern shore worry that their diminished health coverage could be clawed back further, if not disappear, in bankruptcy court.

It's a far cry from George Eastman's paternalistic heyday.

Founded by Eastman in 1880, Kodak marketed the world's first flexible roll film in 1888 and turned photography into an overnight craze with a \$1 Brownie camera in 1900. Innovation and mass production were about to put the world into cars and airplanes, the American Century was unfolding, and Kodak was ready to record it.

"It's one of the few companies that wiggled its way into the fabric of American life and the American family," said Bob Volpe, 69, a 32-year employee who retired in 1998. "As someone at Kodak once said, 'We put chemicals in one end so our customers can get memories out the other.'"

Intent on keeping his work force happy — they never organized a union — Eastman helped pioneer profit-sharing and, in 1912, began dispensing a generous wage dividend. Going to work for Kodak — "taking the life sentence," as it was called — became a bountiful rite of passage for generations.

"Most of the people who worked at Kodak had a middle-class life without a college education," Volpe said. "Those jobs paid so well, they could buy a boat, two cars, a summer place, and send their kids to college."

Propelled by Eastman's marketing genius, the "Great Yellow Father" held a virtual monopoly of the U.S. photographic industry by 1927. But long after Eastman was stricken with a degenerative spinal disorder and took his own life in 1932, Kodak retained its mighty perch with a succession of innovations.

Foremost was Kodachrome, a slide and motion-picture film extolled for 74 years until its demise in 2009 for its sharpness, archival durability and vibrant hues. In the 1960s, easy-load Instamatic 126 became one of the most popular cameras ever, practically replacing old box cameras.

In 1975, using a new type of electronic sensor invented six years earlier at Bell Labs, engineer Steven Sasson created the first digital camera, a toaster-size prototype capturing black-and-white images at a resolution of 0.1 megapixels.

Through the 1990s, Kodak splurged \$4 billion on developing the photo technology inside most of today's cellphones and digital devices. But a reluctance to ease its heavy reliance on film allowed rivals like Canon Inc. and Sony Corp. to rush largely unhindered into the fast-emerging digital arena. The immensely lucrative analog business Kodak worried about undermining too soon was virtually erased in a decade by the filmless photography it invented.

"If you're not willing to cannibalize yourself, others will do it for you," said Mark Zupan, dean of the

University of Rochester's business school. "Technology is changing ever more rapidly, the world's becoming more globalized, so to stay at the top of your game is getting increasingly harder."

In November, Kodak warned it could run out of cash in a year if it didn't sell 1,100 digital-imaging patents it's been shopping around since July. Analysts estimate they could fetch at least \$2 billion.

In the meantime, Kodak has focused its future on new lines of inkjet printers that it says are on the verge of turning a profit. It expects printers, software and packaging to produce more than twice as much revenue by 2013 and account by then for 25 percent of the company's total revenue, or nearly \$2 billion.

CEO Antonio Perez said in a statement Thursday that the bankruptcy filing is "a necessary step and the right thing to do for the future of Kodak." The company has secured \$950 million in financing from Citigroup Inc., and expects to be able to operate its business during bankruptcy reorganization and pay employees.

On its website, Kodak assured customers that the nearly \$1 billion in debtor-in-possession financing would be sufficient to pay vendors, suppliers and other business partners in full for goods and services going forward. The bankruptcy filing in the Southern District of New York does not involve Kodak's international operations.

"To be able to hop from stone to stone across the stream takes great agility and foresight and passion for excellence, and Kodak is capable of that. They have some killer stuff in inkjet printing. It's becoming a profitable product line but what they need is the runway to allow it to take off," Zupan said. "As the saying goes, 'the best way to anticipate the future is to invent it.'"

The company and its board are being advised by Lazard, FTI Consulting Inc. and Sullivan & Cromwell LLP. Dominic DiNapoli, vice chairman of FTI Consulting, will serve as chief restructuring officer. Kodak expects to complete its U.S.-based restructuring during 2013.

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