

EASTMAN KODAK CO
Form 10-Q
November 09, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended September 30, 2018

or

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

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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 No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company.

See definition of “large accelerated filer,” “accelerated filer” “smaller reporting company” and “emerging growth company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer	Accelerated filer
Non-accelerated filer	Smaller reporting company
Emerging growth company	

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

As of November 1, 2018, the registrant had 42,726,652 shares of common stock, \$0.01 par value per share, outstanding.

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EASTMAN KODAK COMPANY

Form 10-Q

September 30, 2018

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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)

(in millions)	Three Months Ended		Nine Months Ended	
	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
Revenues				
Sales	\$293	\$303	\$878	\$893
Services	73	76	217	224
Total revenues	366	379	1,095	1,117
Cost of revenues				
Sales	251	261	765	759
Services	50	54	151	162
Total cost of revenues	301	315	916	921
Gross profit	65	64	179	196
Selling, general and administrative expenses	59	61	185	192
Research and development costs	13	16	42	54
Restructuring costs and other	9	4	13	22
Other operating (income) expense, net	(10)	20	(12)	32
Goodwill impairment	—	56	—	56
Loss from continuing operations before interest expense,				
other (income) charges, net and income taxes	(6)	(93)	(49)	(160)
Interest expense	9	8	26	24
Pension income excluding service cost component	(35)	(39)	(99)	(114)
Other (income) charges, net	(4)	(4)	13	(33)
Earnings (loss) from continuing operations before income				
taxes	24	(58)	11	(37)
Provision (benefit) for income taxes	5	(13)	13	(6)
Equity in loss of equity method investment, net of income taxes	—	1	—	1
Earnings (loss) from continuing operations	19	(46)	(2)	(32)
Loss from discontinued operations, net of income taxes	—	—	—	(3)
Net earnings (loss)	\$19	\$(46)	\$(2)	\$(35)
Basic net earnings (loss) per share attributable to				
Eastman Kodak Company common shareholders:				
Continuing operations	\$0.33	\$(1.20)	\$(0.40)	\$(1.08)
Discontinued operations	—	—	—	(0.07)
Basic net earnings (loss) per share attributable to				
Eastman Kodak Company common shareholders				
	\$0.33	\$(1.20)	\$(0.40)	\$(1.15)

Diluted net earnings (loss) per share attributable to				
Eastman Kodak Company common shareholders:				
Continuing operations	\$0.33	\$(1.20)	\$(0.40)	\$(1.08)
Discontinued operations	—	—	—	(0.07)
Diluted net earnings (loss) per share attributable to				
Eastman Kodak Company common shareholders	\$0.33	\$(1.20)	\$(0.40)	\$(1.15)
Number of common shares used in basic and diluted net				
earnings (loss) per share				
Basic	42.7	42.5	42.7	42.5
Diluted	43.0	42.5	42.7	42.5

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)

(in millions)	Three Months Ended September 30, 2018		Nine Months Ended September 30, 2017	
NET INCOME (LOSS)	\$ 19	\$ (46)	\$ (2)	\$ (35)
Other comprehensive (loss) income, net of tax:				
Currency translation adjustments	(12)	(5)	(19)	9
Pension and other postretirement benefit plan obligation activity, net of tax	3	(3)	3	(9)
Other comprehensive loss, net of tax	(9)	(8)	(16)	—
COMPREHENSIVE INCOME (LOSS), NET OF TAX	\$ 10	\$ (54)	\$ (18)	\$ (35)

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

[4]

EASTMAN KODAK COMPANY

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Unaudited)

(in millions)	September 30, 2018	December 31, 2017
ASSETS		
Cash and cash equivalents	\$ 238	\$ 344
Trade receivables, net of allowances of \$9 in each period	244	282
Inventories, net	306	276
Other current assets	56	56
Total current assets	844	958
Property, plant and equipment, net of accumulated depreciation of \$426 and \$394, respectively	276	314
Goodwill	32	32
Intangible assets, net	76	86
Restricted cash	10	17
Deferred income taxes	175	188
Other long-term assets	127	112
TOTAL ASSETS	\$ 1,540	\$ 1,707
LIABILITIES, REDEEMABLE CONVERTIBLE PREFERRED STOCK AND EQUITY		
Accounts payable, trade	\$ 167	\$ 198
Short-term borrowings and current portion of long-term debt	396	4
Other current liabilities	216	217
Total current liabilities	779	419
Long-term debt, net of current portion	5	399
Pension and other postretirement liabilities	384	466
Other long-term liabilities	183	202
Total Liabilities	1,351	1,486
Commitments and Contingencies (Note 7)		
Redeemable, convertible Series A preferred stock, no par value, \$100 per share liquidation preference	171	164
Equity (Deficit)		
Common stock, \$0.01 par value	—	—
Additional paid in capital	621	631
Treasury stock, at cost	(9)	(9)
Accumulated deficit	(187)	(174)
Accumulated other comprehensive loss	(407)	(391)
Total shareholders' equity	18	57
TOTAL LIABILITIES, REDEEMABLE CONVERTIBLE PREFERRED STOCK AND EQUITY	\$ 1,540	\$ 1,707

