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Kodak Loss Widens on Silver Costs

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Eastman Kodak Co. posted a wider loss and burned through more than $300 million in cash in the second quarter as the company's traditional camera business continued to deteriorate and raw-material costs weighed on the bottom line.

The results highlighted the challenges that remain as the company seeks to refocus its operations around commercial and consumer printing. In the second quarter, Kodak suffered from expenses related to its turnaround effort as well as from the high cost of silver and a lack of income from intellectual-property settlements.

Chairman and Chief Executive Antonio Perez said the Rochester, N.Y., company faces "the challenges typical in the creation of new businesses." He reiterated that Kodak expects to be profitable by 2012.

The loss at the company's graphic-communication segment widened to $45 million from $17 million a year earlier amid higher raw-materials costs, as well as start-up expenses from expanding the commercial inkjet-printer business. The broader loss occurred even though revenue at the business rose.

The loss at the consumer digital-imaging segment narrowed, reflecting higher printer-ink gross profits.

While Kodak is seeking to build its inkjet-printer business, rival Lexmark International Inc. saw success paring its inkjet offerings in favor of higher-end gear. Lexmark said Tuesday that its adjusted earnings rose more than expected as it benefited from its increased focus on equipment, software and printing services for businesses.

Meanwhile, at Kodak, the film, photofinishing and entertainment group—the company's only profitable business—continued to deteriorate. Earnings fell 94% to $2 million as sales dropped 14% on lower volume and pricing pressure.

Kodak has struggled alongside the decline of traditional photography and has sought to fund a recasting of its operations using patent litigation. It said last week that it is exploring the sale of a small but valuable part of its U.S. patent portfolio.

Mr. Perez stressed that "the only reason we're doing this now is because we've seen an amazing appetite in the market for these kind of assets."

Overall, Kodak posted a loss of $179 million, or 67 cents a share, compared with a loss of $168 million, or 63 cents a share, a year earlier. The most-recent quarter and the year-earlier period included five cents and three cents a share, respectively, in items such as restructuring and tax impacts. Sales fell 4.5% to $1.49 billion.

Analysts polled by Thomson Reuters had expected a loss of 61 cents a share on $1.54 billion in revenue.

Gross margin plunged to 14.2% from 19.5% on higher raw-materials costs and pricing troubles.

Silver is used in film manufacturing, and Kodak has said its production costs rise $10 million to $12 million for every one-dollar increase in the price of the metal. Silver rose to a record $49.79 an ounce in April. It has fallen since then, but remains twice as high as a year ago.

Kodak used $322 million in cash to fund its operations during the quarter, 86% more than a year earlier. The company said the comparison is skewed by a one-time year-earlier gain from an intellectual-property settlement and the shifting of a pension contribution from late last year to the latest quarter.

It reduced its year-end cash-balance projection by $100 million to a range of $1.6 billion to $1.7 billion, but Mr. Perez said Kodak is "very comfortable" with that level.

As for Lexmark, the company posted a second-quarter profit of $101.3 million, or $1.27 a share, up 19% from $85.1 million, or $1.07 a share, a year earlier. Excluding restructuring and acquisition impacts, per-share earnings rose to $1.36 from $1.23. Revenue rose 1.1% to $1.04 billion.

Wall Street was expecting earnings of $1.03 a share on $1.01 billion in sales.

Gross margin widened to 39.6% from 36.8% as laser-printer supplies and software accounted for a larger portion of the company's overall product mix, while lower-margin inkjet hardware contributed a lower share.

"What matters is improving the mix of the install base, not the absolute size of it," Lexmark Chairman and Chief Executive Paul Rooke said during a conference call with analysts.

The company said it has largely resolved issues related to a restructuring of the process it uses to get products from factories to its North American customers. Higher-than-expected facility consolidation and information-technology-upgrade costs related to that effort had weighed on Lexmark's first-quarter results.

Lexmark forecast third-quarter adjusted earnings of 94 cents a share to $1.04 a share and revenue to be flat or down by a low-single-digit percentage. Analysts had forecast a profit of 99 cents a share on a 2% decline in revenue.

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