EASTMAN KODAK CO
Form 10-Q
August 09, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

x Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended June 30, 2016

or

o Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from to

Commission File Number 1-87

EASTMAN KODAK COMPANY

(Exact name of registrant as specified in its charter)

NEW JERSEY (State of incorporation)	16-0417150 (IRS Employer Identification No.)
343 STATE STREET, ROCHESTER, NEW YORK (Address of principal executive offices)	14650 (Zip Code)

Registrant’s telephone number, including area code: 585-724-4000

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months, and (2) has been subject to such filing requirements for the past 90 days. Yes x No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months. Yes x No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definition of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer	o	Accelerated filer	x
Non-accelerated filer	o	Smaller reporting company	o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No x

Indicate the number of shares outstanding of each of the issuer’s classes of common stock, as of the latest practicable date.

Title of each Class	Number of Shares Outstanding at August 8, 2016
Common Stock, $0.01 par value	42,247,470

EASTMAN KODAK COMPANY

Form 10-Q

June 30, 2016

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Part I. FINANCIAL INFORMATION

Item 1. Financial Statements

EASTMAN KODAK COMPANY

CONSOLIDATED STATEMENT OF OPERATIONS (Unaudited)

(in millions, except per share data)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2016	2015	2016	2015
Revenues				
Sales	$323	$353	$611	$679
Services	74	81	148	166
Total revenues	397	434	759	845
Cost of revenues				
Sales	248	292	476	560
Services	49	58	97	118
Total cost of revenues	297	350	573	678
Gross profit	100	84	186	167
Selling, general and administrative expenses	50	58	90	110
Research and development costs	10	12	19	25
Restructuring costs and other	7	5	11	22
Other operating (income) expense, net	(6)	(1)	8	2
Income from continuing operations before interest expense, other charges, net, reorganization items, net and income taxes	39	10	58	8
Interest expense	16	15	32	30
Other charges, net	1	2	2	12
Reorganization items, net	-	-	-	5
Income (loss) from continuing operations before income taxes	22	(7)	24	(39)
Provision for income taxes	6	8	12	13
Income (loss) from continuing operations	16	(15)	12	(52)
Loss from discontinued operations, net of income taxes	(8)	(8)	(19)	(25)
Net earnings (loss)	8	(23)	(7)	(77)
Less: Net income attributable to noncontrolling interests	1	1	4	5
NET EARNINGS (LOSS) ATTRIBUTABLE TO EASTMAN KODAK COMPANY	$7	$(24)	$(11)	$(82)
Basic net earnings (loss) per share attributable to Eastman Kodak Company common shareholders:				
Continuing operations	$0.36	$(0.38)	$0.19	$(1.36)
Discontinued operations	(0.19)	(0.19)	(0.45)	(0.60)

Total	$0.17	$(0.57)	$(0.26)	$(1.96)
Diluted net earnings (loss) per share attributable to Eastman Kodak Company common shareholders:				
Continuing operations	$0.35	$(0.38)	$0.19	$(1.36)
Discontinued operations	(0.19)	(0.19)	(0.45)	(0.60)
Total	$0.16	$(0.57)	$(0.26)	$(1.96)
Number of common shares used in basic and diluted net earnings (loss) per share				
Basic	42.2	41.9	42.2	41.9
Diluted	42.6	41.9	42.4	41.9

The accompanying notes are an integral part of these consolidated financial statements.

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EASTMAN KODAK COMPANY

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (LOSS) (Unaudited)

(in millions)

	Three Months Ended June 30, 2016	Three Months Ended June 30, 2015	Six Months Ended June 30, 2016	Six Months Ended June 30, 2015
NET INCOME (LOSS)	$8	$(23)	$(7)	$(77)
Less: Net income attributable to noncontrolling interests	1	1	4	5
Net income (loss) attributable to Eastman Kodak Company	7	(24)	(11)	(82)
Other comprehensive loss, net of tax:				
Currency translation adjustments	1	3	9	(4)
Unrealized losses on available-for-sale securities, net of tax	-	(1)	-	(1)
Pension and other postretirement benefit plan obligation activity, net of tax	(2)	(2)	(148)	5
Other comprehensive loss, net of tax attributable to Eastman Kodak Company	(1)	-	(139)	-
COMPREHENSIVE INCOME (LOSS), NET OF TAX ATTRIBUTABLE TO EASTMAN KODAK COMPANY	$6	$(24)	$(150)	$(82)

The accompanying notes are an integral part of these consolidated financial statements.

