

October 7, 2003 10:30 p.m. EDT

CREDIT MARKETS

Kodak \$1 Billion Issue Draws Crowd

**Investment-Grade Funds
Respond to Attractive Terms
And Show Strong Demand**

By **TOM SULLIVAN** and **SONJA RYST**
DOW JONES NEWSWIRES

NEW YORK -- Thanks to its attractive terms, a \$1 billion **Eastman Kodak** Co. bond issue sparked strong demand from managers of investment-grade bond funds, even though Kodak is rated only one step above junk-bond level.

Kodak's was one of several large debt issues in the market. Mexico sold \$1 billion, while **Goldman Sachs Group** Inc. sold \$1.75 billion of global bonds in a self-led deal.

The Kodak offering comprised \$500 million of 10-year senior unsecured notes and \$500 million of 30-year senior unsecured convertible securities. Citigroup and Lehman Brothers were joint bookrunning managers.

The 10-year notes were priced to yield a margin of three percentage points over Treasuries. They were later quoted at 2.85 percentage points over Treasuries.

"The deal was well-received, and the price performance is a reflection of that," said James Merli, global head of debt syndicate at Lehman.

The issue "offers some good value," said Wayne Schmidt, portfolio manager at AXA Investment Managers in

ANALYSIS

[See real-time commentary](#)¹ covering releases, events and flows affecting the Treasury market, from Briefing.com.

AUCTION RESULTS

Here are the results of the Treasury auction of four-week bills. All bids are awarded at a single price at the market-clearing yield. Rates are determined by the difference between that price and the face value.

Applications	\$33,835,948,000
Accepted bids	\$15,000,173,000
Accepted noncompetitively	\$48,645,000
Accepted frgn noncomp	\$0
Auction price (Rate)	99.934 (0.855%)
Coupon equivalent	0.863%
Bids at market-clearing yld accepted	3.50%
Cusip number	912795NV9

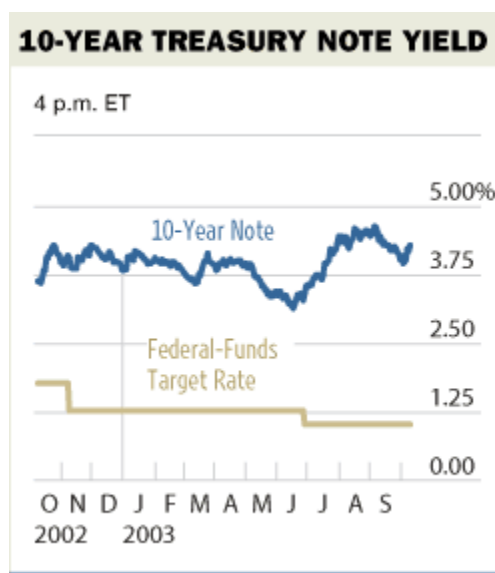
The bills are dated Oct. 9 and mature Nov. 6.

St. Paul, Minn., who expected to participate in the offering.

The convertibles, which are callable after seven years, were expected to have a 3.375% to 3.875% coupon and a conversion premium of 40% to 45%. They were quoted about one point higher in price in the gray market, where securities can be bought from firms that aren't in an underwriting syndicate.

Kodak was essentially shut out of the commercial-paper market after Moody's last month lowered Kodak's short-term rating to Prime-3 from Prime-2. Moody's also cut its senior unsecured rating to Baa3, its lowest investment-grade ranking, with a negative outlook on the company.

Fitch rates Kodak a comparable triple-B-minus with a negative outlook. Standard & Poor's has similar triple-B-minus rating but a stable outlook.



Kodak last month slashed its semiannual dividend by 72% to 25 cents because of diminished prospects in traditional photography and said it would save cash for a planned transition to digital technology. The move sent its stock down 18% to \$22.15, the lowest in more than 15 years.

"The company is not without its issues," said AXA's Mr. Schmidt. "It's struggling with a changing environment." At June 30, Kodak had nearly \$3 billion in outstanding debt, including \$1.25 billion in bonds.

The company has undrawn revolving-credit facilities of \$2.225 billion, supporting the commercial-paper program, which had \$888 million outstanding at June 30, Moody's said Monday. The facilities consist of \$1.225 billion, five-year facility that expires in July 2006 and a recently renewed \$1 billion, 364-day facility.

"It's entering highly competitive markets, transferring from 35mm [film] to digital cameras," said Fitch analyst Chedly Milord. Ms. Milord added that extending the maturity of its debt is a positive for the company, providing "additional financial flexibility."

Kodak said it will use proceeds to reduce outstanding commercial paper by about \$700 million and partially fund its \$500 million cash acquisition of PracticeWorks Inc., which makes management software for dentists. Kodak spokesman Gerard Meuchner declined to comment on how the \$1 billion debt sale was faring.

Elsewhere, Mexico's \$1 billion of debt due in 2014 was priced to yield 6.063%, or 1.79 percentage points over U.S. Treasuries. Mexico's outstanding bonds due in 2013 were quoted at around 1.72 percentage points over Treasuries.

Mexico's currency Monday hit a record low, although it rebounded some Tuesday, and market expectations for the country's economic growth remain pessimistic. Still, investor demand for bonds of emerging nations has been strong because of the relatively higher yields available in that market sector.

Mexico's decision to sell fresh bonds now shows "good timing," said Siobhan Manning, a debt strategist at Caboto USA. "The market is stubbornly bullish."

Treasurys

A surge of corporate-debt issuance and a weakening dollar pushed Treasuries prices lower in light activity.

Traders said the Bank of Japan bought dollars to slow the yen's appreciation. Because the central bank reinvests dollars in short-dated Treasuries, that area of the Treasuries market drew some support from the news. But longer Treasuries fell on concerns that the decline in the dollar will make those issues less attractive to foreign investors.

Meanwhile, debt issuance by non-U.S. government entities weighed on intermediate Treasuries.

Additional pressure stemmed from Wednesday's scheduled auction of \$16 billion in new five-year Treasury notes, traders said.

At 4 p.m., the benchmark 10-year note was down 27/32 point, or \$8.44 per \$1,000 face value, at 99 28/32. Its yield rose to 4.264% from 4.160% Monday, as yields move inversely to prices.

The 30-year bond's price was down 1 13/32 points at 103 5/32 to yield 5.159%, up from 5.065% Monday.

--Agnes T. Crane contributed to this article.

Write to Tom Sullivan at tom.sullivan@dowjones.com² and Sonja Ryst at sonja.ryst@dowjones.com³

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Updated October 7, 2003 10:30 p.m.

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