EASTMAN KODAK CO
Form 10-Q
November 04, 2014

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 September 30, 2014

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

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 [ ]

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 [ ]

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 [ ] Accelerated filer [ ]

Non-accelerated filer [X] Smaller reporting company [ ]

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes [ ] 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 October 31, 2014
Common Stock, $0.01 par value	41,858,737

EASTMAN KODAK COMPANY

Form 10-Q

September 30, 2014

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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)

	Successor		Predecessor
	Three Months Ended September 30, 2014	One Month Ended September 30, 2013	Two Months Ended August 31, 2013
Revenues			
Sales	$ 471	$ 165	$ 296
Services	93	33	69
Total revenues	564	198	365
Cost of revenues			
Sales	339	146	228
Services	69	30	52
Total cost of revenues	408	176	280
Gross profit	156	22	85
Selling, general and administrative expenses	67	29	64
Research and development costs	20	8	16
Restructuring costs and other	9	4	3
Other operating loss, net	2	-	-
Earnings (loss) from continuing operations before interest expense, loss on early extinguishment of debt, other charges, net, reorganization items, net and income taxes	58	(19)	2
Interest expense	15	6	33
Loss on early extinguishment of debt	-	-	2
Other charges, net	(1)	-	(2)
Reorganization items, net	1	5	(2,217)
Earnings (loss) from continuing operations before income taxes	41	(30)	2,182
Provision for income taxes	10	1	97
Earnings (loss) from continuing operations	31	(31)	2,085
(Loss) earnings from discontinued operations, net of income taxes	(12)	10	(78)
Net earnings (loss)	19	(21)	2,007
Less: Net income (loss) attributable to noncontrolling interests	2	(3)	-
NET EARNINGS (LOSS) ATTRIBUTABLE TO EASTMAN KODAK COMPANY	$ 17	$ (18)	$ 2,007

Basic net earnings (loss) per share attributable to Eastman Kodak Company common shareholders:									
Continuing operations	$	0.70		$	(0.67	)	$	7.65	
Discontinued operations		(0.29	)		0.24			(0.29	)
Total	$	0.41		$	(0.43	)	$	7.36	
Diluted net earnings (loss) per share attributable to Eastman Kodak Company common shareholders:									
Continuing operations	$	0.67		$	(0.67	)	$	7.65	
Discontinued operations		(0.28	)		0.24			(0.29	)
Total	$	0.39		$	(0.43	)	$	7.36	
Number of common shares used in basic and diluted net earnings (loss) per share									
Basic		41.8			41.7			272.8	
Diluted		43.3			41.7			272.8	

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

EASTMAN KODAK COMPANY
CONSOLIDATED STATEMENT OF OPERATIONS (Unaudited)

(in millions, except per share data)

	Successor		Predecessor
	Nine Months Ended September 30, 2014	One Month Ended September 30, 2013	Eight Months Ended August 31, 2013
Revenues			
Sales	$ 1,289	$ 165	$ 1,263
Services	284	33	279
Total revenues	1,573	198	1,542
Cost of revenues			
Sales	1,010	146	955
Services	216	30	219
Total cost of revenues	1,226	176	1,174
Gross profit	347	22	368
Selling, general and administrative expenses	239	29	297
Research and development costs	73	8	66
Restructuring costs and other	42	4	43
Other operating loss (income), net	2	-	(495)
(Loss) earnings from continuing operations before interest expense, loss on early extinguishment of debt, other charges, net, reorganization items, net and income taxes	(9)	(19)	457
Interest expense	47	6	106
Loss on early extinguishment of debt	-	-	8
Other charges, net	(4)	-	(13)
Reorganization items, net	11	5	(2,026)
(Loss) earnings from continuing operations before income taxes	(71)	(30)	2,356
Provision for income taxes	11	1	155
(Loss) earnings from continuing operations	(82)	(31)	2,201
Earnings (loss) from discontinued operations, net of income taxes	5	10	(135)
Net (loss) earnings	(77)	(21)	2,066
Less: Net income (loss) attributable to noncontrolling interests	4	(3)	-
NET (LOSS) EARNINGS ATTRIBUTABLE TO EASTMAN KODAK COMPANY	$ (81)	$ (18)	$ 2,066
Basic and diluted net (loss) earnings per share attributable to Eastman Kodak Company common shareholders:			
Continuing operations	$ (2.06)	$ (0.67)	$ 8.08
Discontinued operations	0.12	0.24	(0.50)
Total	$ (1.94)	$ (0.43)	$ 7.58