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

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EASTMAN KODAK COMPANY

CONSOLIDATED STATEMENT OF CASH FLOWS (Unaudited)

(in millions)	Nine Months Ended September 30, 2018 2017	
Cash flows from operating activities:		
Net (loss) earnings	\$(2)	\$(35)
Adjustments to reconcile to net cash used in operating activities:		
Depreciation and amortization	58	62
Pension income	(81)	(91)
Change in fair value of embedded conversion features derivative liability	2	(42)
Non-cash restructuring costs and asset impairments	—	87
Prosper asset remeasurement	—	12
Net gain on sales of assets/businesses	(7)	(2)
Stock based compensation	5	7
Non-cash changes in workers' compensation and legal reserves	(10)	—
Provision (benefit) for deferred income taxes	6	(18)
Decrease in trade receivables	28	28
Increase in inventories	(42)	(42)
Decrease in trade payables	(25)	(17)
Decrease in liabilities excluding borrowings and trade payables	(20)	(20)
Other items, net	9	(6)
Total adjustments	(77)	(42)
Net cash used in operating activities	(79)	(77)
Cash flows from investing activities:		
Additions to properties	(24)	(28)
Proceeds from sales of assets/businesses, net	8	2
Proceeds from sales of marketable securities	—	1
Net cash used in investing activities	(16)	(25)
Cash flows from financing activities:		
Repayment of emergence credit facilities	—	(1)
Repayment of capital leases	(2)	(3)
Preferred stock dividend payments	(8)	(7)
Payment of contingent consideration related to the sale of a business	—	(7)
Treasury stock purchases	—	(1)
Net cash used in financing activities	(10)	(19)
Effect of exchange rate changes on cash	(7)	9
Effect of exchange rate changes on restricted cash	(1)	—
Net decrease in cash, cash equivalents and restricted cash	(113)	(112)
Cash, cash equivalents and restricted cash, beginning of period	369	478
Cash, cash equivalents and restricted cash, end of period	\$256	\$366

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

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 for a fair statement of 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 statements should be read in conjunction with the Company’s Annual Report on Form 10-K for the year ended December 31, 2017.

GOING CONCERN

The consolidated interim financial statements have been prepared on the going concern basis of accounting, which assumes Kodak will continue to operate as a going concern and which contemplates the realization of assets and the satisfaction of liabilities and commitments in the normal course of business.

The Company has \$395 million of outstanding indebtedness under the Senior Secured First Lien Term Credit Agreement (the “First Lien Term Credit Agreement”). The loans made under the First Lien Term Credit Agreement become due on the earlier to occur of (i) the maturity date of September 3, 2019 or (ii) the acceleration of such loans following the occurrence of an event of default (as defined in the First Lien Term Credit Agreement). The Company also has issued approximately \$85 million and \$96 million of letters of credit under the Amended and Restated Credit Agreement (the “Amended Credit Agreement”) as of September 30, 2018 and December 31, 2017, respectively. Should the Company not repay, refinance or extend the maturity of the loans under the existing First Lien Term Credit Agreement prior to June 5, 2019, the termination date will occur under the Amended Credit Agreement on such date unless the Amended Credit Agreement has been amended in the interim. Upon the occurrence of the termination date under the Amended Credit Agreement, the obligations thereunder will become due and the Company will need to provide alternate collateral in place of the letters of credit issued under the Amended Credit Agreement.

