EASTMAN KODAK CO
Form 10-Q
August 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 June 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

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 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 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	(Do not check if a smaller reporting company)	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 August 1, 2018, the registrant had 42,671,808 shares of common stock, $0.01 par value per share, outstanding.

[1]

EASTMAN KODAK COMPANY

Form 10-Q

June 30, 2018

Table of Contents

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 June 30, 2018	Three Months Ended June 30, 2017	Six Months Ended June 30, 2018	Six Months Ended June 30, 2017
Revenues				
Sales	$300	$307	$585	$590
Services	72	74	144	148
Total revenues	372	381	729	738
Cost of revenues				
Sales	262	257	514	498
Services	50	54	101	108
Total cost of revenues	312	311	615	606
Gross profit	60	70	114	132
Selling, general and administrative expenses	63	66	126	131
Research and development costs	14	18	29	38
Restructuring costs and other	2	11	4	18
Other operating (income) expense, net	(2)	2	(2)	12
Loss from continuing operations before interest expense, other charges (income), net and income taxes	(17)	(27)	(43)	(67)
Interest expense	9	8	17	16
Pension income excluding service cost component	(32)	(37)	(64)	(75)
Other charges (income), net	1	(9)	17	(29)
Earnings (loss) from continuing operations before income taxes	5	11	(13)	21
Provision for income taxes	1	4	8	7
Earnings (loss) from continuing operations	4	7	(21)	14
Loss from discontinued operations, net of income taxes	—	(3)	—	(3)
Net earnings (loss)	$4	$4	$(21)	$11
Basic net (loss) earnings per share attributable to Eastman Kodak Company common shareholders:				
Continuing operations	$(0.02)	$0.05	$(0.73)	$0.09
Discontinued operations	—	(0.07)	—	(0.07)
Basic net (loss) earnings per share attributable to Eastman Kodak Company common shareholders	$(0.02)	$(0.02)	$(0.73)	$0.02
Diluted net (loss) earnings per share attributable to				

Eastman Kodak Company common shareholders:				
Continuing operations	$(0.02)	$0.05	$(0.73)	$0.09
Discontinued operations	—	(0.07)	—	(0.07)
Diluted net (loss) earnings per share attributable to				
Eastman Kodak Company common shareholders	$(0.02)	$(0.02)	$(0.73)	$0.02
Number of common shares used in basic and diluted net (loss) earnings per share				
Basic	42.7	42.5	42.6	42.5
Diluted	42.7	42.7	42.6	42.7

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

EASTMAN KODAK COMPANY

CONSOLIDATED STATEMENT OF COMPREHENSIVE (LOSS) INCOME (Unaudited)

(in millions)

(in millions)	Three Months Ended June 30, 2018	2017	Six Months Ended June 30, 2018	2017
NET INCOME (LOSS)	$4	$ 4	$(21)	$ 11
Other comprehensive (loss) income, net of tax:				
Currency translation adjustments	(20)	—	(7)	14
Pension and other postretirement benefit plan obligation activity, net of tax	—	(3)	—	(6)
Other comprehensive (loss) income, net of tax	(20)	(3)	(7)	8
COMPREHENSIVE (LOSS) INCOME, NET OF TAX	$(16)	$ 1	$(28)	$ 19

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

EASTMAN KODAK COMPANY

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Unaudited)