Number of common shares used in basic and diluted net (loss) earnings per share	41.7	41.7	272.7

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

EASTMAN KODAK COMPANY
CONSOLIDATED STATEMENT OF COMPREHENSIVE (LOSS) INCOME (Unaudited)

(in millions)

	Successor		Predecessor	Successor		Predecessor
	Three Months Ended September 30, 2014	One Month Ended September 30, 2013	Two Months Ended August 31, 2013	Nine Months Ended September 30, 2014	One Month Ended September 30, 2013	Eight Months Ended August 31, 2013
NET EARNINGS (LOSS)	$ 19	$ (21)	$ 2,007	$ (77)	$ (21)	$ 2,066
Less: net income (loss) attributable to noncontrolling interests	2	(3)	-	4	(3)	-
Net earnings (loss) attributable to Eastman Kodak Company	17	(18)	2,007	(81)	(18)	2,066
Other comprehensive (loss) income, net:						
Currency translation adjustments	(17)	9	(11)	(10)	9	4
Unrealized (losses) gains from investment, net	(1)	-	-	-	-	-
Pension and other postretirement benefit plan obligation activity, net	(20)	-	1,156	(35)	-	1,604
Other comprehensive (loss) income, net attributable to Eastman Kodak Company	(38)	9	1,145	(45)	9	1,608
COMPREHENSIVE (LOSS) INCOME, NET ATTRIBUTABLE TO EASTMAN KODAK COMPANY	$ (21)	$ (9)	$ 3,152	$ (126)	$ (9)	$ 3,674

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

EASTMAN KODAK COMPANY
CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Unaudited)

(in millions)

	As of September 30, 2014	As of December 31, 2013
ASSETS		
Current Assets		
Cash and cash equivalents	$744	$844
Restricted cash	13	35
Receivables, net	417	571
Inventories, net	402	358
Deferred income taxes	49	48
Assets held for sale	12	95
Other current assets	23	20
Total current assets	1,660	1,971
Property, plant and equipment, net of accumulated depreciation of $201 and $67, respectively	552	684
Goodwill	96	88
Intangible assets, net of accumulated amortization of $27 and $8, respectively	198	219
Restricted cash	39	79
Deferred income taxes	28	54
Other long-term assets	106	105
TOTAL ASSETS	$2,679	$3,200
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable, trade	$210	$281
Current portion of long-term debt	4	4
Liabilities held for sale	1	38
Other current liabilities	408	562
Total current liabilities	623	885
Long-term debt, net of current portion	672	674
Pension and other postretirement liabilities	498	572
Other long-term liabilities	359	421
Total Liabilities	2,152	2,552
Commitments and Contingencies (Note 6)		
Equity		
Common stock, $0.01 par value	-	-
Additional paid in capital	618	613
Treasury stock, at cost	(4)	(3)
Accumulated deficit	(162)	(81)
Accumulated other comprehensive income	54	99

Total Eastman Kodak Company shareholders' equity	506	628
Noncontrolling interests	21	20
Total equity	527	648
TOTAL LIABILITIES AND EQUITY	$2,679	$3,200

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

EASTMAN KODAK COMPANY
CONSOLIDATED STATEMENT OF CASH FLOWS (Unaudited)

(in millions)