EASTMAN KODAK COMPANY

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Unaudited)

(in millions)	June 30, 2016	December 31, 2015
ASSETS		
Cash and cash equivalents	$513	$ 546
Receivables, net	318	350
Inventories, net	286	263
Deferred income taxes	19	22
Other current assets	27	25
Current assets held for sale	140	72
Total current assets	1,303	1,278
Property, plant and equipment, net of accumulated depreciation of $347 and $314, respectively	368	394
Goodwill	88	88
Intangible assets	93	119
Restricted cash	36	43
Deferred income taxes	24	23
Other long-term assets	130	122
Long-term assets held for sale	-	71
TOTAL ASSETS	$2,042	$ 2,138
LIABILITIES AND EQUITY		
Accounts payable, trade	$186	$ 186
Current portion of long-term debt	4	4
Other current liabilities	226	247
Current liabilities held for sale	28	22
Total current liabilities	444	459
Long-term debt, net of current portion	672	673
Pension and other postretirement liabilities	698	619
Other long-term liabilities	267	277
Long-term liabilities held for sale	-	7
Total Liabilities	2,081	2,035
Commitments and Contingencies (Note 6)		
Equity (Deficit)		
Common stock, $0.01 par value	-	-
Additional paid in capital	639	633
Treasury stock, at cost	(6)	(5)
Accumulated deficit	(294)	(283)
Accumulated other comprehensive loss	(406)	(267)
Total Eastman Kodak Company shareholders' (deficit) equity	(67)	78
Noncontrolling interests	28	25
Total (deficit) equity	(39)	103

TOTAL LIABILITIES AND EQUITY (DEFICIT)	$2,042	$ 2,138

The accompanying notes are an integral part of these consolidated financial statements.

EASTMAN KODAK COMPANY

CONSOLIDATED STATEMENT OF CASH FLOWS (Unaudited)

(in millions)

	Six Months Ended June 30, 2016	2015
Cash flows from operating activities:		
Net loss	$(7)	$(77)
Adjustments to reconcile to net cash used in operating activities:		
Depreciation and amortization	57	77
Pension and other postretirement income	(72)	(54)
Net gain on sales of businesses/assets	(7)	(4)
Non-cash restructuring costs, asset impairments and other charges	26	6
Stock based compensation	3	11
Payment of claims	-	(10)
Provision for deferred income taxes	5	5
Decrease in receivables	35	20
Increase in inventories	(22)	(42)
Decrease in liabilities excluding borrowings	(46)	(49)
Other items, net	(2)	13
Total adjustments	(23)	(27)
Net cash used in operating activities	(30)	(104)
Cash flows from investing activities:		
Additions to properties	(12)	(14)
Proceeds from sales of businesses/assets, net	10	2
Use (funding) of restricted cash	6	(7)
Net cash provided by (used in) investing activities	4	(19)
Cash flows from financing activities:		
Repayment of emergence credit facilities	(2)	(2)
Payment of contingent consideration related to the sale of a business	(4)	-
Net repayment of VIE credit facility	-	(1)
Equity transactions of noncontrolling interests	(1)	-
Treasury stock purchases	(1)	(1)
Net cash used in financing activities	(8)	(4)
Effect of exchange rate changes on cash	2	(9)
Net decrease in cash and cash equivalents	(32)	(136)
Cash and cash equivalents, beginning of period [1]	547	712
Cash and cash equivalents, end of period [1]	$515	$576

[1] Cash and cash equivalents, beginning of period for the six months ended June 30, 2016 includes $546 million of cash reported in the Statement of Financial Position and $1 million of cash reported in Current assets held for

sale. Cash and cash equivalents, end of period for the six months ended June 30, 2016 includes $513 million of cash reported in the Statement of Financial Position and $2 million of cash reported in Current assets held for sale.

The accompanying notes are an integral part of these consolidated financial statements.

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EASTMAN KODAK COMPANY

NOTES TO FINANCIAL STATEMENTS (Unaudited)

NOTE 1: BASIS OF PRESENTATION AND RECENT ACCOUNTING PRONOUNCEMENTS

BASIS OF PRESENTATION

The consolidated interim financial statements are unaudited, and certain information and footnote disclosures related thereto normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") have been omitted in accordance with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. In the opinion of management, the accompanying unaudited consolidated interim financial statements reflect all adjustments (consisting of normal recurring adjustments) necessary to present fairly the results of operations, financial position and cash flows of Eastman Kodak Company ("EKC" or the "Company") and all companies directly or indirectly controlled, either through majority ownership or otherwise (collectively, "Kodak"). The results of operations for the interim periods are not necessarily indicative of the results for the entire fiscal year. These consolidated interim financial statements should be read in conjunction with the Company's Annual Report on Form 10-K for the year ended December 31, 2015.