(in millions)	June 30, 2018	December 31, 2017
ASSETS		
Cash and cash equivalents	$ 275	$ 344
Trade receivables, net of allowances of $9 in each period	242	282
Inventories, net	301	276
Other current assets	56	56
Total current assets	874	958
Property, plant and equipment, net of accumulated depreciation of $418 and $394, respectively	290	314
Goodwill	32	32
Intangible assets, net	79	86
Restricted cash	11	17
Deferred income taxes	175	188
Other long-term assets	112	112
TOTAL ASSETS	$ 1,573	$ 1,707
LIABILITIES, REDEEMABLE CONVERTIBLE PREFERRED STOCK AND EQUITY		
Accounts payable, trade	$ 181	$ 198
Short-term borrowings and current portion of long-term debt	3	4
Other current liabilities	208	217
Total current liabilities	392	419
Long-term debt, net of current portion	398	399
Pension and other postretirement liabilities	405	466
Other long-term liabilities	198	202
Total Liabilities	1,393	1,486
Commitments and Contingencies (Note 7)		
Redeemable, convertible Series A preferred stock, no par value, $100 per share liquidation preference	168	164
Equity (Deficit)		
Common stock, $0.01 par value	—	—
Additional paid in capital	624	631
Treasury stock, at cost	(9)	(9)
Accumulated deficit	(205)	(174)
Accumulated other comprehensive loss	(398)	(391)
Total shareholders' equity	12	57
TOTAL LIABILITIES, REDEEMABLE CONVERTIBLE PREFERRED STOCK AND EQUITY	$ 1,573	$ 1,707

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

[5]

EASTMAN KODAK COMPANY

CONSOLIDATED STATEMENT OF CASH FLOWS (Unaudited)

(in millions)	Six Months Ending June 30, 2018	2017
Cash flows from operating activities:		
Net (loss) earnings	$(21)	$11
Adjustments to reconcile to net cash used in operating activities:		
Depreciation and amortization	39	41
Pension income	(54)	(59)
Change in fair value of embedded conversion features derivative liability	7	(36)
Prosper asset remeasurement	—	12
Non-cash restructuring costs and asset impairments	—	10
Net gain on sales of assets/businesses	(2)	(2)
Stock based compensation	3	5
Provision for deferred income taxes	5	1
Decrease in trade receivables	31	31
Increase in inventories	(34)	(40)
Decrease in trade payables	(11)	(29)
Decrease in liabilities excluding borrowings and trade payables	(22)	(21)
Other items, net	10	2
Total adjustments	(28)	(85)
Net cash used in operating activities	(49)	(74)
Cash flows from investing activities:		
Additions to properties	(17)	(17)
Proceeds from sales of assets/businesses, net	1	2
Proceeds from sales of marketable securities	—	1
Net cash used in investing activities	(16)	(14)
Cash flows from financing activities:		
Repayment of capital leases	(2)	(2)
Preferred stock dividend payments	(6)	(5)
Net cash used in financing activities	(8)	(7)
Effect of exchange rate changes on cash	(2)	6
Effect of exchange rate changes on restricted cash	(1)	—
Net decrease in cash, cash equivalents and restricted cash	(76)	(89)
Cash, cash equivalents and restricted cash, beginning of period	369	478
Cash, cash equivalents and restricted cash, end of period	$293	$389

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 $79 million and $96 million of letters of credit under the Amended and Restated Credit Agreement (the "Amended Credit Agreement") as of June 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 June 30, 2018 and December 31, 2017, Kodak had approximately $275 million and $344 million, respectively, of cash and cash equivalents. $133 million and $172 million was held in the U.S. as of June 30, 2018 and December 31, 2017, respectively, and $77 million and $108 million was held in China as of June 30, 2018 and December 31, 2017, respectively. Outstanding inter-company loans to the U.S. as of June 30, 2018 and December 31, 2017 were $394 million and $358 million, respectively, which includes short-term intercompany loans from Kodak's international finance center of $95 million and $59 million as of June 30, 2018 and December 31, 2017, respectively. 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 $76 million for the six months ended June 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.