As of September 30, 2018 and December 31, 2017, Kodak had approximately \$238 million and \$344 million, respectively, of cash and cash equivalents. \$122 million and \$172 million was held in the U.S. as of September 30, 2018 and December 31, 2017, respectively, and \$116 million and \$172 million were held outside the U.S. Cash balances held outside the U.S. are generally required to support local country operations and may have high tax costs or other limitations that delay the ability to repatriate, and therefore may not be readily available for transfer to other jurisdictions. Outstanding inter-company loans to the U.S. as of September 30, 2018 and December 31, 2017 were \$379 million and \$358 million, respectively, which includes short-term intercompany loans from Kodak's international finance center of \$81 million and \$59 million as of September 30, 2018 and December 31, 2017, respectively. In China, where approximately \$60 million and \$108 million of cash and cash equivalents was held as of September 30, 2018 and December 31, 2017, respectively, there are limitations related to net asset balances that may impact the ability to make cash available to other jurisdictions in the world. Kodak had a net decrease in cash, cash equivalents, and restricted cash of \$109 million, \$122 million, and \$158 million for the years ended December 31, 2017, 2016, and 2015, respectively, and a decrease in cash, cash equivalents, and restricted cash of \$113 million for the nine months ended September 30, 2018.

U.S. GAAP requires an evaluation of whether there are conditions or events, considered in the aggregate, that raise substantial doubt about an entity's ability to continue as a going concern within one year after the date the financial statements are issued. Initially, this evaluation does not consider the potential mitigating effect of management's plans that have not been fully implemented. When substantial doubt exists, management evaluates the mitigating effect of its plans if it is probable that (1) the plans will be effectively implemented within one year after the date the financial statements are issued, and (2) when implemented, the plans will mitigate the relevant conditions or events that raise substantial doubt about the entity's ability to continue as a going concern within one year after the date the financial statements are issued or prior to the conditions or events that create the going concern risk.

As of the date of issuance of these financial statements, Kodak has debt coming due within twelve months and does not have committed financing or available liquidity to meet such debt obligations if they were to become due in accordance with their current terms. In October 2018, Kodak entered into a non-binding work letter with an existing lender under the First Lien Term Credit Agreement and another potential financing source, which outlines the terms and conditions of a proposed new term loan facility. The proceeds from the proposed new facility, if consummated, would be used to refinance the loans under the First Lien Term Credit Agreement in full. The non-binding work letter replaces the non-binding letter of intent entered into during the third quarter of 2018. Under the non-binding work letter, Kodak has agreed to work exclusively with the potential financing sources to reach a binding commitment letter setting out the key terms of the proposed new facility. Kodak is currently in negotiations with the potential financing sources regarding the terms of the proposed new facility, however, there can be no assurance that Kodak and the potential financing

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sources will reach a binding commitment letter on such terms. Exclusive negotiations between Kodak and the potential financing sources expire on November 12, 2018 in accordance with the terms of the non-binding work letter.

Kodak has retained an investment banker in connection with a sale of its Flexographic Packaging segment and is in negotiations on an exclusive basis to sell this segment. Net proceeds from any sale of Kodak's Flexographic Packaging segment will be used to reduce outstanding term loan debt. Under the terms of the First Lien Term Credit Agreement, Kodak is required to maintain a Secured Leverage Ratio. The Secured Leverage Ratio is generally determined by dividing secured debt, net of U.S. cash and cash equivalents, by consolidated EBITDA, as calculated under the First Lien Term Credit Agreement. The consolidated EBITDA, as calculated under the First Lien Term Credit Agreement, could be adversely affected by the sale process or the sale of the Flexographic Packaging segment, which could result in non-compliance with a debt covenant.

Additionally, Kodak is facing liquidity challenges due to negative cash flow. Based on forecasted cash flows, there are uncertainties regarding Kodak's ability to meet commitments in the U.S. as they come due. Kodak's plans to improve cash flow include reducing interest expense by decreasing the debt balance using proceeds from asset sales, including the sale of the Flexographic Packaging segment; further restructuring Kodak's cost structure; and paring investment in new technology by eliminating, slowing, and partnering with investors in product development programs.

The sale of the Flexographic Packaging segment and/or refinancing of the loans under the First Lien Term Credit Agreement are not solely within Kodak's control. Executing agreements for the sale or a refinancing of the First Lien Term Credit Agreement and the timing for a closing of the sale or a refinancing of the First Lien Term Credit Agreement are dependent upon several external factors outside Kodak's control, including but not limited to, the ability of the Company to reach acceptable agreements with different counterparties and the time required to meet conditions to closing under a sale agreement or credit facility.

Kodak makes no assurances regarding the likelihood, certainty or timing of consummating any asset sales, including of the Flexographic Packaging segment, refinancing of the Company's existing debt, or regarding the sufficiency of any such actions to meet Kodak's debt obligations, including compliance with debt covenants, or other commitments in the U.S. as they come due.

These conditions raise substantial doubt about Kodak's ability to continue as a going concern.

For more information regarding the First Lien Term Credit Agreement, the Amended Credit Agreement and debt covenants see Note 6, "Debt and Capital Leases".