Kodak is the primary beneficiary of a utilities variable interest entity, RED – Rochester, LLC ("RED"). Therefore, Kodak consolidates RED's assets, liabilities and results of operations. Consolidated assets and liabilities of RED are $65 million and $14 million, respectively, as of June 30, 2016 and $69 million and $13 million, respectively, as of December 31, 2015. RED's equity in those net assets as of June 30, 2016 and December 31, 2015 is $28 million and $25 million, respectively. RED's results of operations are reflected in net income attributable to noncontrolling interests in the accompanying Consolidated Statement of Operations.

Reclassifications

Certain amounts for prior periods have been reclassified to conform to the current period classification due to the presentation of discontinued operations, assets held for sale and for a change in the segment measure of profitability. Refer to Note 17, "Segment Information" and Note 18, "Discontinued Operations" for additional information.

RECENTLY ADOPTED ACCOUNTING PRONOUNCEMENTS

In April 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2015-03, Imputation of Interest (Sub-Topic 835.30): Simplifying the Presentation of Debt Issuance Costs. ASU

2015-03 requires debt issuance costs related to a recognized debt liability to be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. In August 2015, the FASB issued ASU 2015-15 clarifying the application of this guidance to line of credit arrangements. The amendments in the ASUs are effective retrospectively for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2015 (January 1, 2016 for Kodak). The adoption of this guidance did not have a material impact on Kodak's Consolidated Financial Statements.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In June 2016, the FASB issued ASU 2016-13, Financial Instruments-Credit Losses (Topic 326); Measurement of Credit Losses on Financial Instruments. ASU 2016-13 requires a financial asset (or a group of financial assets) measured at amortized cost basis to be presented at the net amount expected to be collected. In addition, the ASU requires credit losses relating to available-for-sale debt securities to be recorded through an allowance for credit losses. The amendments in this ASU broaden the information that an entity must consider in developing its expected credit loss estimate for assets measured either collectively or individually. The new standard is effective for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2020 (January 1, 2021 for Kodak). Early adoption is permitted beginning December 15, 2018 (January 1, 2019 for Kodak). Kodak is currently evaluating the impact of this ASU.

In March 2016, the FASB issued ASU 2016-09, Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting. ASU 2016-09 simplifies several aspects of the accounting for employee share-based payment transactions, including the accounting for income taxes, forfeitures, and statutory tax withholding requirements, as well as classification in the statement of cash flows. The new standard is effective for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2016 (January 1, 2017 for Kodak). Early adoption is permitted. Kodak does not expect the adoption of this guidance to have a material impact on its Consolidated Financial Statements.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842). ASU 2016-02 requires lessees to recognize most leases on their balance sheets as lease liabilities with corresponding right-of-use assets and eliminates certain real estate-specific provisions. The new leasing standard is effective for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2018 (January 1, 2019 for Kodak). Early adoption is permitted. Kodak is currently evaluating the impact of this ASU.

In January 2016, the FASB issued ASU 2016-01, Financial Instruments–Overall: Recognition and Measurement of Financial Assets and Financial Liabilities. ASU 2016-01 primarily affects the accounting for equity investments, financial liabilities under the fair value option, and the presentation and disclosure requirements for financial instruments. Under the ASU all equity investments in unconsolidated entities (other than those accounted for using the equity method of accounting) will generally be measured at fair value through earnings. In addition, the FASB clarified guidance related to the valuation allowance assessment when recognizing deferred tax assets resulting from unrealized losses on available-for-sale debt securities. The classification and measurement guidance will be effective for Kodak beginning January 1, 2018, including interim periods within those fiscal years. Kodak does not expect the adoption of this guidance to have a material impact on its Consolidated Financial Statements.