As of the date of issuance of these financial statements, Kodak has debt coming due within thirteen 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. Kodak has entered into a non-binding letter of intent with a counterparty which holds a significant principal amount of the loans under the First Lien Term Credit Agreement which would provide for a complete refinancing of the loans under the First Lien Term Credit Agreement with a maturity date of 18 months from closing. In addition, Kodak has retained an investment banker in connection with, and is actively pursuing, a sale of its Flexographic Packaging segment. All net proceeds from any sale of its Flexographic Packaging segment will first be used to pay down outstanding debt. However, the sale of the Flexographic Packaging segment and refinancing of the loans under the First Lien Term Credit Agreement are not solely within Kodak's control. 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; further restructuring Kodak's cost structure; and paring investment in new technology by eliminating, slowing, and partnering with investors in product development programs. Kodak also is exploring options regarding additional liquidity from other sources. Kodak makes no assurances regarding the likelihood, certainty or timing of consummating a sale of the Flexographic Packaging segment or refinancing of the Company's 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") 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 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.

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.

[8]

(in millions)	Balance at December 31, 2017	Adjustments Due to ASU 2014-09	Balance at January 1, 2018
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:

	Three Months Ended June 30, 2018		
(in millions)	As Reported	Amounts without Adoption of ASU 2014-09	Effect of Change Higher (Lower)
Revenues			
Sales	$ 300	$ 299	$ 1
Services	72	72	—
Total revenues	372	371	1
Net income	$ 4	$ 3	$ 1

	Six Months Ended June 30, 2018		
(in millions)	As Reported	Amounts without Adoption of ASU 2014-09	Effect of Change Higher (Lower)
Revenues			
Sales	$ 585	$ 583	$ 2
Services	144	144	—
Total revenues	729	727	2
Net loss	$ (21)	$ (23)	$ 2

	June 30, 2018		
(in millions)	As Reported	Balances without Adoption of ASU 2014-09	Effect of Change Higher (Lower)
Liabilities			
Other current liabilities	$ 208	$ 206	$ 2
Other long-term liabilities	198	192	6
Deficit			
Accumulated Deficit	(205)	(197)	(8)

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

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. Kodak is currently evaluating the impact of this ASU.

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). Early adoption is permitted for fiscal years, and interim periods within those years, beginning after December 15, 2018 (January 1, 2019 for Kodak). 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. Kodak plans to adopt the new standard on the effective date and is currently evaluating the impact of this ASU 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 affect 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)	June 30, 2018	December 31, 2017
Cash and cash equivalents	$ 275	$ 344
Restricted cash included in Other current assets	7	8
Long-term restricted cash	11	17
Total cash, cash equivalents and restricted cash shown in the Statement of Cash Flows	$ 293	$ 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 June 30, 2018 and December 31, 2017, respectively. Long-term restricted cash also includes $0 million and $6 million as of June 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)	June 30, 2018	December 31, 2017
Finished goods	$ 168	$ 159
Work in process	65	57
Raw materials	68	60
Total	$ 301	$ 276

NOTE 4: OTHER CURRENT LIABILITIES

(in millions)	June 30, 2018	December 31, 2017
Employee related liabilities	$ 46	$ 47
Deferred revenue	33	30
Deferred consideration on disposed businesses	24	10
Customer rebates	23	29
Workers compensation	10	10
Restructuring liabilities	4	10
Other	68	81
Total	$ 208	$ 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)	June 30, 2018	December 31, 2017
Workers compensation	$ 95	$ 96
Asset retirement obligations	47	43
Deferred taxes	14	16
Environmental liabilities	12	12
Embedded conversion features derivative liability (1)	3	—
Deferred consideration on disposed businesses	—	14
Other	27	21
Total	$ 198	$ 202

(1) Refer to Note 21, “Financial Instruments”

[11]

NOTE 6: DEBT AND CAPITAL LEASES

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

(in millions)	Type	Maturity	Weighted-Average Effective Interest Rate	June 30, 2018 Carrying Value	December 31, 2017 Carrying Value
Current portion:					
	Capital leases	Various	Various	$ 3	$ 3
	Other debt	Various	Various	—	1
				3	4
Non-current portion:					
	Term note	2019	7.34%	393	393
	Capital leases	Various	Various	3	4
	Other debt	Various	Various	2	2
				398	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.

