Epsilon Theory

The Grifters, chapter 1 - Kodak

July 30, 2020

***The Grifters* (1990)**
Pat Hingle as Bobo and Angelica Huston as Lilly

Bobo Justus: Tell me about the oranges, Lilly…

[*kicks over a bag of oranges*]

Bobo Justus: While you put those in the towel.

Lilly Dillon: [*kneels on the floor and starts picking them up*] You hit a person with the oranges wrapped in a towel… they get big, ugly looking bruises. But they don't really get hurt, not if you do it right. It's for working scams against insurance companies.

Bobo Justus: And if you do it wrong?

Lilly Dillon: [*terrified*] It can louse up your insides. You can get p… p… p-p-p-p-p

Bobo Justus: What?

Lilly Dillon: P-permanent damage.

The best movie about con games is *The Grifters*, and the best scene in that movie is "Bobo and the oranges", where mob boss Bobo terrorizes and punishes Lilly for screwing up one of his money laundering schemes. It's one of the top-ten brutally compelling scenes in any movie I've seen, not so much for the physical violence as for the psychological violence.

We're all Lilly Dillon today.

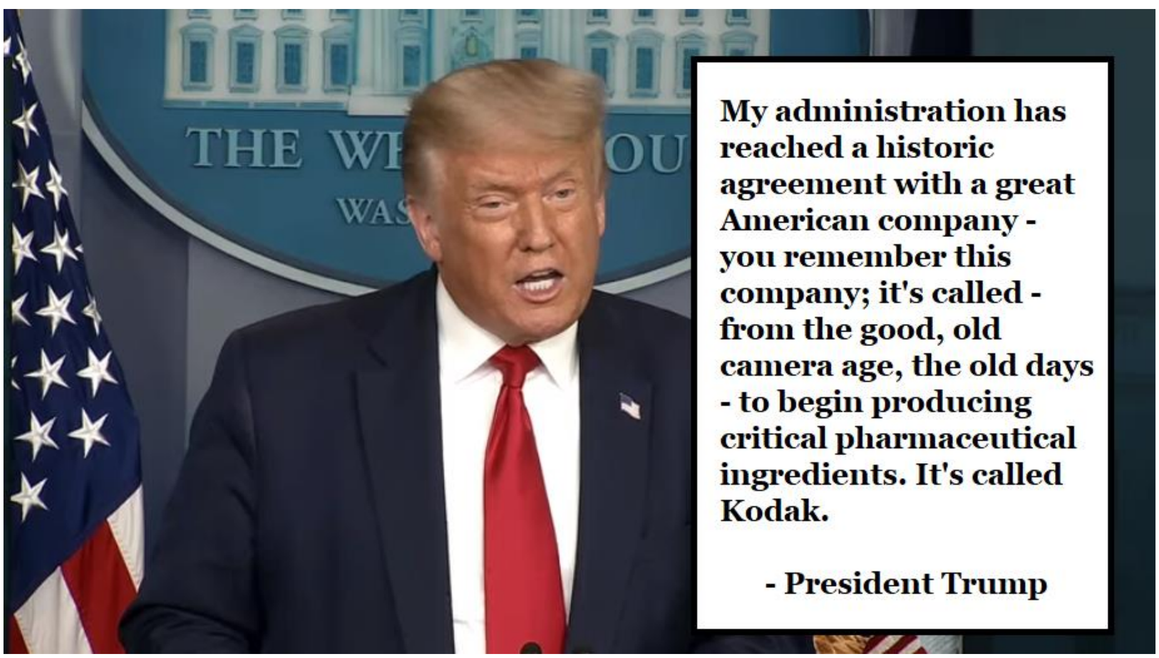
Our political and market worlds have become an unending sea of grift … small cons, big cons, short cons, long cons … and every day the distinction between grifters and squares becomes more and more blurred.

Day after day, we're all getting smacked by Bobo and his bag of oranges, hoping to god that we only get badly bruised in the process.

But we all know that we're past the point of permanent damage.

We've been assaulted by three grifts in just the past week … three smacks from Bobo and his bag of oranges … each deserving of an Epsilon Theory note.

Here's chapter 1.



On Tuesday afternoon, the White House announced that Kodak – a public company with less than $100 million in market cap, basically a pension fund with a famous brand name attached – would receive $765 million in "loans" from the US government to create a "pharmaceutical start-up" that over a period of 8 YEARS will start making pharmaceutical “supplies”. Whatever the hell that means.

This $765 million in non-recourse, non-secured loans for pharmaceutical supply production, given to this micro-cap company with zero experience or expertise in pharmaceutical supply production, comes from the International Development Finance Corporation (DFC), a $60 billion piggy bank established by the Trump administration in 2019 to replace the Overseas Private Investment Corporation (OPIC).

Yes, “international development” and “overseas investment”.

The DFC is an institution that, per its mission statement and Congressional charter via the 2018 Better Utilization of Investments Leading to Development (BUILD) Act, is *“focused on promoting inclusive economic growth in the world’s least developed countries.”*

I mean … I knew things were bad in Rochester, but I didn’t know they were that bad.

To dust off an old Epsilon Theory catchphrase:

They’re. Not. Even. Pretending. Anymore.

Who is “they”?