In November 2015, the FASB issued ASU 2015-17, Income Taxes (Topic 740) Balance Sheet Classification of Deferred Taxes. ASU 2015-17 amends the accounting for income taxes and requires all deferred tax assets and liabilities to be classified as non-current on the consolidated balance sheet. ASU 2015-17 is effective for fiscal years and interim reporting periods within those years beginning after December 15, 2016 (January 1, 2017 for Kodak), with early adoption permitted in any annual or interim period. ASU 2015-17 may be adopted either prospectively or retrospectively. Kodak is currently evaluating the method of adoption and expects ASU 2015-17 will have an impact on the consolidated balance sheet. The current deferred tax assets in excess of valuation allowance were $19 million as of June 30, 2016.

In May 2014, the FASB issued ASU 2014-09, “Revenue from Contracts with Customers (Topic 606).” ASU 2014-09 supersedes the revenue recognition requirements in Topic 605, “Revenue Recognition” and most industry-specific guidance. The core principle of ASU 2014-09 is that a company will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. In July 2015, the FASB deferred the effective date of ASU 2014-09. In 2016 the FASB issued ASU 2016-08 and ASUs 2016-10 through 12 clarifying guidance regarding principle vs agent considerations, identification of performance obligations and analysis of licensing transactions. The new revenue standards are collectively effective for fiscal years, and interim periods within those years, beginning after December 15, 2017 (January 1, 2018 for Kodak) and allow either a full retrospective adoption to all periods presented or a modified retrospective adoption approach with the cumulative effect of initial application recognized at the date of initial application. Kodak is currently evaluating the adoption alternatives and impact of these ASUs.

NOTE 2: RECEIVABLES, NET

(in millions)	June 30, 2016	December 31, 2015
Trade receivables	$268	$ 300
Miscellaneous receivables	50	50
Total (net of allowances of $10 as of both June 30, 2016 and December 31, 2015)	$318	$ 350

Approximately $23 million and $28 million of the total trade receivable amounts as of June 30, 2016 and December 31, 2015, respectively, will potentially be settled through customer deductions in lieu of cash payments. Such deductions represent rebates owed to customers and are included in Other current liabilities in the accompanying Consolidated Statement of Financial Position.

NOTE 3: INVENTORIES, NET

(in millions)	June 30, 2016	December 31, 2015
Finished goods	$157	$ 141
Work in process	64	61
Raw materials	65	61
Total	$286	$ 263

NOTE 4: INTANGIBLE ASSETS

The gross carrying amount and accumulated amortization by major intangible asset category as of June 30, 2016 and December 31, 2015 were as follows:

	June 30, 2016			
(in millions)	Gross Carrying Amount	Accumulated Amortization	Net	Weighted-Average Amortization Period
Technology-based	$75	$ 40	$35	3 years
Kodak trade name	40	-	40	Indefinite life
Customer-related	26	10	16	6 years
Other	2	-	2	20 years
Total	$143	$ 50	$93	

	December 31, 2015			
(in millions)	Gross Carrying Amount	Accumulated Amortization	Net	Weighted-Average Amortization Period
Technology-based	$83	$ 38	$45	3 years
Kodak trade name	46	-	46	Indefinite life
Customer-related	37	11	26	7 years
Other	2	-	2	21 years
Total	$168	$ 49	$119	

During the first quarter of 2016, Kodak updated its impairment analysis of the Kodak trade name due to the increased probability of selling its Prosper business. Based on the results of Kodak's March 31, 2016 analysis, the carrying value of the Kodak trade name exceeded its fair value. The pre-tax trade name impairment charge of $5 million is included in Other operating (income) expense, net in the Consolidated Statement of Operations.

Due to the exit of its position in silver metal mesh touch screen development in the first quarter of 2016, Kodak concluded that the carrying value of intangible assets associated with those operations exceeded their fair value and recorded a pre-tax impairment charge of $8 million, which is included in Other operating (income) expense, net in the Consolidated Statement of Operations.

Amortization expense related to intangible assets was $5 million for both the three months ended June 30, 2016 and 2015 and $10 million for both the six months ended June 30, 2016 and 2015.

Estimated future amortization expense related to intangible assets that are currently being amortized as of June 30, 2016 was as follows:

(in millions)	
Q3 - Q4 2016	$9

2017	16
2018	12
2019	5
2020	4
2021 and thereafter	7
Total	$53

NOTE 5: DEBT

On May 26, 2016, the Company and certain of its domestic subsidiaries (the “Subsidiary Guarantors”) entered into an Amended and Restated Credit Agreement (the “Amended Credit Agreement or ABL Credit Agreement”) with the lenders party thereto (the “Lenders”), Bank of America, N.A., as administrative and collateral agent, and Bank of America, N.A. and JPMorgan Chase Bank, N.A., as joint lead arrangers and joint bookrunners, which amended and restated the existing Asset Based Revolving Credit Agreement, dated as of September 3, 2013 (the “Prior Credit Agreement”). Each of the capitalized but undefined terms in this Form 10-Q has the meanings ascribed to such terms in the Amended Credit Agreement.