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 June 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 $5 million for the quarter and six months ended June 30, 2018, respectively, which represents 1% of Kodak’s consolidated sales for both the quarter and six months ended June 30, 2018. These subsidiaries had assets of $23 million as of June 30, 2018, which represents 1% of Kodak’s consolidated assets as of June 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 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 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.

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 $79 million and $96 million of letters of credit under the Amended Credit Agreement as of June 30, 2018 and December 31, 2017, respectively. The Company had approximately $29 million and $20 million of Excess Availability under the Amended Credit Agreement as of June 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 $13 million, as of June 30, 2018 (which $13 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 June 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 June 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 June 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 June 30, 2018, the Company had outstanding letters of credit of $79 million issued under the Amended Credit Agreement, as well as bank guarantees and letters of credit of $3 million, surety bonds in the amount of $42 million, and restricted cash and deposits of $24 million, primarily to ensure the payment of possible casualty and workers' compensation claims, environmental liabilities, legal contingencies and rental payments and to support various customs, tax and trade activities. The restricted cash and deposits are reflected in Restricted cash, Other current assets and Other long-term assets in the Consolidated Statement of Financial Position.

Kodak's Brazilian operations are involved in various litigation matters and have received or been the subject of numerous governmental assessments related to indirect and other taxes in various stages of litigation, as well as civil litigation and disputes associated with former employees and contract labor. The tax matters, which comprise the majority of the litigation matters, are 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 June 30, 2018, 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 $20 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 June 30, 2018, Kodak has posted security composed of $5 million of pledged cash reported within Restricted cash in the Consolidated Statement of Financial Position and liens on certain Brazilian assets with a net book value of approximately $61 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, remediations and proceedings, including, from time to time, commercial, customs, employment, environmental, tort 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. Based on information currently available, Kodak does not believe that it is probable that the outcomes in any of these matters, individually or collectively, will have a material adverse effect on its financial position or results of operations. Litigation is inherently unpredictable, and 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 8: GUARANTEES

EKC guarantees obligations to third parties for some of its consolidated subsidiaries. The maximum amount guaranteed is $6 million and the outstanding amount for those guarantees is $2 million.

In connection with the settlement of certain of the Company's historical environmental liabilities at Eastman Business Park, 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.

Extended Warranty Arrangements

Kodak offers its customers extended warranty arrangements that are generally one year, but may range from three months to six years after the original warranty period. The change in Kodak's deferred revenue balance in relation to these extended warranty and maintenance arrangements from December 31, 2017 to June 30, 2018, 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, 2017	$23
New extended warranty and maintenance arrangements in 2018	56
Recognition of extended warranty and maintenance arrangement revenue in 2018	(56)
Deferred revenue on extended warranties as of June 30, 2018	$23

NOTE 9: REVENUE

Revenue Recognition

Kodak's revenue transactions include sales of products (such as components and consumables for use in Kodak and other manufacturers' equipment and film-based products); equipment; software; services; integrated solutions; and intellectual property and brand licensing. Revenue from services includes extended warranty, customer support and maintenance agreements, consulting, business process services, training and education.

Revenues are recognized when control of the promised goods or services is transferred to customers in an amount that reflects the consideration Kodak expects to be entitled to in exchange for those goods or services.

For product sales (such as plates, film, inks and other consumables) revenue is recognized when control has transferred from Kodak to the buyer, which may be upon shipment or upon delivery to the customer site, based on contract terms or legal requirements in certain jurisdictions. Service revenue is recognized using the time-based method ratably over the contractual period as it best depicts when the customer receives the benefit from the service. Service revenue for time and materials-based agreements is recognized as services are performed.

Equipment is generally dependent on, and interrelated with, the underlying operating system (firm ware) and cannot function without the operating system. In these cases, the hardware and software license are accounted for as a single performance obligation. Contracts with customers may include multiple performance obligations including equipment, and optional software licenses and service agreements. Service agreements may be prepaid or paid over-time and range from three months to six years. For such arrangements, revenue is allocated to each performance obligation based on its relative standalone selling price. Standalone selling prices are based on the prices charged to customers or using expected cost-plus margin.

