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Eastman Kodak: How a CEO Destroys an Icon

by SEAN WILLIAMS, THE MOTLEY FOOL • JAN. 20, 2012

Two weeks ago I introduced a new weekly series, the "CEO Gaffe of the Week." Having come across more than handful of questionable executive decisions last year when compiling my list of the Worst CEOs of 2011, I thought it could be a learning experience for all of us if I pointed out apparent gaffes as they occur. Trusting your investments begins with trusting the leadership at the top -- and with leaders like these on your side, sometimes you don't need enemies!

This week I want to highlight of **Eastman Kodak**'s (OTCBB: EKDKQ.PK) Antonio Perez, a CEO that I could actually make a very good case for being the Gaffe of the Past Decade.

The dunce cap

Without question Mr. Perez drove Kodak into the ground with his stubborn insistence that led the company to take on **Hewlett-Packard** (NYS: HPQ) in the printing business and completely ignore its decaying film business. Kodak has been late to the party since the get-go of the digital revolution and only recently realized that its digital imaging line is heavily commoditized and only borderline profitable.

It wasn't bad enough that Kodak drew down $160 million on its revolving credit line back in October. Instead, now under the protection of chapter 11 bankruptcy, Kodak walks into bankruptcy court with nearly $1.6 billion in debt and only $900 million in cash on its balance sheet -- although these figures are from its last quarterly report, so who knows how badly things have deteriorated since! Mr. Perez has nearly guaranteed the common shareholder that they will wind up with nothing, much like **General Motors** (NYS: GM) shareholders wound up with zilch when GM was unable to deal with its crippling debts in 2009.

I would hardly call bankruptcy a forgivable option, but Mr. Perez gets an honorable mention here for comments made by management at his company just three months ago in response to the original rumors that Kodak could declare bankruptcy. They said, and I quote... "[Kodak] has no intention of filing for bankruptcy."

Fail! Fail, fail, *fail!!!*

To the corner, Mr. Perez

Even back in October, Kodak was considering bankruptcy as a potential option, but it wouldn't come out and tell investors that, because that would have meant Mr. Perez would have had to admit his turnaround plan wasn't working. Instead, Kodak chose, in the face of imminent bankruptcy unless it received cash quickly, to sell a pittance of its licensing rights to **IMAX** (NAS: IMAX) in exchange for a measly $10 million upfront payment and the potential to earn up to $50 million in royalties. With more than 1,100 patents worth potentially more than $1 billion still in its treasure chest, Mr. Perez chose to sit on his hands and let the treasure go down with the ship.

The only solution Mr. Perez had to Kodak's cash crunch was to sue everyone in sight that may have, at one time, infringed on Kodak's patents. The lawsuits focused on specific digital imaging patents and **Apple**, **Research In Motion** (NAS: RIMM) , and **HTC** have found themselves on the short-end of Kodak's endless lawsuit list. Not surprisingly, this "sue first, ask question later" approach hasn't worked for Kodak, either.

Mr. Perez effectively took over a company with one foot in the grave and single-handedly buried the rest of it under six feet of debt and underperformance. Even after Kodak reemerges from bankruptcy, I'm not convinced it'll be worth your giving it the time of day.

Do you have a CEO you'd like to nominate for this dubious weekly gaffe honor? Shoot me an email and a one- or two-sentence description of why your choice deserves next week's nomination and you just may wind up seeing your nominee in the spotlight.

Also, if you'd like a surefire way to avoid investing in companies with questionable leadership practices, I invite you to download a copy of our latest special report, "11 Rock-Solid Dividend Stocks." This report contains a wide-array of companies and sectors that are likely to keep your best interests in mind regardless of whether the market is up or down. Best of all, it's completely free for a limited time, so don't miss out!

At the time this article was published *Fool contributor Sean Williams has no material interest in any companies mentioned in this article. He is merciless when it comes to poking fun at dubious CEO antics. You can follow him on CAPS under the screen name TMFUltraLong, track every pick he makes under the screen name TrackUltraLong, and check him out on Twitter, where he goes by the handle @TMFUltraLong. The Motley Fool owns shares of Apple. Motley Fool newsletter services have recommended buying shares of General Motors and Apple. Try any of our Foolish newsletter services free for 30 days. We Fools don't all hold the same opinions, but we all believe that considering a diverse range of insights makes us better investors. The Motley Fool has a disclosure policy that never wears a dunce cap.*

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