The Amended Credit Agreement decreased the aggregate amount of commitments from $200 million to $150 million and extended the maturity date to the earlier of May 26, 2021 or the date that is 90 days prior to the earliest scheduled maturity date of any of the Company’s outstanding term loans or refinancings thereof, of which the earliest maturity date is currently September 3, 2019. The Amended Credit Agreement, among other things, lowered reserve requirements by eliminating the Availability Block and removed the ability to use Qualified Cash to support Excess Availability.

The Amended Credit Agreement limits, among other things, the Company's and the Subsidiary Guarantors' ability to (i) incur indebtedness, (ii) incur or create liens, (iii) dispose of assets, (iv) make restricted payments and (v) make investments. In addition to other customary affirmative covenants, the Amended Credit Agreement provides for a periodic delivery by the Company of its various financial statements as set forth in the Amended Credit Agreement. Events of default under the Amended Credit Agreement include, among others, failure to pay any loan, interest or other amounts when due, the occurrence of breach of covenants and a change of control of the Company. Upon an event of default, the applicable lenders may declare the outstanding obligations under the Amended Credit Agreement to be immediately due and payable and exercise other rights and remedies provided for in the Amended Credit Agreement.

Each existing direct or indirect U.S. subsidiary of the Company (other than immaterial subsidiaries, unrestricted subsidiaries and certain other subsidiaries) has reaffirmed its unconditional guarantee (and any such future subsidiaries must provide an unconditional guarantee) of the obligations of the Company under the Amended Credit Agreement. Obligations under the Amended Credit Agreement are secured by: (i) a first priority lien on cash, accounts receivable, inventory, machinery and equipment (the "ABL Priority Collateral") and (ii) a third priority lien on all assets of the Company and the Subsidiary Guarantors, other than the ABL Priority Collateral, including respectively, on 100% of the stock of material U.S. subsidiaries and 65% of the stock of material foreign subsidiaries.

The Lenders will make available asset-based revolving loans (the "ABL Loans") and letters of credit in an aggregate amount of up to $150 million, subject to the Borrowing Base. The Company has issued approximately $117 million of letters of credit under the Amended Credit Agreement as of June 30, 2016. Under the Amended Credit Agreement's borrowing base calculation, the Company had approximately $30 million of Excess Availability as of June 30, 2016. Availability is subject to the borrowing base calculation, reserves and other limitations.

The ABL Loans bear interest at the rate of LIBOR plus 2.25%-2.75% per annum or Base Rate plus 1.25%-1.75% per annum based on Excess Availability.

Excess Availability is equal to the sum of (i) 85% of the amount of the Eligible Receivables less a Dilution Reserve, (ii) the lesser of 85% of Net Orderly Liquidation Value or 75% of the Eligible Inventory (iii) the lesser of $20 million or 75% of Net Orderly Liquidation Value of Eligible Equipment (iv) Eligible Cash less (a) Rent and Charges Reserves, (b) Principal Outstanding and (c) Outstanding Letters of Credit (each item as defined in the Amended Credit Agreement).

Under the Amended Credit Agreement, Kodak is required to maintain a minimum Fixed Charge Coverage Ratio of 1.00 to 1.00 when Excess Availability is less than 12.5% of lender commitments (springing covenant). If Excess Availability falls below 12.5% of lender commitments ($18.75 million as of June 30, 2016), Kodak may, in addition to the requirement to be in compliance with the minimum Fixed Charge Coverage Ratio, become subject to cash dominion control.

As of June 30, 2016, Kodak had funded $23 million to the Eligible Cash account, held with the Amended Credit Agreement administrative agent, which is classified as Restricted Cash in the Consolidated Statement of Financial Position supporting the Excess Availability amount. Since Excess Availability was greater than 12.5% of lender commitments at June 30, 2016, Kodak is not required to have a minimum Fixed Charge Coverage Ratio of 1.0 to 1.0. As of June 30, 2016 Kodak was in compliance with all the covenants under the Amended Credit Agreement.