For non-complex equipment installations and software sales (Prepress, Packaging and Prosper Components and Unified Workflow Solutions businesses) revenue is recognized when control of each distinct performance obligation has transferred from Kodak to the buyer, which is generally met when the equipment or software is delivered and installed at the customer site as delivery and installation generally occur within the same period. For complex equipment installations or integrated software solutions (Prosper Presses, Electrophotographic Printing Solutions Printers, Unified Workflow Solutions) revenue is deferred until receipt of customer acceptance and control has transferred to the buyer.

Software licenses are sold both in bundled equipment arrangements as discussed above or on a stand-alone basis (Unified Workflow Solutions business). Software licenses are generally perpetual and are usually sold with post-contract support services (“PCS”) which are considered distinct performance obligations as the customer’s use of the existing software is not dependent upon future upgrades. Kodak recognizes software revenue at the time that the customer obtains control over the software which generally occurs upon installation while revenue allocated to the PCS is recognized over the service period.

In service arrangements such as consulting or business process services (Kodak Technology Solutions business) where final acceptance by the customer is required, revenue is deferred until all acceptance criteria have been met and Kodak has a legal right to payment.

Kodak's licensing revenue is comprised of software licenses as discussed above, licenses to use functional intellectual property (patents and technical know-how) and licenses to use symbolic intellectual property (brand names and trademarks) (Consumer and Film businesses). The timing and the amount of revenue recognized from the licensing of intellectual property depends upon a variety of factors, including the nature of the performance obligations (functional vs. symbolic licenses) specific terms of each agreement, and the payment terms. Aside from software licenses discussed above, Kodak's functional licenses generally provide the right to use functional intellectual property; therefore, non-sales/usage-based revenue is recognized when the customer has the right to use the intellectual property while sales and usage-based royalties are recognized in the period the related sales and usage occurs. Revenue for symbolic licenses such as brand licenses are recognized over time.

Deferred revenue is recorded when cash payments are received in advance of satisfying performance obligations such as deposits required in advance on equipment orders, prepaid service contracts or prepaid royalties on intellectual property arrangements. Interest expense is imputed for payments received greater than one year in advance of performance.

Payment terms and conditions vary by contract type, although terms generally include a requirement of payment within 30 to 60 days. Kodak applies the practical expedient with respect to implied financial components and only imputes interest for payment terms greater than one year.

Sales and usage-based taxes are excluded from revenues. Certain customers may receive cash-based incentives or credits, which are accounted for as variable consideration. Kodak estimates these amounts based on the expected amount to be provided to customers.

Kodak expenses sales commissions when incurred if the amortization period would be one year or less. These costs are recorded in Selling, general and administrative expenses. Kodak accrues the estimated cost of post-sale obligations, including basic product warranties, at the time of revenue recognition. Shipping and handling costs are accounted for as fulfillment costs and are included in cost of sales.

Kodak does not disclose the value of unsatisfied performance obligations for contracts with an original expected length of one year or less or for which revenue is recognized at the amount to which Kodak has the right to invoice for services performed. Performance obligations with an original expected length of greater than one year generally consist of deferred service contracts, operating leases and licensing arrangements. As of June 30, 2018, there was approximately $75 million of unrecognized revenue from unsatisfied performance obligations. Approximately 20% of the revenue from unsatisfied performance obligations is expected to be recognized in 2018, 30% in 2019, 25% in 2020 and 25% thereafter.

Disaggregation of Revenue

The following tables present revenue disaggregated by major product, portfolio summary and geography.

