

8 investing mistakes you should avoid in 2011

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THE WALL STREET JOURNAL

WSJ.com

BUSINESS | JULY 19, 2011

Kodak's Bonds Fading Fast

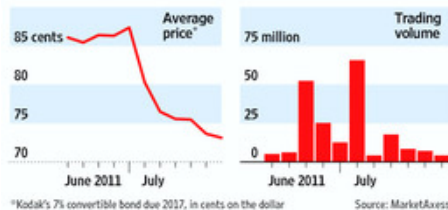
By [MATT WIRZ](#) And [DANA MATTIOLI](#)

The value of [Eastman Kodak Co.](#)'s bonds is sinking rapidly, a sign of growing concern the faded one-time blue chip is running out of time to adapt to the changes sweeping its industry.

Negative sentiment has been building since a late-June setback in a patent suit that Kodak hoped would provide a fresh injection of cash to help fund its turnaround. Yet the concerns run deeper, to whether the company's bet that it can patch the hole in its film business with new consumer and commercial printers will pay off in time.

Cloudy Picture

The price of Kodak's bonds has dropped sharply, reflecting doubts the iconic company will be able to pull off its turnaround.



Kodak, which had \$1.3 billion in cash at the end of March, said it has enough funds. "We have the resources to fully pay our obligations, and we are confident that will continue to be the case," Kodak spokesman Dave Lanzillo said.

Some investors aren't waiting around. Bonds that come due in 2013 have been dumped for prices well below face value and now yield more than 16%, a sign investors are demanding higher compensation for the risk of lending to Kodak.

Of the 100 most actively traded bonds Monday, only a handful—including those issued by [Lehman Brothers Holdings Inc.](#) and [OPTI Canada Inc.](#), two companies that have sought protection from creditors—offer higher yields than Kodak's, according to market data firm MarketAxess.

Shareholders are bailing out as well. Bill Miller, the Legg Mason Inc. fund manager who buys beaten-down stocks he thinks will rebound, sold off his holdings in Kodak in the six months ended April 30 after more than a decade of betting on a rebound.

The company's shares fell 8% to \$2.52 in 4 p.m. composite trading Monday on the New York Stock Exchange, their lowest level in more than two years.

"The core business model didn't improve off of a cyclical bottom, and now the environment is even more challenging, and they have debt coming in 2013," said Ananda Baruah, an analyst with Brean Murray, Carret & Co. The market, he said, is asking, "Where's the cash going to come from?"

Kodak was a pioneer in amateur photography but got caught on the wrong side of the revolution in digital technology, which put high-quality cameras into virtually every advanced cellphone and replaced film with electronic memory.

The Rochester, N.Y., company has \$50 million in debt coming due this year and next, and another \$350 million to pay off in 2013. The company burned through \$324 million in cash in the first quarter.

Kodak still has a vast portfolio of intellectual property that it hopes to use to generate royalties that will keep the company afloat until 2012, when the company has said it will become profitable.

The strategy has hit some setbacks, however. In the first quarter, Kodak posted a loss, largely because it failed to settle any IP claims.

The latest turn in sentiment came after the U.S. International Trade Commission failed to grant the company a clear win in its patent fight with Apple Inc. and Research In Motion Ltd. Kodak maintains it will win the case eventually. On Monday, the ITC upheld a ruling in a countersuit that Kodak hadn't infringed Apple's patents.

Kodak's new businesses require lots of support. The company loses money on sales of its consumer inkjet printers and is operating in a market dominated by printing giants like [Hewlett-Packard Co.](#) Until the company sells enough printers to reap the profits from ink sales, it finds itself bleeding more cash.

Commercial printing, another segment Kodak has called a growth business, doesn't yet have the scale to post meaningful profits. The company is only able to produce a few dozen commercial inkjet printers each year, and in its first-quarter conference call, Chief Executive [Antonio Perez](#) said the company had yet to automate the manufacturing process and was making them "by hand."

Just four months ago, cash-rich investors were so eager to lend to Kodak that it was able to sell \$250 million of new secured bonds to help fund its operational overhaul, \$50 million more than the company initially asked for. But the risk premium on Kodak's debt has since risen to levels not seen since the worst of the financial crisis.

Kodak announces second-quarter earnings on July 26. Deutsche Bank analyst Chris Whitmore expects revenue and profit to come in below their levels a year earlier given margin pressures from rising commodity costs and lower intellectual-property income.

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