RECENTLY ADOPTED ACCOUNTING PRONOUNCEMENTS

In March 2017, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) ASU 2017-07, Compensation—Retirements Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost. ASU 2017-07 requires entities to report the service cost component of net periodic pension and postretirement benefit cost in the same line item(s) as other compensation costs arising from services rendered during the period and to report all other components of net benefit costs outside a subtotal of income from operations. In addition, the ASU allows only the service cost component to be eligible for capitalization when applicable. Kodak adopted ASU 2017-07 effective January 1, 2018, retrospectively for the presentation of the service cost and other cost components and prospectively for the application of the capitalization eligibility. The components of net benefit cost are shown in Note 14, “Retirement Plans and Other Postretirement Benefits”. The guidance impacted presentation in Kodak’s consolidated financial statements and the capitalization of costs to inventory. The presentation of the service cost component was consistent with the requirements of the new standard. The other components (which were presented within Cost of revenues, Selling and general administrative expenses and Research and development costs) are being presented separately on the face of the Consolidated Statement of Operations. The segment measure of profit and loss previously included only the service cost and amortization of prior service credits components of net periodic pension and postretirement benefit costs (refer to Note 20, “Segment Information”). Effective January 1, 2018, the segment measure of profit and loss only includes the service cost component of net periodic pension and postretirement benefit costs and prior periods have been reclassified to conform to this presentation.

In February 2017, the FASB issued ASU 2017-05, Other Income—Gains and Losses from the Derecognition of Nonfinancial Assets (Subtopic 610-20): Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets. ASU 2017-05 defines in-substance nonfinancial assets, provides guidance with respect to accounting for partial sales of nonfinancial assets and conforms the derecognition guidance on nonfinancial assets with the model for transactions in the new revenue standard (Topic 606 as described below). Kodak adopted ASU 2017-05 effective January 1, 2018 using the modified retrospective adoption approach. The application of this standard did not have a material impact on Kodak’s consolidated financial statements.

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In January 2016, the FASB issued ASU 2016-01, Financial Instruments—Overall (Topic 825): 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. Kodak adopted ASU 2016-01 effective January 1, 2018. The adoption of this guidance did not have a material impact on Kodak’s consolidated financial statements.

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 addition, the standard requires disclosure of the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. Kodak adopted the provisions of the new standard effective January 1, 2018 using the modified retrospective method which allows companies to record a one-time adjustment to opening retained earnings for the cumulative effect of the standard on open contracts at the time of adoption. Kodak derives revenue from various brand licensing arrangements, which may include upfront payments and/or sales-based royalties subject to minimum annual guaranteed amounts. Kodak recorded a cumulative effect adjustment of approximately \$10 million as a decrease to the opening balance of retained earnings related to these arrangements. With the exception of brand license revenue, Kodak did not identify any changes in the timing of revenue recognition that resulted in a material transition adjustment.

The cumulative effect of the changes made to the Consolidated Statement of Financial Position for January 1, 2018 for the adoption of ASU 2014-09 were as follows. The net reduction in opening retained earnings primarily reflected the impact related to brand licensing revenues.

	Balance at December 31, 2017	Adjustments Due to ASU 2014-09	Balance at January 1, 2018
(in millions)			
Liabilities			
Other current liabilities	\$ 217	\$ 2	\$ 219
Other long-term liabilities	202	8	210
Deficit			
Accumulated Deficit	(174)	(10)	(184)

The impact of the adoption on the Consolidated Statement of Operations and Consolidated Statement of Financial Position were as follows:

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	Three Months Ended September 30, 2018		
	Amounts without Adoption of		
			Effect of Change
(in millions)	As Reported	ASU 2014-09	Higher (Lower)
Revenues			
Sales	\$293	\$ 292	\$ 1
Services	73	73	—
Total revenues	366	365	1
Net income	\$19	\$ 18	\$ 1

	Nine Months Ended September 30, 2018		
	Amounts without Adoption of		
			Effect of Change
(in millions)	As Reported	ASU 2014-09	Higher (Lower)
Revenues			
Sales	\$878	\$ 875	\$ 3
Services	217	217	—
Total revenues	1,095	1,092	3
Net loss	\$(2)	\$(5)	\$ 3

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	September 30, 2018		
	Balances without Adoption of Effect of Change		
(in millions)	As Reported	ASU 2014-09	Higher (Lower)
Liabilities			
Other current liabilities	\$216	\$ 214	\$ 2
Other long-term liabilities	183	178	5
Deficit			
Accumulated Deficit	(187)	(180)	(7)