	Successor		Predecessor
	Nine Months Ended September 30, 2014	One Month Ended September 30, 2013	Eight Months Ended August 31, 2013
Cash flows from operating activities:			
Net (loss) earnings	$(77)	$(21)	$2,066
Adjustments to reconcile to net cash used in operating activities:			
Depreciation and amortization	161	20	118
Net gain on sales of businesses/assets	(22)	-	(407)
Loss on early extinguishment of debt	-	-	8
Non-cash restructuring costs, asset impairments and other charges	2	-	81
Reorganization items:			
Non-cash reorganization gain	-	-	(1,964)
Payment of claims	(2)	-	(94)
Fresh start adjustments, net	-	-	(302)
Other non-cash reorganization items, net	(7)	-	119
(Benefit) provision for deferred income taxes	(11)	6	448
Decrease (increase) in receivables	150	(43)	105
(Increase) decrease in inventories	(50)	37	(27)
Decrease in liabilities excluding borrowings	(295)	(24)	(450)
Other items, net	15	(25)	(266)
Total adjustments	(59)	(29)	(2,631)
Net cash used in operating activities	(136)	(50)	(565)
Cash flows from investing activities:			
Additions to properties	(22)	(2)	(18)
Proceeds from sales of businesses/assets	16	-	827
Release (funding) of restricted cash	62	21	(134)
Marketable securities - sales	-	-	21
Marketable securities - purchases	(2)	-	(17)
Net cash provided by investing activities	54	19	679
Cash flows from financing activities:			
Proceeds from emergence credit facilities	-	-	664
Repayment of emergence credit facilities	(3)	-	-
Proceeds from DIP Credit Agreements	-	-	450
Repayment of term loans under Original Senior DIP Credit Agreement	-	-	(664)
Repayment of term loans under Junior DIP Credit Agreement	-	-	(844)
Repayment of other borrowings	-	(41)	(375)
Equity transactions of noncontrolling interests	(3)	5	-
Proceeds from Rights Offerings	-	-	406
Contingent consideration received with sale of business	-	-	35
Net cash used in financing activities	(6)	(36)	(328)

Effect of exchange rate changes on cash	(12)	8	(23)
Net decrease in cash and cash equivalents	(100)	(59)	(237)
Cash and cash equivalents, beginning of period	844	898	1,135
Cash and cash equivalents, end of period	$744	$839	$898

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 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 Kodak's Annual Report on Form 10-K for the year ended December 31, 2013.

Effective August 31, 2013, Kodak sold certain utilities and related facilities and entered into utilities supply and servicing arrangements with RED-Rochester, LLC ("RED"), a variable interest entity ("VIE"). Kodak determined that it was the primary beneficiary of the VIE. Therefore, Kodak consolidates RED's assets, liabilities and results of operations. Consolidated assets and liabilities of RED are $79 million and $7 million, respectively, as of September 30, 2014 and $85 million and $3 million, respectively, as of December 31, 2013. RED's equity in those net assets as of September 30, 2014 and December 31, 2013 is $20 million and $18 million, respectively. The results of operations and cash flows of RED are immaterial to Kodak. RED's results of operations are reflected in net income attributable to noncontrolling interest in the accompanying Consolidated Statement of Operations.

On January 19, 2012 (the "Petition Date"), the Company and its U.S. subsidiaries (collectively, the "Debtors") filed voluntary petitions for relief (the "Bankruptcy Filing") under chapter 11 of the United States Bankruptcy Code (the "Bankruptcy Code") in the United States Bankruptcy Court for the Southern District of New York (the "Bankruptcy Court"). The cases (the "Chapter 11 Cases") were jointly administered as Case No. 12-10202 (ALG) under the caption "In re Eastman Kodak Company." The Debtors operated their businesses as "debtors-in-possession" under the jurisdiction of the Bankruptcy Court and in accordance with the applicable provisions of chapter 11 of the Bankruptcy Code and the orders of the Bankruptcy Court until their emergence from bankruptcy. The Company's foreign subsidiaries (collectively, the "Non-Filing Entities") were not part of the Chapter 11 Cases, and continued to operate in the ordinary course of business.

Upon emergence from bankruptcy on September 3, 2013, Kodak applied the provisions of fresh start accounting which resulted in Kodak becoming a new entity for financial reporting purposes. Kodak applied fresh start accounting as of September 1, 2013. Accordingly, the consolidated financial statements on or after September 1, 2013 are not comparable to the consolidated financial statements prior to that date. References to "Successor" or "Successor Company" relate to the reorganized Kodak subsequent to September 3, 2013. References to "Predecessor" or "Predecessor Company" relate to Kodak prior to September 3, 2013.

Reclassifications and Adjustments
Certain amounts for prior periods have been reclassified to conform to the current period classification. In the first quarter of 2014, Kodak increased the value of goodwill determined as part of fresh start accounting by $8 million to correct for a liability that should have been recorded at emergence.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09 ("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. ASU 2014-09 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2016 (January 1, 2017 for Kodak) and allows either a full retrospective adoption to all periods presented or a modified retrospective adoption approach with the cumulative effect of initial application of the revised guidance recognized at the date of initial application. Kodak is currently evaluating the impact of this ASU.

