

What's Next in Kodak's Bankruptcy Journey?

In the 16-month-plus marathon that has been Eastman Kodak Co.'s Chapter 11 bankruptcy, the company is nearing the final leg. The company has sold off or ended lines of business, shuttered numerous offices and ended the health care benefits it provided thousands of retirees. And to wrap up its bankruptcy, Kodak is preparing to issue a whole new generation of stock with which to settle roughly \$2.7 billion worth of unsecured claims and \$375 million in second lien notes. Between now and the end of the third quarter of this year, Kodak will be busy getting U.S. Bankruptcy Court approval for its disclosure statement, pitching that reorganization plan to creditors, and trying to lasso enough "yes" votes on that plan to make it happen. Here are some questions and answers about Kodak's plan to emerge from bankruptcy. What happens to existing Kodak stock?

Short answer, it goes the way of the dodo, the passenger pigeon and the stock of such companies as General Motors and Delta Airlines when they went bankrupt. In bankruptcy, some claims for money owed by the bankrupt company have higher priority than others. Paid first, for example, are the legal and accounting professionals representing the debtor. Then unpaid tax claims. "Then you come down to the more general unsecured claims — trade debt, anything a creditor owed money but can't look to a specific item of collateral," said Robert Rock, senior counsel with the bankruptcy practice at Albany law firm Tully Rinckey PLLC. "Below the unsecured creditors is the shareholders. Unsecured creditors may receive only pennies on the dollar (and) they are in the pecking order higher than equity. So what generally happens is the stockholders get wiped out and the stock is redistributed to the creditors." "It's effectively a new company." "Current shareholders "really have no credible argument that their shares have any reorganization value — value after those with superior claims, the creditors, can be paid in full," said John C. Ninfo II, retired U.S. bankruptcy judge for the Western District of New York. "Earlier in the case, before it all played out, they may have been able to at least make an argument, but the less-than-successful (imaging patent) sale was probably the end of any such argument." "So bottom line, this is common where the pre-confirmation shareholders clearly have no reorganization value, and the debtor needs to issue new stock in the reorganized debtor to the creditors in order to sweeten the pot and hopefully gain their acceptance of the plan, and have ownership and governance for the reorganized public company." "Not surprisingly, shares in Kodak's current stock plunged 76 percent Wednesday, closing at 9 cents, down 28 cents. What will that new Kodak stock be worth?

During the first three months of 2013, Kodak shares averaged 20 cents apiece. With 271 million shares outstanding, that gave the company a market cap of about \$54 million. Kodak will issue 40 million new shares to pay back its various creditors. So that market cap divided by 40 million means it wouldn't be unreasonable to expect Kodak shares to trade, at least initially, at around \$1.35. What's left of Kodak?

Kodak CEO Antonio M. Perez often points out that making film and printing are very similar — putting a thin spray onto a substance like paper or plastic. With Kodak exiting photography

with the sale of its Personalized Imaging business, it will focus almost exclusively on various products and services for the printing industry. In its disclosure statement filed Tuesday with U.S. Bankruptcy Court, Kodak describes itself as "a trusted leader in conventional and digital technologies that serve the \$720 billion commercial, packaging and functional printing market" and having "a compelling and unique combination of advantages." Those, according to Kodak, include its Stream high-speed inkjet printing technology found in its Prosper presses and its SquareSpot laser-writing tech. The company said its sweet spots competitively include its growing packaging printing business and the growth it's already seen of such printing technology platforms as Stream and Flexcel. According to Kodak, there are today more than 5,000 of its digital printing units — including everything from Prosper machines to Versamark, Digimaster and NexPress devices. And Kodak says its corporate R&D "will center on technology applications in printed electronics, fluidics, patterned deposition, and new materials." What's next?

Kodak first needs to get its disclosure statement approved by U.S. Bankruptcy Court — a step that could come this June. Once the disclosure statement is approved, Kodak will mail it, the plan and a ballot to all creditors. That 182-page disclosure document is like a prospectus in a stock offering, though in this case the audience is creditors deciding on whether to "invest" in the new Kodak by allowing their claims to be traded for stock shares. In such disclosure statements, debtors emphasize that this is the best deal that a creditor can hope to receive, said Ingrid Palermo, an attorney with the bankruptcy practice group at Bond, Schoeneck & King. "That is why the disclosure statement has a liquidation analysis ... to show there is more value to creditors under the plan than if the debtor was to close up shop and liquidate. Debtors will also emphasize their value to a community, as an employer, a good community member (charitable contributions), maintaining the tax base, etc." How damaged is Kodak even if it comes out of bankruptcy?

That remains to be seen. When Hostess Brands Inc. went under in late 2012, "All anybody cared about was, 'Where am I going to get my Twinkies?' The brand name, not hurt at all," Rock said. "Troy-Bilt, Cadillac, they're not damaged (by past bankruptcies). They're still popular. A Kodak product has always been viewed as a quality product." Company spokesman Christopher Veronda said Kodak "has long enjoyed excellent relationships with our valued suppliers. We appreciate their continuing and overwhelming support for Kodak during the Chapter 11 process, and we look forward to strengthening our partnerships with them in serving our customers as we emerge as a profitable and sustainable company." A bankruptcy filing can never be a good thing, said Steven Ross, chairman of the United Kingdom pension plan buying two Kodak business units. "(But) Kodak has a fantastic brand name, wonderful brand name. We have reserved rights to that brand name in perpetuity. That was essential for us."