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In September 2018, the FASB issued ASU 2018-14, Compensation—Retirement Benefits—Defined Benefit Plans—General (Subtopic 715-20): Disclosure Framework—Changes to the Disclosure Requirements for Defined Benefit Plans, which amends the disclosure requirements in ASC 715-20 by adding, clarifying, or removing certain disclosures. ASU 2018-14 requires all entities to disclose (1) the weighted average interest crediting rates for cash balance plans and other plans with promised interest crediting rates, and (2) an explanation of the reasons for significant gains and losses related to changes in the benefit obligation for the period. The ASU also clarifies certain disclosure requirements for entities with two or more defined benefit pension plans when aggregate disclosures are presented. The ASU removes other disclosures from the existing guidance, such as the requirement to disclose the effects of a one-percentage-point change in the assumed health care cost trend rates. The ASU is effective retrospectively for fiscal years ending after December 15, 2020 (January 1, 2021 for Kodak). Early adoption is permitted. The standard addresses disclosures only and will not have an impact on Kodak’s consolidated financial statements. Kodak is currently assessing its expected adoption date.

In September 2018 the FASB issued ASU 2018-13, Fair Value Measurement (Topic 820): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement, which amends the disclosure requirements in ASC 820 by adding, changing, or removing certain disclosures. The ASU applies to disclosures about recurring or nonrecurring fair value measurements. The additional and/or modified disclosures relate primarily to Level 3 fair value measurements while removing certain disclosures related to transfers between Level 1 and Level 2 of the fair value hierarchy. The ASU is effective retrospectively, for fiscal years beginning after December 15, 2019 (January 1, 2020 for Kodak) and interim periods within those fiscal years. Entities are permitted to early adopt any removed or modified disclosures but can delay adoption of the new disclosures until their effective date. The standard addresses disclosures only and will not have an impact on Kodak’s consolidated financial statements. Kodak is currently assessing its expected adoption date.

In August 2018, the FASB issued ASU 2018-15, Intangibles—Goodwill and Other—Internal-Use Software (Subtopic 350-40): Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract, which addresses how a customer should account for the costs of implementing a cloud computing

service arrangement (also referred to as a “hosting arrangement”). Under ASU 2018-15, entities should account for costs associated with implementing a cloud computing arrangement that is considered a service contract in the same way as implementation costs associated with a software license; implementation costs incurred in the application development stage, such as costs for the cloud computing arrangement’s integration with on-premise software, coding, and configuration or customization, should be capitalized and amortized over the term of the cloud computing arrangement, including periods covered by certain renewal options. The ASU is effective in fiscal years beginning after December 15, 2019 (January 1, 2020 for Kodak) including interim periods within those fiscal years. Early adoption is permitted. The ASU should be applied either retrospectively or prospectively to all implementation costs incurred after the date of adoption. Kodak is currently evaluating the impact and adoption date of this standard.

In February 2018, the FASB issued ASU 2018-02, “Income Statement—Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income”. The ASU addresses certain stranded income tax effects in accumulated other comprehensive income (AOCI) resulting from the Tax Cuts and Jobs Act (the “2017 Tax Act”). The ASU provides an option to reclassify stranded tax effects within AOCI to retained earnings in each period in which the effect of the change in the U.S. federal corporate income tax rate in the 2017 Tax Act (or portion thereof) is recorded and requires additional disclosures. The ASU is effective for fiscal years beginning after December 15, 2018 (January 1, 2019 for Kodak) and interim periods within those fiscal years. Early adoption is permitted and may be applied either in the period of adoption or retrospectively to each period (or periods) in which the effect of the change in the U.S. federal corporate income tax rate in the 2017 Tax Act is recognized. Kodak plans to adopt the new standard on the effective date. The adoption of this ASU will not have an impact on the Consolidated Financial Statements as a result of Kodak’s U.S. valuation allowance.

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, 2019 (January 1, 2020 for Kodak).

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Early adoption is permitted for fiscal years, and interim periods within those years, beginning after December 15, 2018 (January 1, 2019 for Kodak). Kodak plans to adopt the new standard on the effective date. Kodak is currently evaluating the impact of this ASU.