In April 2014, the FASB issued ASU No. 2014-08 ("ASU 2014-08"), "Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360)." ASU 2014-08 defines a discontinued operation as a disposal of a component (or group of components) of an entity that was disposed of or is classified as held for sale and represents a strategic shift that has (or will have) a major effect on an entity's operations and financial results. A business activity that, upon acquisition, qualifies as held for sale will also be a discontinued operation. Presentation as a discontinued operation will no longer be precluded if there are operations and cash flows of the component that have not been eliminated from ongoing operations or if there is significant continuing involvement with the component. ASU 2014-08 introduces several new disclosures including disclosing cash flow information of discontinued operations either in the statement of cash flows or in a note, expanded disclosure when an entity retains a significant continuing involvement with a discontinued operation as well as for disposals of individually material components that do not qualify as discontinued operations. The amendments in the update are effective prospectively for fiscal years, and interim periods within those years, beginning after December 15, 2014 (January 1, 2015 for Kodak) to new disposals and new classifications of disposal groups as held for sale after the effective date. Early adoption is permitted, but only for disposals (or classifications as held for sale) that have not been reported in financial statements previously issued. Kodak does not expect the adoption of this guidance to have a material impact on its Consolidated Financial Statements.

NOTE 2: REORGANIZATION ITEMS, NET

A summary of reorganization items, net is presented in the following table:

(in millions)	Successor Three Months Ended September 30, 2014	Successor One Month Ended September 30, 2013	Predecessor Two Months Ended August 31, 2013	Successor Nine Months Ended September 30, 2014	Successor One Month Ended September 30, 2013	Predecessor Eight Months Ended August 31, 2013
Professional fees	$1	$5	$15	$9	$5	$114
Provision for expected allowed claims	-	-	33	(1)	-	133
Net gain on reorganization adjustments	-	-	(1,957)	-	-	(1,957)
Net gain on fresh start adjustments	-	-	(302)	-	-	(302)
Other items, net	-	-	(6)	3	-	(14)
Reorganization items, net	$1	$5	$(2,217)	$11	$5	$(2,026)
Cash payments for reorganization items	$2	$9	$109	$20	$9	$210

Costs directly attributable to the implementation of the plan of reorganization are reported as Reorganization items, net.

NOTE 3: RECEIVABLES, NET

	As of	
(in millions)	September 30, 2014	December 31, 2013
Trade receivables	$344	$473
Miscellaneous receivables	73	98
Total (net of allowances of $9 and $6 as of September 30, 2014 and December 31, 2013, respectively)	$417	$571

Approximately $31 million and $39 million of the total trade receivable amounts as of September 30, 2014 and December 31, 2013, 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 4: INVENTORIES, NET

	As of	
(in millions)	September 30, 2014	December 31, 2013
Finished goods	$226	$185
Work in process	85	94
Raw materials	91	79
Total	$402	$358

NOTE 5: OTHER CURRENT LIABILITIES

	As of	
(in millions)	September 30, 2014	December 31, 2013
Accrued employment-related liabilities	$136	$ 189
Deferred revenue	46	48
Accrued customer rebates	36	52
Accrued restructuring liabilities	31	34
Deferred consideration on disposed businesses	11	62
Other	148	177
Total	$408	$ 562

NOTE 6: COMMITMENTS AND CONTINGENCIES

Environmental

Kodak's undiscounted accrued liabilities for future environmental investigation, remediation and monitoring costs are composed of the following items:

(in millions)	As of September 30, 2014	December 31, 2013
Eastman Business Park site, Rochester, NY	$-	$49
Other current operating sites	8	8
Sites associated with former operations	10	13
Sites associated with the non-imaging health businesses sold in 1994	11	12
Total	$29	$82

These amounts are reported in Other long-term liabilities in the accompanying Consolidated Statement of Financial Position.

Cash expenditures for investigation, remediation and monitoring activities are expected to be incurred over the next thirty years for most of the sites. For these known environmental liabilities, the accrual reflects Kodak's best estimate of the amount it will incur under the agreed-upon or proposed work plans. Kodak's cost estimates were determined using the ASTM Standard E 2137-06, "Standard Guide for Estimating Monetary Costs and Liabilities for Environmental Matters," and have not been reduced by possible recoveries from third parties. The overall method includes the use of a probabilistic model, which forecasts a range of cost estimates and a single most probable cost estimate for the remediation required at individual sites. For the purposes of establishing company-level environmental reserves, the single most probable cost estimate for each site is used. All projects are closely monitored and the models are reviewed at least once a year and as significant events occur. Kodak's estimate includes investigations, equipment and operating costs for remediation and long-term monitoring of the sites.