Major product:

Three Months Ended June 30, 2018	Print Systems	Enterprise Inkjet Solutions	Flexographic Packaging Printing	Software & Solutions	Consumer & Film	Advanced Materials and 3D Technology Solutions	Eastman Business Park	Total
Plates, inks and other consumables	$176	$ 7	$ 34	$ —	$ 4	$ —	$ —	$221
Ongoing service arrangements [1]	33	20	2	12	1	—	—	68
Total Annuities	209	27	36	12	5	—	—	289
Equipment & Software	18	6	2	4	—	—	—	30
Film and chemicals	—	—	—	—	41	—	—	41
Other [2]	—	—	—	4	2	1	5	12
Total	$227	$ 33	$ 38	$ 20	$ 48	$ 1	$ 5	$372

Six Months Ended June 30, 2018	Print Systems	Enterprise Inkjet Solutions	Flexographic Packaging Printing	Software & Solutions	Consumer & Film	Advanced Materials and 3D Technology Solutions	Eastman Business Park	Total
Plates, inks and other consumables	$343	$ 15	$ 66	$ —	$ 9	$ —	$ —	$433
Ongoing service arrangements [1]	67	40	4	24	1	—	—	136
Total Annuities	410	55	70	24	10	—	—	569
Equipment & Software	33	9	5	8	—	—	—	55
Film and chemicals	—	—	—	—	81	—	—	81
Other [2]	—	—	—	8	5	2	9	24
Total	$443	$ 64	$ 75	$ 40	$ 96	$ 2	$ 9	$729

[1] Service revenue in the Consolidated Statement of Operations includes the ongoing service revenue shown above as well as revenue from project-based document management and managed print services businesses, which is included in Other above.

(2) Other includes revenue from professional services, non-recurring engineering services, project-based document management and managed print services businesses, tenant rent and related property management services and licensing.

Product Portfolio Summary:

Three Months Ended June 30, 2018	Print Systems	Enterprise Inkjet Solutions	Flexographic Packaging Printing	Software & Solutions	Consumer & Film	Advanced Materials and 3D Printing	Eastman Business Park	Total
Growth engines (1)	$39	$ 19	$ 30	$ 20	$ 2	$ 1	$ —	$111
Strategic other businesses (2)	180	—	8	—	42	—	5	235
Planned declining businesses (3)	8	14	—	—	4	—	—	26
	$227	$ 33	$ 38	$ 20	$ 48	$ 1	$ 5	$372

Six Months Ended June 30, 2018	Print Systems	Enterprise Inkjet Solutions	Flexographic Packaging Printing	Software & Solutions	Consumer & Film	Advanced Materials and 3D Printing	Eastman Business Park	Total
Growth engines (1)	$74	$ 37	$ 59	$ 40	$ 5	$ 2	$ —	$217
Strategic other businesses (2)	350	—	16	—	82	—	9	457
Planned declining businesses (3)	19	27	—	—	9	—	—	55
	$443	$ 64	$ 75	$ 40	$ 96	$ 2	$ 9	$729

(1) Growth engines consist of Sonora, PROSPER, FLEXCEL NX, Software and Solutions, AM3D and brand licensing.

(2) Strategic Other Businesses include plates, Computer to Plate (“CTP”) and related service, and Nexpress and related toner business in the Print Systems segment, non-FLEXCEL NX in the Flexographic Packaging segment, Motion Picture and Industrial Film and Chemicals in the Consumer and Film segment, Eastman Business Park and intellectual property licensing.

(3) Planned Declining Businesses are product lines where the decision has been made to stop new product development and manage an orderly expected decline in the installed product and annuity base. These product families consist of Consumer Inkjet in the Consumer and Film segment, Versamark in the Enterprise Inkjet Systems segment and Digimaster in the Print Systems segment.