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. The original guidance required application on a modified retrospective basis to the earliest period presented. In July 2018, the FASB issued ASU 2018-11, Targeted improvements to ASC 842, which includes an option to not restate comparative periods in transition and elect to use the effective date of ASC 842, as the date of initial application of transition. Kodak plans to adopt the new standard on the effective date applying the new transition method allowed under ASU 2018-11 and is currently evaluating the impact of adoption on its financial statements. Kodak is currently evaluating its existing lease portfolio, including accumulating all the necessary information required to properly account for the leases under the new standard. Additionally, a new lease accounting system is being implemented to support the accounting and disclosure requirements of the new standard. Kodak anticipates that the adoption of the amended lease guidance will materially increase the assets and liabilities recorded in its Consolidated Statement of Financial Position and may require certain changes to its systems and processes.

NOTE 2: CASH, CASH EQUIVALENTS AND RESTRICTED CASH

The following table provides a reconciliation of cash, cash equivalents and restricted cash reported within the Statement of Financial Position that sums to the total of such amounts shown in the Statement of Cash Flows:

(in millions)	September 30, 2018	December 31, 2017
Cash and cash equivalents	\$ 238	\$ 344
Restricted cash included in Other current assets	8	8
Long-term restricted cash	10	17
Total cash, cash equivalents and restricted cash shown in the Statement of Cash Flows	\$ 256	\$ 369

Restricted cash included in Other current assets on the Statement of Financial Position primarily represents amounts which support hedging activities.

Long-term restricted cash includes \$5 million and \$6 million of security posted related to Brazilian legal contingencies as of September 30, 2018 and December 31, 2017, respectively. Long-term restricted cash also includes \$0 million and \$6 million as of September 30, 2018 and December 31, 2017, respectively, supporting compliance with the Excess Availability threshold under the Amended and Restated Credit Agreement (the "Amended Credit Agreement").

NOTE 3: INVENTORIES, NET

(in millions)	September 30, 2018	December 31, 2017
Finished goods	\$ 174	\$ 159
Work in process	65	57
Raw materials	67	60
Total	\$ 306	\$ 276

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NOTE 4: OTHER CURRENT LIABILITIES

(in millions)	September 30, 2018	December 31, 2017
Employee related liabilities	\$ 51	\$ 47
Deferred revenue	31	30
Deferred consideration on disposed businesses	24	10
Customer rebates	24	29
Workers compensation	10	10
Restructuring liabilities	8	10
Other	68	81
Total	\$ 216	\$ 217

The customer rebate amounts will potentially be settled through customer deductions applied to outstanding trade receivables in lieu of cash payments.

NOTE 5: OTHER LONG-TERM LIABILITIES

(in millions)	September 30, 2018	December 31, 2017
Workers compensation	\$ 87	\$ 96
Asset retirement obligations	49	43
Deferred taxes	13	16
Environmental liabilities	11	12
Deferred consideration on disposed businesses	—	14
Other	23	21
Total	\$ 183	\$ 202

NOTE 6: DEBT AND CAPITAL LEASES

Debt and capital leases and related maturities and interest rates were as follows at September 30, 2018 and December 31, 2017 (in millions):

(in millions)	Type	Maturity	Weighted-Average Effective Interest Rate	September 30,	December 31,
				2018	2017
				Carrying	Carrying
				Value	Value
Current portion:					
	Term note	2019	7.35%	\$ 393	\$ —
	Capital leases	Various	Various	3	3
	Other debt	Various	Various	—	1
				396	4
Non-current portion:					
	Term note	2019	7.35%	—	393
	Capital leases	Various	Various	3	4
	Other debt	Various	Various	2	2
				5	399
				\$ 401	\$ 403

On September 3, 2013, the Company entered into (i) the First Lien Term Credit Agreement with the lenders party thereto (the “First Lien Lenders”), JPMorgan Chase Bank, N.A. as administrative agent, and J.P. Morgan Securities LLC, Barclays Bank PLC, and Merrill Lynch, Pierce, Fenner & Smith Inc. as joint lead arrangers and joint bookrunners, and (ii) a Senior Secured Second Lien Term Credit Agreement (the “Second Lien Term Credit Agreement,” and together with the First Lien Term Credit Agreement, the “Term Credit Agreements”), with the lenders party thereto (the “Second Lien Lenders,” and together with the First Lien Lenders, the “Term Credit Lenders”), Barclays Bank PLC as administrative agent, and J.P. Morgan Securities LLC, Barclays Bank PLC and Merrill Lynch, Pierce, Fenner & Smith Inc. as joint lead arrangers and joint bookrunners.