On June 17, 2013, the Company, the New York State Department of Environmental Conservation and the New York State Urban Development Corporation, d/b/a Empire State Development entered into a settlement agreement, subsequently amended on August 6, 2013 (the "Amended EBP Settlement Agreement"). The Amended EBP Settlement Agreement was subject to the satisfaction or waiver of certain conditions including a covenant not to sue from the U.S. Environmental Protection Agency ("EPA"). On May 13, 2014, the Bankruptcy Court approved the U.S. Environmental Settlement, which contained the EPA covenant not to sue, and on May 20, 2014 the Amended EBP Settlement Agreement was implemented and became effective. The Amended EBP Settlement Agreement included a settlement of certain of the Company's historical environmental liabilities at Eastman Business Park ("EBP") through the establishment of the EBP Trust as follows: (i) the EBP Trust is responsible for investigation and remediation at EBP arising from the Company's historical subsurface environmental liabilities in existence prior to the effective date of the Amended EBP Settlement Agreement, (ii) the Company funded the EBP Trust on the effective date with a $49 million cash payment and transferred certain equipment and fixtures used for remediation at EBP and (iii) in the event the historical liabilities exceed $99 million, the Company will become liable for 50% of the portion above $99 million. Prior to the implementation of the Amended EBP Settlement Agreement, $49 million was already held in a separate trust and escrow account.

Estimates of the amount and timing of future costs of environmental remediation requirements are by their nature imprecise because of the continuing evolution of environmental laws and regulatory requirements, the availability and application of technology, the identification of presently unknown remediation sites and the allocation of costs among the potentially responsible parties. Based on information presently available, Kodak does not believe that losses for known exposures could reasonably be expected to exceed current accruals by material amounts, although costs could be material to a particular quarter or year.

Other Commitments and Contingencies

As of September 30, 2014, the Company had outstanding letters of credit of $118 million issued under the Asset Based Revolving Credit Agreement (the “ABL Credit Agreement”), as well as bank guarantees and letters of credit of $7 million, surety bonds in the amount of $21 million, deposits and restricted cash of $58 million, primarily to ensure the payment of possible casualty and workers’ compensation claims, legal contingencies, rental payments, foreign exchange contracts and to support various customs, tax and trade activities. The deposits are recorded within Other long-term assets in the Consolidated Statement of Financial Position.

Kodak’s Brazilian operations are involved in governmental assessments of indirect and other taxes in various stages of litigation, primarily related to federal and state value-added taxes. Kodak is disputing these matters and intends to vigorously defend its position. Kodak routinely assesses all these matters as to the probability of ultimately incurring a liability in its Brazilian operations and records its best estimate of the ultimate loss in situations where it assesses the likelihood of loss as probable. As of September 30, 2014, the unreserved portion of these contingencies, inclusive of any related interest and penalties, for which there was at least a reasonable possibility that a loss may be incurred, amounted to approximately $38 million.

In connection with assessments in Brazil, local regulations may require Kodak to post security for a portion of the amounts in dispute. As of September 30, 2014, Kodak has posted security composed of $8 million of pledged cash reported within long-term Restricted cash in the Consolidated Statement of Financial Position and liens on certain Brazilian assets with a net book value of approximately $101 million. Generally, any encumbrances on the Brazilian assets would be removed to the extent the matter is resolved in Kodak's favor.

Kodak is involved in various lawsuits, claims, investigations and proceedings, including commercial, customs, employment, environmental, and health and safety matters, which are being handled and defended in the ordinary course of business. Kodak is also subject, from time to time, to various assertions, claims, proceedings and requests for indemnification concerning intellectual property, including patent infringement suits involving technologies that are incorporated in a broad spectrum of Kodak’s products. These matters are in various stages of investigation and litigation, and are being vigorously defended. Kodak is in the process of resolving any remaining litigation that was stayed as a result of the chapter 11 filing, in accordance with the Bankruptcy Code and the orders of the Bankruptcy Court. Kodak does not believe that it is probable that the outcome in any of these matters, individually or collectively, will have a material adverse effect on its financial condition or results of operations, although litigation is inherently unpredictable. Therefore, judgments could be rendered or settlements entered that could adversely affect Kodak’s operating results or cash flows in a particular period. Kodak routinely assesses all of its litigation and threatened litigation as to the probability of ultimately incurring a liability, and records its best estimate of the ultimate loss in situations where it assesses the likelihood of loss as probable.