Geography:

Three Months Ended
June 30, 2018

	Print Systems	Enterprise Inkjet Solutions	Flexographic Packaging Printing	Software & Solutions	Consumer & Film	Advanced Materials and 3D Technology Solutions	Eastman Business Park	Total
United States	$60	$ 11	$ 6	$ 7	$ 32	$ 1	$ 5	$122
Canada	3	—	1	1	1	—	—	6
North America	63	11	7	8	33	1	5	128
Europe, Middle East and Africa	93	13	16	5	5	—	—	132
Asia Pacific	57	8	8	6	10	—	—	89
Latin America	14	1	7	1	—	—	—	23
Total Sales	$227	$ 33	$ 38	$ 20	$ 48	$ 1	$ 5	$372

Six Months Ended
June 30, 2018

	Print Systems	Enterprise Inkjet Solutions	Flexographic Packaging Printing	Software & Solutions	Consumer & Film	Advanced Materials and 3D Technology Solutions	Eastman Business Park	Total
United States	$117	$ 22	$ 12	$ 14	$ 64	$ 2	$ 9	$240
Canada	6	—	2	2	2	—	—	12
North America	123	22	14	16	66	2	9	252
Europe, Middle East and Africa	186	25	32	11	10	—	—	264
Asia Pacific	106	15	15	11	20	—	—	167
Latin America	28	2	14	2	—	—	—	46
Total Sales	$443	$ 64	$ 75	$ 40	$ 96	$ 2	$ 9	$729

Contract Balances

The timing of revenue recognition, billings and cash collections results in billed trade receivables, unbilled receivables (contract assets), and customer advances and deposits (contract liabilities) in the Consolidated Statement of Financial Position. The contract assets are transferred to trade receivables when the rights to consideration become unconditional. The amounts recorded for contract assets at June 30, 2018 and December 31, 2017 were both $3 million and are reported in Other current assets and Trade receivables, respectively, in the Consolidated Statement of Financial Position. The contract liabilities primarily relate to prepaid service contracts, upfront payments for certain equipment purchases or prepaid royalties on intellectual property arrangements. The amounts recorded for contract liabilities at June 30, 2018 and December 31, 2017 were $47 million and $37 million, respectively, of which $41 million and $37 million, respectively, are reported in Other current liabilities and $6 million and $0 million, respectively, are reported in Other long-term liabilities in the Consolidated Statement of Financial Position.

Revenue recognized for the three and six months ended June 30, 2018 that was included in the contract liability balance at the beginning of the year was $4 million and $29 million, respectively, and primarily represented revenue from prepaid service contracts and equipment revenue recognition. Contract liabilities as of June 30, 2018 include $24 million and $30 million of cash payments received during the three and six months ended June 30, 2018, respectively.

NOTE 10: OTHER OPERATING (INCOME) EXPENSE, NET

(in millions)	Three Months Ended June 30, 2018	2017	Six Months Ended June 30, 2018	2017
Expense (income):				
Gain on sale of assets	$(1)	$ —	$(2)	$ (2)
Prosper asset remeasurement [(1)]	—	—	—	12
Asset impairments	—	2	—	2
Other	(1)	—	—	—
Total	$(2)	$ 2	$(2)	$ 12

(1) In the first quarter of 2017, Kodak reduced the carrying value of Prosper fixed assets ($8 million) and intangible assets ($4 million) to the amount that would have been recorded if the Prosper assets, which were previously presented as held for sale, had been continuously classified as held and used.

NOTE 11: OTHER CHARGES (INCOME), NET

(in millions)	Three Months Ended June 30, 2018	2017	Six Months Ended June 30, 2018	2017
Change in fair value of embedded conversion features derivative liability [(1)]	$(7)	$(14)	$7	$(36)
Loss on foreign exchange transactions	7	3	9	4
Other	1	2	1	3
Total	$1	$(9)	$17	$(29)

(1) Refer to Note 21, "Financial Instruments".

NOTE 12: INCOME TAXES

On December 22, 2017, President Trump signed into law tax legislation known as the 2017 Tax Act. The 2017 Tax Act changed many aspects of U.S. corporate income taxation and included a reduction of the corporate income tax rate from 35% to 21%, the implementation of a territorial tax system and the imposition of a tax on deemed repatriated earnings of foreign subsidiaries.