On the corporate-grift side, it’s Kodak Chairman and CEO Jim Continenza (SEC CIK 0001197594), who picked up about 3 million shares and cheap options over the past year. It’s Kodak board member George Karfunkel (SEC CIK 0001085765), of the private equity and banking Zyskind-Karfunkel family, with his 6.4 million shares. It’s Kodak board member Philippe Katz (SEC CIK 0001579836), who owns about 4.3 million shares through at least five shell companies.

Here’s a pic of Jim Continenza, shown here on a magazine cover touting Vivial, the *other* company where he’s also Chairman and CEO. Vivial is a digital marketing company, which is Jim’s particular forte.

Oh, wait, you thought Jim had a background in manufacturing or pharmaceuticals? Hahahahahahaha. Hooo, boy, that’s rich. No, no … Jim is a marketing guy. Shocking, I know.

Based on yesterday’s closing price of $33.20 for the stock, I figure Jim and George and Philippe have made about $400 million over the past 48 hours.

The numbers looked even better when Kodak hit $53 earlier earlier in the day, but easy come, easy go.

I'm focused on Jim and George and Philippe, each of whom were granted tens of thousands of shares in Kodak just over the past 60 days, because this is where the real money from crony capitalism grift is made. But I'd be remiss if I didn't acknowledge the effort of the small-fry Kodak grifters who covered their tracks and tipped their buddies about the deal, sparking 1.65 million Kodak shares trading for $2 and change on *Monday*, about 25 times the average trading volume of the prior week, in advance of the *Tuesday* announcement.

I would hope that lots of people in the Rochester area are about to get a crash course in what constitutes material non-public information and what their responsibilities are in this regard, whether they are the tipper OR the tippee.

But with the current priorities of the SEC and the Justice Department, I'm not holding my breath.

Who is "they"?

On the government-grift side, it's Donald Trump, who gets a press conference and a talking point.

It's Commerce Secretary Wilbur Ross and Secretary of State Mike Pompeo, who sit on the DFC board of directors and approved this deal, each pocketing a favor.

It's Larry Kudlow, University of Rochester alum and friend of Kodak, who pockets a BIG favor.

It's Adam Boehler, 41 year-old CEO of the DFC, who cements a lucrative career once his government "service" is complete.

Here's the official government pic of Adam Boehler, sporting the same well-coiffed stubble as Homeland Security Acting Secretary Chad Wolf. Must be a thing with 40-something White House appointees these days.

In prior work, Adam was an "operating partner" at Francisco Partners, a $14 billion private equity firm, which means that he wasn't a deal guy, but was one of the consultants they'd install to help manage a portfolio company.

Don’t worry, Adam, I’m sure you’ll be a real partner at whatever private equity firm you go work for next year.

Here’s Adam’s rationale for all of us getting smacked with this bag of oranges.

“I learned that the company was interested in creating a start-up that could supply ingredients for pharmaceuticals.“

What is crony capitalism? THIS.

Crony capitalism is when the 41 year-old head of a government slush fund “learns” – his words – that a failed company with ZERO experience or expertise in medicine or pharmaceuticals “was interested in creating a start-up that could supply ingredients for pharmaceuticals”, and so – within a matter of days – advances a proposal to give that failed company 765 million American dollars.

Now, Adam … purely out of curiosity … how exactly did you “learn” of Kodak’s keen interest in creating a pharmaceutical start-up?

Did they send an email to info@dfc.gov?

Or maybe, just maybe you “learned” about Kodak’s … oh my god, I can’t type this without bursting out laughing … *pharmaceutical start-up plans* from Uncle Wilbur or Uncle Larry after they had a really interesting conversation with their good friends in Rochester.

And, Adam … again, purely out of curiosity … what evidence was proffered to you and the board showing Kodak’s pharmaceutical start-up expertise?

Because, Adam, I’m looking at Kodak’s 10-k and 10-q, where they talk about the business lines that Kodak has – Traditional Printing, Digital Printing, Advanced Film Materials & Chemicals, and a fourth category they just call “Brand” – and I’m wondering where pharmaceuticals fits into this picture.

Because, Adam, I’m looking at management discussion of new business and licensing opportunities, which took place at the annual shareholders meeting on May 27th – you know, Adam, all of 8 weeks ago – and where they talk about opportunities in “3D printing, smart material applications and printed electronics”, but I can’t find a single mention of pharmaceuticals.

Because, Adam, as the kids would say, I’m old enough to remember the last time Kodak stock tripled in a week, back when the company decided to reinvent itself as a crypto play, complete with a failed ICO and a Bitcoin-mining machine. You know, way back in 2018.

Ladies and gentlemen, I give you the Kodak KashMiner.

AYFKM, Adam?

Crony capitalism. In its purest form.

Just one big smack in the face by Bobo and his bag of oranges.

So I'm going to conclude chapter 1 of *The Grifters* with this.

Remember how I said that the DFC – this $60 billion piggy bank that is one (of many) White House conduits for crony capitalism – *was established by law, specifically the 2018 BUILD Act, to support projects in developing countries?*

What that means is that Congress could stop this bullshit transfer of $756 million in taxpayer money to the politically-connected managers and investors of this Rochester, NY-based company.

If they wanted to.

They don't.

#BITFD

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