NOTE 7: GUARANTEES

Kodak guarantees debt and other obligations of certain customers. The debt and other obligations are primarily due to banks and leasing companies in connection with financing of customers’ purchases of equipment and product from Kodak. At September 30, 2014, the maximum potential amount of future payments (undiscounted) that Kodak could be required to make under these customer-related guarantees was $6 million. At September 30, 2014, the carrying amount of any liability related to these customer guarantees was not material.

The customer financing agreements and related guarantees, which mature between 2014 and 2017, typically have a term of 90 days for product and short-term equipment financing arrangements, and up to five years for long-term equipment financing arrangements. These guarantees would require payment from Kodak only in the event of default on payment by the respective customer. In some cases, particularly for guarantees related to equipment financing, Kodak has collateral or recourse provisions to recover and sell the equipment to reduce any losses that might be incurred in connection with the guarantees. However, any proceeds received from the liquidation of these assets may not cover the maximum potential loss under these guarantees.

EKC also guarantees obligations to third parties for some of its consolidated subsidiaries. The maximum amount guaranteed is $55 million and the outstanding amount for those guarantees is $21 million.

In connection with the settlement of certain of the Company's historical environmental liabilities at EBP and in accordance with the terms of the Amended EBP Settlement Agreement, in the event the historical liabilities exceed $99 million, the Company will become liable for 50% of the portion above $99 million with no limitation to the maximum potential future payments. There is no liability recorded for this guarantee.

Warranty Costs

Kodak has warranty obligations in connection with the sale of its products. The original warranty period is generally one year or less. The costs incurred to provide for these warranty obligations are estimated and recorded as an accrued liability at the time of sale. Kodak estimates its warranty cost at the point of sale for a given product based on historical failure rates and related costs to repair.

The change in Kodak's accrued warranty obligations balance, which is reflected in Other current liabilities in the accompanying Consolidated Statement of Financial Position, was as follows:

(in millions)

Accrued warranty obligations as of December 31, 2013	$13
Actual warranty experience during 2014	(13)
2014 warranty provisions	6
Accrued warranty obligations as of September 30, 2014	$6

Kodak also offers its customers extended warranty arrangements that are generally one year, but may range from three months to five years after the original warranty period. Kodak provides repair services and routine maintenance under these arrangements. Kodak has not separated the extended warranty revenues and costs from the routine maintenance service revenues and costs, as it is not practicable to do so. Therefore, these revenues and costs have been aggregated in the discussion that follows. The change in Kodak's deferred revenue balance in relation to these extended warranty and maintenance arrangements from December 31, 2013 to September 30, 2014, which is reflected in Other current liabilities in the accompanying Consolidated Statement of Financial Position, was as follows:

(in millions)

Deferred revenue on extended warranties as of December 31, 2013	$30
New extended warranty and maintenance arrangements in 2014	146
Recognition of extended warranty and maintenance arrangement revenue in 2014	(149)
Deferred revenue on extended warranties as of September 30, 2014	$27

NOTE 8: OTHER OPERATING LOSS (INCOME), NET

(in millions)	Successor Three Months Ended September 30, 2014	Successor One Month Ended September 30, 2013	Predecessor Two Months Ended August 31, 2013	Successor Nine Months Ended September 30, 2014	Successor One Month Ended September 30, 2013	Predecessor Eight Months Ended August 31, 2013
Expenses (income)						
Gain on sale of digital imaging patent portfolio	$-	$-	$-	$-	$-	$(535)
Goodwill impairment (1)	-	-	-	-	-	77
Gain on sale of property in Mexico (2)	-	-	-	-	-	(34)
Other	2	-	-	2	-	(3)
Total	$2	$-	$-	$2	$-	$(495)

(1) Kodak recorded an impairment charge of $77 million related to the Intellectual Property and Brand Licensing reporting unit related to the sale of its digital imaging patents during the first quarter of 2013.

