

Can Kodak rescue itself via a patent bonanza?

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In this Oct. 3, 2011 file photo, Kodak headquarters is shown in Rochester, N.Y. Kodak _ the company that invented the first digital camera in 1975, and developed the photo technology inside most cellphones and digital devices _ is in the midst of the worst crisis in its 131-year history. (AP Photo/David Duprey, file)

Picture this: Kodak - the company that invented the first digital camera in 1975, and developed the photo technology inside most cellphones and digital devices - is in the midst of the worst crisis in its 131-year history.

Now, caught between ruin and revival, [Eastman Kodak Co.](#) is reaching ever more deeply into its intellectual treasure chest, betting that a big cash infusion from the sale of 1,100 digital-imaging inventions will see it through a transition that has raised the specter of bankruptcy.

Kodak popularized photography over a century ago. It marketed the world's first flexible roll film in 1888 and transformed picture-taking into a mass commodity with the \$1 Brownie camera in 1900. But for too long the world's biggest film manufacturer stayed firmly focused on its 20th-century cash cow, and failed to capitalize quickly on its new-wave know-how in [digital photography](#).

As a result, Kodak has been playing catch-up. Pummeled by Wall Street over its dwindling [cash reserves](#) - and its stumbling attempts to reinvent itself as a profitable player in digital imaging and printing - Kodak has been hawking the digital patents since July. Many [financial analysts](#) foresee the portfolio fetching \$2 billion to \$3 billion.

But others think Kodak can haul in far more than that - and carry it off within a few months. That's because patents have become highly valuable to digital device makers who want to protect themselves from intellectual property lawsuits. In July, an alliance made up of Apple and Microsoft purchased a raft of patents from [Nortel Networks](#) for \$4.5 billion. A month later, Google bought Motorola Mobility for \$12.5 billion, in part, to gain hold of the company's 17,000 patents.

"The size of the (Kodak) deal could blow your socks off," predicts Los Angeles money manager Ken Luskin, whose Intrinsic Value Asset Management owns 3.8 million Kodak shares.

"It's pocket change for [Google](#) and Apple to go pay \$3-or-\$4-or-\$5 billion for these patents," concurs Christopher Marlett, chief executive of MDB Capital, an investment bank based in Santa Monica, Calif., that specializes in intellectual property. "There is an all-out nuclear war right now for global dominance in smartphones, tablets and mobile devices, and Kodak has one of the largest cache of weapons sitting there." Marlett says he owns Kodak stock, but wouldn't disclose how much.

Even a hefty return, skeptics counter, won't solve Kodak's struggle to close out a nearly decade-long transformation and return to profitability in 2012 after running up losses in six of the last seven years.

"All the extra cash does is give you a lifeline for a short period. And then, poof, you're back in the same position without the assets to sell," says analyst Shannon Cross of Cross Research in Livingston, N.J. "If you're burning cash and not finding a way to generate recurring earnings, it doesn't matter."

Kodak's grim financial picture should become clearer when it reports third-quarter results Thursday.

Agitated investors will likely focus on the company's latest borrowing activities and cash woes - it had \$957 million in cash in June, down from \$1.6 billion in January. They will also want to know what kind of progress Kodak made in the July-September period in building up a high-margin ink business to replace shriveling film sales.

Kodak has poured hundreds of millions of dollars into new lines of inkjet printers that are finally on the verge of turning a profit. Home photo printers, high-speed commercial inkjet presses, workflow software and packaging are viewed as the company's new core. Kodak projects that sales from those four businesses will double to nearly \$2 billion in revenue in 2013, accounting for 25 percent of all sales.

In the meantime, Kodak needs to tap other sources of revenue before those areas have time to pay off - and mining its inventions has become indispensable.

Kodak's chief executive, Antonio Perez, has signed confidentiality agreements with potential buyers but hasn't given a time frame for a deal. The patents for capturing, storing, organizing, editing and sharing

digital images do not apply to the four core businesses, Kodak spokesman Gerard Meuchner says.

"One thing I would stress is: It is our intention to retain a license to any of the intellectual property we sell," Meuchner says. "It's like you sell the property but still get to live in the house."

A sale represents a sharp tactical shift. Kodak picked up just \$27 million in patent-licensing fees in the first half of 2011 after amassing nearly \$2 billion in the previous three years.

In the heated environment for patents, "it makes more sense for us to sell the portfolio than it does to license it company by company, which takes lots of time and expense and can involve litigation," Meuchner says.

Michael Fitzgerald, chief executive of Next Techs Technologies, a patent buying-and-selling intermediary in Houston, says that while the portfolio is valuable, "I just don't view it necessarily as a 'strategic' acquisition that multiple players will fall all over themselves on."

Investor fears sent Kodak stock tumbling to an all-time closing low of 78 cents a share on Sept. 30 after it hired Jones Day, a major restructuring law firm, as an adviser. Kodak insisted it had no intention of filing for bankruptcy protection.

Kodak is also involved in a royalty dispute with iPhone behemoth Apple and BlackBerry maker Research In Motion Ltd. The case centers on a 2001 patent now on the auction block - a method that enables a camera to preview low-resolution versions of a moving image while recording still images at higher resolutions.

The 21-month-old battle before the U.S. International Trade Commission, a trade-dispute arbiter in Washington, D.C., was due to be

revisited on Monday, but was recently shelved until December 30.

Chief Executive Antonio Perez thinks a favorable ruling could enable Kodak to draw up to \$1 billion in fees from its deep-pocketed rivals. In 2009, the commission ruled that South Korean mobile phone makers Samsung Electronics and LG Electronics infringed the same patent, resulting in \$964 million in payouts.

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