Effective January 1, 2018, the 2017 Tax Act also includes a provision to tax global intangible low-taxed income ("GILTI") of foreign subsidiaries, a base erosion anti-abuse tax ("BEAT") measure that taxes certain payments between a U.S. corporation and its subsidiaries and a foreign derived intangible income ("FDII") deduction which would reduce U.S. taxable income. Kodak provided the applicable provisional tax impacts in its consolidated financial statements for the six months ended June 30, 2018 which were fully offset by Kodak's U.S. valuation allowance resulting in no net tax provision.

Given the complexity of the GILTI provisions, Kodak is still evaluating the effects and has not yet determined its accounting policy. For the six months ended June 30, 2018, Kodak is still evaluating the GILTI provisions and the analysis of future taxable income that is subject to GILTI. Therefore, Kodak has included GILTI related to current year operations only in its estimated annual effective tax rate and has not provided additional GILTI on deferred items. The impact was fully offset by Kodak's U.S. valuation allowance, resulting in no net tax provision.

Staff Accounting Bulletin No. 118, Income Tax Accounting Implications of the Tax Cuts and Jobs Act, ("SAB 118") addresses the application of U.S. GAAP in situations when a registrant does not have the necessary information available, prepared, or analyzed (including computations) in reasonable detail to complete the accounting for certain income tax effects of the 2017 Tax Act. Kodak has recognized the provisional tax impacts to the extent needed and included these amounts in its consolidated financial statements for the six months ended June 30, 2018. The ultimate impact may materially differ from these provisional amounts as a result of additional analysis, changes in interpretations and assumptions Kodak has made, additional regulatory guidance that may be issued, actions Kodak may take as a result of the 2017 Tax Act and other factors. The accounting is expected to be complete when the 2017 U.S. corporate income tax return is filed in 2018.

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

(in millions)	Three Months Ended June 30, 2018	2017	Six Months Ended June 30, 2018	2017
Earnings (loss) from continuing operations before income taxes	$5	$11	$(13)	$21
Effective tax rate	20.0%	36.4%	(61.5)%	33.3%
Provision for income taxes	1	4	8	7
Provision (benefit) for income taxes at U.S. statutory tax rate	1	4	(3)	7
Difference between tax at effective vs. statutory rate	$—	$—	$11	$—

For the three months ended June 30, 2018, the difference between Kodak's effective tax rate and the U.S. statutory rate of 21.0% is primarily attributable to: (1) the impact related to existing valuation allowances associated with changes in net deferred tax assets from current earnings and losses and (2) the results from operations in jurisdictions outside the U.S.

For the six months ended June 30, 2018, the difference between Kodak's effective tax rate and the U.S. statutory rate of 21.0% is primarily attributable to: (1) the impact related to existing valuation allowances associated with changes in net deferred tax assets from current earnings and losses, (2) the results from operations in jurisdictions outside the U.S. and (3) a provision associated with foreign withholding taxes on undistributed earnings.

For the three months ended June 30, 2017, the difference between Kodak's effective tax rate and the U.S. statutory rate of 35.0% is primarily attributable to: (1) the impact related to existing valuation allowances associated with changes in net deferred tax assets from current earnings and losses, (2) the results from operations in jurisdictions outside the U.S, (3) a benefit associated with foreign withholding taxes on undistributed earnings and (4) changes in audit reserves, including a settlement with a taxing authority in a location outside the U.S.

For the six months ended June 30, 2017, the difference between Kodak's effective tax rate and the U.S. statutory rate of 35.0% is primarily attributable to: (1) the impact related to existing valuation allowances associated with changes in net deferred tax assets from current earnings and losses, (2) the results from operations in jurisdictions outside the U.S., (3) a provision associated with foreign withholding taxes on undistributed earnings and (4) changes in audit reserves, including a settlement with a taxing authority in a location outside the U.S..

NOTE 13: 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 six months of 2018 were initiated to reduce Kodak's cost structure as part of its commitment to drive sustainable profitability and included various targeted reductions in manufacturing, 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 six months ended June 30, 2018 were as follows:

(in millions)	Severance Reserve [1]	Exit Costs Reserve [1]	Long-lived Asset Impairments and