
Kodak Patent Bids Start Low

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Opening bids for [Eastman Kodak](#) Co.'s [EKDKQ +4.14%](#) digital patents came in far below the \$2.6 billion the company said they could be worth, an early sign the bankruptcy-court auction may not leave much cash for the company after creditors are paid off.

Kodak received two bids from investor groups pitting Silicon Valley giants [Apple](#) Inc. [AAPL +1.10%](#) and [Google](#) Inc. [GOOG +0.23%](#) against each other ahead of an auction set for Wednesday, people familiar with the process said. The bids from the two teams came in around \$150 million to \$250 million, the people said.

Those initial bids could rise quickly if Apple and Google compete to keep the patents out of each other's hands amid a legal battle over the lucrative smartphone and tablet markets. A year ago, Google started the bidding for Nortel Networks Inc.'s patents at \$900 million before a consortium including Apple and [Microsoft](#) Corp. [MSFT +0.67%](#) won the bankruptcy auction with an unexpectedly high winning bid of \$4.5 billion.

Still, the low starting offers mean Kodak will need the consortiums to be extra aggressive if it is to reap enough to repay creditors and have some left over for reorganizing its operations. A poor result would make it more difficult for the company as it works to emerge from Chapter 11 as a printer maker.

Details of Kodak's patent auction have been kept under wraps. A bankruptcy judge approved the company's request to keep bids and results secret until a winner is unveiled.

"The auction process, including information about bids and the identity of bidders, is confidential pursuant to an order of the Bankruptcy Court," a Kodak spokesman said. "Disclosure of submitted bids or the identity of bidders would violate the court's order, and Kodak believes that speculation about the details and potential outcome of the auction is inappropriate."

At a bankruptcy court hearing in January, a lawyer for Kodak said the company thought the patents were worth \$2.2 billion to \$2.6 billion. Potential bidders have been less enthusiastic, however.

While it is hard to predict how the bidding dynamics will play out, a winning offer above \$600 million

would be viewed as healthy for the patents, a person familiar with the matter said. Bidders don't expect to pay much more than that, people familiar with the matter said.

Some Kodak bondholders are also focused on that range, betting the company will raise \$600 million to \$700 million in the auction, one bondholder said.

Kodak put the 1,100 patents on the block a year ago to raise much-needed cash after Chief Executive Antonio Perez's strategy of milking the patent portfolio through suits and licensing agreements ran dry.

Kodak's patents don't involve core mobile technology and have been heavily licensed, leaving less room for potential buyers to litigate them. Then last month, the International Trade Commission invalidated Kodak's most lucrative patent to date, one governing how images are previewed in digital cameras, in a suit Kodak had brought against Apple and BlackBerry maker [Research In Motion](#) Ltd. [RIMM +3.86%](#) Kodak appealed the ruling, but a verdict isn't expected to be delivered until next year, well after the patent sale is complete.

On the other hand, a bankruptcy judge handed the company a victory last week when he ruled Apple waited too long to bring infringement claims on two of Kodak's more valuable digital imaging patents. U.S. Bankruptcy Judge Allan Gropper wrote that Kodak's ability to sell the patents would have been "cut off" if Apple had been allowed to bring the claims.

Kodak is selling 1,100 patents in two lots: one portfolio related to capturing and processing images on cameras, smartphones and tablets; and another tied to storing and analyzing images, among other things. A winner is to be selected Aug. 13.

The proceeds must first be used to repay banks including [Citigroup](#) Inc. [C +4.06%](#) that provided Kodak with a \$950 million bankruptcy loan. Kodak has drawn \$700 million of the loan and has issued about \$114 million in letters of credit under the facility. Additional proceeds would be split among so-called second-lien bondholders and the company.

At the end of June, Kodak had \$1.3 billion in its cash coffers.

In the auction, Apple has teamed up with Microsoft and patent aggregation firm Intellectual Ventures Management LLC, people familiar with the matter said. Google's consortium includes patent aggregation firm [RPX](#) Corp. [RPXC -0.61%](#) and three hardware companies that make phones based on Google's Android operating system: [Samsung Electronics](#) Co., [005930.SE +4.42%](#) [LG Electronics](#) Inc. [066570.SE +1.08%](#) and [HTC](#) Corp. [2498.TW -6.96%](#)

Meanwhile, Kodak's printer businesses continue to lose money. The company's commercial and consumer business units lost a combined \$53 million in the second quarter, compared with \$135 million a year earlier. Overall, Kodak posted a \$299 million loss for the quarter, as sales fell 28% to \$1.1 billion.

Kodak held 8.2% of the commercial printer market in the first quarter of the year, compared with 25% in the last three months of 2011, according to market research firm IDC. The company had a 3% share of consumer printers, down from 3.4%, according to IDC figures for the same period.

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