(2) In March 2012, Kodak sold a property in Mexico for approximately $41 million and leased back the property for a one-year term. The pre-tax gain on the property sale of approximately $34 million was deferred due to Kodak's continuing involvement in the property for the remainder of the lease term. In March 2013, the deferred gain was recognized as the lease term expired.

NOTE 9: INCOME TAXES

Kodak's income tax provision (benefit) and effective tax rate were as follows:

	Successor		Predecessor	Successor		Predecessor
(in millions)	Three Months Ended September 30, 2014	One Month Ended September 30, 2013	Two Months Ended August 31, 2013	Nine Months Ended September 30, 2014	One Month Ended September 30, 2013	Eight Months Ended August 31, 2013
Earnings (loss) from continuing operations before income taxes	$41	$(30)	$2,182	$(71)	$(30)	$2,356
Effective tax rate	24.4 %	(3.3)%	4.4 %	(15.5)%	(3.3)%	6.6 %
Provision for income taxes	10	1	97	11	1	155
Provision (benefit) for income taxes @ 35%	14	(11)	764	(25)	(11)	825
Difference between tax at effective vs. statutory rate	$(4)	$12	$(667)	$36	$12	$(670)

For the three months ended September 30, 2014, the difference between the Company's recorded provision and the provision that would result from applying the U.S. statutory rate of 35.0% is primarily attributable to: (1) income generated within the U.S. for which no provision was recognized, offset by losses in certain jurisdictions outside the U.S. for which no benefit was recognized due to management's conclusion that it was more likely than not that the tax benefits would not be realized, (2) a benefit associated with foreign withholding taxes on undistributed earnings, and (3) changes in audit reserves.

For the nine months ended September 30, 2014, the difference between the Company's recorded provision and the benefit that would result from applying the U.S. statutory rate of 35.0% is primarily attributable to: (1) losses generated within the U.S. and certain jurisdictions outside the U.S. for which no benefit was recognized due to management's conclusion that it was more likely than not that the tax benefits would not be realized, (2) a benefit as a result of Kodak reaching a settlement with a taxing authority in a location outside the U.S. related to withholding taxes, (3) a benefit associated with foreign withholding taxes on undistributed earnings, and (4) changes in audit reserves.

For the one month ended September 30, 2013, the difference between Kodak's recorded provision and the benefit that would result from applying the U.S. statutory rate of 35.0% was primarily attributable to losses generated within certain jurisdictions outside the U.S. for which no benefit was recognized due to management's conclusion that it was more likely than not that the tax benefits would not be realized.

For the two months ended August 31, 2013, the difference between Kodak's recorded provision and the provision that would result from applying the U.S. statutory rate of 35.0% was primarily attributable to: (1) losses generated within certain jurisdictions outside the U.S. for which no benefit was recognized due to management's conclusion that it was more likely than not that the tax benefits would not be realized, (2) a benefit associated with foreign withholding taxes on undistributed earnings, (3) tax accounting impacts related to items reported in Accumulated other comprehensive loss in the Consolidated Statement of Financial Position, and (4) a provision associated with the establishment of a deferred tax asset valuation allowance in certain jurisdictions outside the U.S.

During the two months ended August 31, 2013, Kodak determined that it was more likely than not that a portion of its deferred tax assets outside the U.S. would not be realized due to changes in the business resulting from the sale of Kodak's Personalized Imaging and Document Imaging businesses. As a result, Kodak recorded a tax provision of $100 million associated with the establishment of a valuation allowance on those deferred tax assets.

For the eight months ended August 31, 2013, the difference between the Company's recorded provision and the provision that would result from applying the U.S. statutory rate of 35.0% was primarily attributable to: (1) losses generated within certain jurisdictions outside the U.S. for which no benefit was recognized due to management's conclusion that it was more likely than not that the tax benefits would not be realized, (2) a provision associated with withholding taxes on the sale of intellectual property, (3) a benefit associated with the tax impact of the goodwill impairment recognized during the quarter, (4) a provision associated with withholding taxes on foreign dividends paid, (5) a benefit associated with foreign withholding taxes on undistributed earnings, (6) a provision associated with the establishment of a deferred tax asset valuation allowance outside the U.S., (7) tax accounting impacts related to items reported in Accumulated other comprehensive loss in the Consolidated Statement of Financial Position, and (8) changes in audit reserves.