Additionally, the Company and its U.S. subsidiaries (the “Subsidiary Guarantors”) entered into an Asset Based Revolving Credit Agreement (the “ABL Credit Agreement” and together with the Term Credit Agreements, the “Credit Agreements”) with the lenders party thereto (the “ABL Lenders” and together with the First Lien Lenders and the Second Lien Lenders, the “Lenders”) and Bank of America N.A. as administrative agent and collateral agent, Barclays Bank PLC as syndication agent and Merrill Lynch, Pierce, Fenner & Smith Inc., Barclays Bank PLC and J.P. Morgan Securities LLC as joint lead arrangers and joint bookrunners. Pursuant to the terms of the Credit Agreements, the Term Credit Lenders provided the Company with term loan facilities in an aggregate principal amount of \$695 million, consisting of \$420 million of first-lien term loans (the “First Lien Loans”) and \$275 million of second-lien term loans (the “Second Lien Loans”). Net proceeds from the Term Credit Agreements were \$664 million (\$695 million aggregate principal less \$15 million stated discount and \$16 million in debt transaction costs). The loans made under the First Lien Term Credit Agreement become due on the earlier to occur of (i) the maturity date of September 3, 2019 or (ii) the acceleration of such loans following the occurrence of an event of default (as defined in the First Lien Term Credit Agreement). The Second Lien Term Credit Agreement was prepaid and terminated on November 15, 2016.

The Credit Agreements limit, 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 (including dividend payments, et al.) and (v) make investments. In addition to other customary affirmative covenants, the Credit Agreements provide for a periodic delivery by the Company of its various financial statements as set forth in the Credit Agreements. Events of default under the Credit Agreements include, among others, failure to pay any loan, interest or other amount due under the applicable credit agreement, breach of specific covenants and a change of control of the Company. Upon an event of default, the applicable lenders may declare the outstanding obligations under the applicable credit agreement to be immediately due and payable and exercise other rights and remedies provided for in such credit agreement.

The First Lien Loans bear interest at the rate of LIBOR plus 6.25% per annum, with a LIBOR floor of 1% or Alternate Base Rate (as defined in the First Lien Term Credit Agreement) plus 5.25%. Each existing and future direct or indirect U.S. subsidiary of the Company (other than immaterial subsidiaries, unrestricted subsidiaries and certain other subsidiaries) have agreed to provide unconditional guarantees of the obligations of the Company under the Credit Agreements. Subject to certain exceptions, obligations under the First Lien Term Credit Agreement are secured by: (i) a first lien on all assets of the Company and the Subsidiary Guarantors, other than the ABL Collateral (as defined below), including a first lien on 100% of the stock of material domestic subsidiaries and 65% of the stock of material first-tier foreign subsidiaries (collectively the "Term Collateral") and (ii) a second lien on the ABL Collateral. Obligations under the Asset Based Revolving Credit Agreement are secured by: (i) a first lien on cash, accounts receivable, inventory, machinery and equipment (the "ABL Collateral") and (ii) a second lien on the Term Collateral. The Company may voluntarily prepay the First Lien Loan.

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As defined in the First Lien Term Credit Agreement, the Company is required to prepay loans with net proceeds from asset sales, recovery events or issuance of indebtedness, subject to, in the case of net proceeds received from asset sales or recovery events, reinvestment rights by the Company in assets used or usable by the business within certain time limits. During 2016 and 2017, Kodak prepaid \$11 million of principal under the First Lien Term Credit Agreement. Under the terms of the First Lien Term Credit Agreement, the prepayments were applied first to the installment principal payments of \$4 million due over the next twelve months, then ratably to the remaining scheduled payments. With the prepayments, Kodak does not owe any future scheduled principal payments until the maturity date of the loan.

On an annual basis, the Company will prepay on June 30 of the following fiscal year loans in an amount equal to a percentage of Excess Cash Flow (“ECF”) as defined in the First Lien Term Credit Agreement, provided no such prepayment is required if such prepayment would cause U.S. liquidity (as defined in the First Lien Term Credit Agreement) to be less than \$100 million or the Secured Leverage ratio is less than 2.25 to 1.00. For the year ended December 31, 2017 ECF was a negative amount. Therefore, no prepayment of First Lien term debt was required. Any mandatory prepayments as described above shall be reduced by any mandatory prepayments of the First Lien Loan.

Under the First Lien Term Credit Agreement, the Company is required to maintain a Secured Leverage Ratio (as defined therein) not to exceed specified levels. The Secured Leverage Ratio under the First Lien Term Credit Agreement is tested at the end of each quarter based on the prior four quarters. The maximum Secured Leverage Ratio permitted under the First Lien Term Credit Agreement is 2.75:1. As of September 30, 2018 and December 31, 2017, Kodak was in compliance with all covenants under the First Lien Term Credit Agreement.

