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Kodak Preparing for Chapter 11 Filing

By [MIKE SPECTOR](#) And [DANA MATTIOLI](#)

[Eastman Kodak](#) Co. is preparing for a Chapter 11 bankruptcy-protection filing in the coming weeks should efforts to sell a trove of digital patents fall through, people familiar with the matter said.

The struggling photography icon, which employs about 19,000 people, is in discussions with potential lenders for around \$1 billion in so-called debtor-in possession financing that would keep it afloat during bankruptcy proceedings, the people said. A filing could occur as soon as this month or early February, one of the people said.

A Kodak spokesman said the company "does not comment on market rumor or speculation."

Should Kodak seek Chapter 11 protection from creditors, the company would then try to sell its portfolio of 1,100 patents through a court-supervised bankruptcy auction, the people said. Kodak would continue to pay its bills and operate normally while under bankruptcy protection, the people said.

The History of Kodak

Kodak is still making last-ditch efforts to sell the patents, which would keep the company from filing for bankruptcy protection, one of the people said. But the 131-year-old former blue chip company has started making preparations for a Chapter 11 bankruptcy filing if those efforts don't come to fruition, the person said.

Kodak warned in a securities filing in November it will run out of cash to fund operations unless it sells its patents or is able to borrow more money.



On Tuesday, Kodak disclosed that the New York Stock Exchange warned the company it could be delisted unless its fortunes rebound in the next six months.

Kodak's shares have closed under \$1 for 30 consecutive trading days. They were 18% lower in midafternoon trading Wednesday at 54 cents apiece, after The Wall Street Journal reported the company was preparing a possible Chapter 11 filing.

Once a high flier, Kodak has been burning cash as it tries to transform itself from a company dependent on film sales to one built around commercial and consumer printers. The company's problems intensified in 2011, as Chief Executive Antonio Perez's strategy of using patent lawsuits and licensing deals to raise cash to fund the turnaround ran dry.

In the fall, Kodak hired restructuring advisers and drew down \$160 million from a credit line, heightening concerns about its viability.

Kodak's bankruptcy preparations come after months of trying to find other ways to rework its finances, mainly by selling its patents. The company has said it is running a competitive bidding process for the patents – which it put on the block in August -- but efforts to sell the portfolio have been slowed by potential bidders' concerns that Kodak might seek bankruptcy protection.

Now, Kodak is considering using bankruptcy proceedings to run a court-supervised auction to sell the patents, much as Nortel Networks Corp. did last year, people familiar with the matter said. Nortel's patents were sold to a consortium of companies for \$4.5 billion, much more than expected.

The success of that sale and the formal rules associated with a bankruptcy auction have encouraged Kodak to seriously weigh seeking Chapter 11 protection to unload the patents, the people said. The auction would be overseen by a judge, with court-approved procedures that could provide more certainty for reluctant bidders, the people said.

Such an auction would follow strict rules, requiring bidders to make open offers that others could then evaluate and attempt to top. Kodak believes a bankruptcy auction could encourage bidders to reveal how they would value the company's patents and make a sale smoother, one person said.

A bankruptcy filing could also allow Kodak to shed some pension and health-care obligations to retirees, which cost the company hundreds of millions of dollars each year.

During a two-day meeting of the company's board, management and advisers in mid-December, executives were briefed on how to fund Kodak during bankruptcy proceedings should efforts to sell its patents fall short, a person familiar with the matter said. The company told

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directors it needed to sell the patents or borrow more money to stave off bankruptcy, this person said.

Any bankruptcy filing would require Kodak to seek debtor-in-possession financing to keep the company operating while it ran an auction for the patents. Kodak is in discussions with large banks including [J.P. Morgan Chase & Co.](#), [Citigroup Inc.](#) and [Wells Fargo & Co.](#) for those funds, people familiar with the matter said.

Kodak has also held discussions with bondholders about a bankruptcy financing package, the people said. Another hedge fund that doesn't hold Kodak debt, Cerberus Capital Management LP, has also held talks with Kodak on behalf of a group willing to provide the financing, the people said.

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