NOTE 10: RESTRUCTURING LIABILITIES

Charges for restructuring activities are recorded in the period in which Kodak commits to a formalized restructuring plan, or executes the specific actions contemplated by the plan, and all criteria for liability recognition under the applicable accounting guidance have been met. Restructuring actions taken in the first nine months of 2014 included steps toward exiting a plate manufacturing facility in the UK. In addition, actions were initiated to reduce Kodak's cost structure as part of its commitment to drive sustainable profitability and included a workforce reduction in France, manufacturing capacity reductions in the U.S., a research and development site consolidation in the U.S., and various targeted reductions in service, sales, research and development and other administrative functions.

Restructuring Reserve Activity

The activity in the accrued balances and the non-cash charges and credits incurred in relation to restructuring activities for the three and nine months ended September 30, 2014 were as follows:

(in millions)	Severance Reserve	Exit Costs Reserve	Long-lived Asset Impairments and Inventory Write-downs	Total
Balance as of December 31, 2013	$26	$8	$ -	$34
Q1 2014 charges	11	1	1	13
Q1 utilization/cash payments	(11)	(3)	(1)	(15)
Balance as of March 31, 2014	$26	$6	$ -	$32
Q2 2014 charges	19	1	-	20
Q2 utilization/cash payments	(9)	(1)	-	(10)
Balance as of June 30, 2014	$36	$6	$ -	$42
Q3 2014 charges	9	-	-	9
Q3 utilization/cash payments	(15)	-	-	(15)
Q3 2014 other adjustments & reclasses (1)	(5)	-	-	(5)
Balance as of September 30, 2014	$25	$6	$ -	$31

(1) The $5 million reserve reduction includes $3 million for special termination benefits, which are reflected in Pension and other postretirement liabilities in the Consolidated Statement of Financial Position. The remaining $2 million reflects foreign currency translation adjustments.

For the three and nine months ended September 30, 2014, the $9 million and $42 million, respectively of charges were reported as Restructuring costs and other in the accompanying Consolidated Statement of Operations. The severance and exit costs reserves require the outlay of cash while long-lived asset impairments and inventory write-downs represent non-cash items.

The severance costs for the three months ended September 30, 2014 related to the elimination of approximately 125 positions, including approximately 50 manufacturing/service positions, 25 research and development positions and 50 administrative positions. The geographic composition of these positions includes approximately 75 in the United

States and Canada and 50 throughout the rest of the world.

The severance costs for the nine months ended September 30, 2014 related to the elimination of approximately 525 positions, including approximately 275 manufacturing/service positions, 75 research and development positions and 175 administrative positions. The geographic composition of these positions includes approximately 275 in the United States and Canada and 250 throughout the rest of the world.

As a result of these initiatives, the majority of the severance will be paid during periods through the end of 2014. However, in some instances, the employees whose positions were eliminated can elect or are required to receive their payments over an extended period of time. In addition, certain exit costs, such as long-term lease payments, will be paid over periods throughout 2014 and beyond.

NOTE 11: RETIREMENT PLANS AND OTHER POSTRETIREMENT BENEFITS

Components of the net periodic benefit cost for all major U.S. and Non-U.S. defined benefit plans are as follows:

	Successor				Predecessor		Successor				Predecessor	
(in millions)	Three Months Ended September 30, 2014		One Month Ended September 30, 2013		Two Months Ended August 31, 2013		Nine Months Ended September 30, 2014		One Month Ended September 30, 2013		Eight Months Ended August 31, 2013	
	U.S.	Non-U.S.	U.S.	Non-U.S.	U.S.	Non-U.S.	U.S.	Non-U.S.	U.S.	Non-U.S.	U.S.	Non-U.S.
Major defined benefit plans:												
Service cost	$ 4	$ 1	$ 1	$ 1	$ 4	$ 1	$ 13	$ 4	$ 1	$ 1	$ 20	$ 6
Interest cost	42	7	17	3	34	24	136	23	17	3	120	95
Expected return on plan assets	(72)	(9)	(30)	(4)	(63)	(27)	(226)	(29)	(30)	(4)	(236)	(107)
Amortization of:												
Prior service (credit) cost	(1)	-	-	-								