Under the terms of the Credit Agreements, the Company may designate Restricted Subsidiaries as Unrestricted Subsidiaries provided the aggregate sales of all Unrestricted Subsidiaries are less than 7.5% of the consolidated sales of Kodak and the aggregate assets of all Unrestricted Subsidiaries are less than 7.5% of Kodak’s consolidated assets. Further, under the Amended Credit Agreement, on a pro forma basis at the time of designation and immediately after giving effect thereto, Excess Availability must be at least \$30 million and the pro forma Fixed Charge Coverage Ratio must be no less than 1.0 to 1.0. Upon designation of Unrestricted Subsidiaries, the Company will be required to provide to the Lenders reconciling statements to eliminate all financial information pertaining to Unrestricted Subsidiaries which is included in its annual and quarterly financial statements.

In March 2018, the Company designated five subsidiaries as Unrestricted Subsidiaries, Kodak PE Tech, LLC, Kodak LB Tech, LLC, Kodak Realty, Inc., Kodakit Singapore Pte. Limited and KP Services (Jersey) Ltd. This action allowed the Company to better position assets which may be monetized in the future and address costs related to underutilized properties. Collectively, these subsidiaries had sales of approximately \$3 million and \$8 million for the three and nine months ended September 30, 2018, respectively, which represents 1% of Kodak’s consolidated sales for both the three and nine months ended September 30, 2018. These subsidiaries had assets of \$25 million as of September 30, 2018, which represents 2% of Kodak’s consolidated assets as of September 30, 2018. Each of the capitalized but undefined terms has the meaning ascribed to such term in the Credit Agreements. EBITDA of the Unrestricted Subsidiaries, as calculated under the First Lien Term Credit Agreement and the Amended Credit Agreement, is a loss and is excluded from the calculation of the Secured Leverage Ratio. Therefore, designating these Subsidiaries as Unrestricted had the impact of improving the Secured Leverage Ratio.

Kodak intends to conduct its operations in a manner that will result in continued compliance with the Credit Agreements; however, compliance for future quarters may depend on Kodak undertaking one or more non-operational transactions, such as the repatriation of cash into the U.S., the management of operating cash outflows, the designation of additional subsidiaries as Unrestricted Subsidiaries, a monetization of assets, a debt refinancing, the raising of equity capital, or a similar transaction. If Kodak is unable to remain in compliance and does not make alternate arrangements with its term lenders, an event of default would occur under the Credit Agreements which, among other remedies, would entitle the lenders or their agents to declare the outstanding obligations under the First Lien Term Credit Agreement to be immediately due and payable. There is no assurance Kodak will be able to complete any non-operational transaction it may undertake to maintain compliance with covenants under the Credit Agreements or to refinance, or otherwise pay, the First Lien Loans on or before the maturity date of September 3, 2019 or the obligations under the ABL Credit Agreement on June 6, 2019 if the First Lien Loans are not refinanced or paid on or before their maturity date.

See also the Going Concern subsection of Note 1, “Basis of Presentation and Recent Accounting Pronouncements”.

Amended and Restated Credit Agreement

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 used in the context of describing the Amended Credit Agreement has the meaning ascribed to such term 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.

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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.

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 \$85 million and \$96 million of letters of credit under the Amended Credit Agreement as of September 30, 2018 and December 31, 2017, respectively. The Company had approximately \$24 million and \$20 million of Excess Availability under the Amended Credit Agreement as of September 30, 2018 and December 31, 2017, respectively. 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 75% of Orderly Liquidation Value of Eligible Equipment or \$12 million, as of September 30, 2018 (which \$12 million decreases by \$1 million per quarter) and (iv) Eligible Cash less (a) Rent and Charges Reserves, (b) Principal Outstanding and (c) Outstanding Letters of Credit.

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. As of September 30, 2018 and December 31, 2017, 12.5% of lender commitments were \$18.75 million.

If Excess Availability falls below 12.5% of lender commitments, Kodak may, in addition to the requirement to be in compliance with the minimum Fixed Charge Coverage Ratio, become subject to cash dominion control. Since Excess Availability was greater than 12.5% of lender commitments at September 30, 2018 and December 31, 2017, Kodak is not required to have a minimum Fixed Charges Coverage Ratio of 1.0 to 1.0. As of September 30, 2018 and December 31, 2017, Kodak was in compliance with all the covenants under the Amended Credit Agreement.

NOTE 7: COMMITMENTS AND CONTINGENCIES

As of September 30, 2018, the Company had outstanding letters of credit of \$85 million issued under the Amended Credit Agreement.