

**Performance Plus Advisors, Inc.**

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**Distressed Debt Research**

**July 4, 2012**

## **EASTMAN KODAK COMPANY**

### **A Kodak Moment**

On 1/18/2012 **Eastman Kodak Co.** filed for Chapter 11 Bankruptcy protection.

The most important factor effecting the recovery for distressed debt investors and traders that hold Kodak bonds will be the outcome of the sale of it's digital imaging patent portfolio. What irony, the technology that Kodak created is what caused it's demise.

Kodak plans on using the bankruptcy process to monetize it's digital imaging patent portfolio.

Below the first lien Super Priority Dip of \$950 million, currently \$656 million, there is \$750 million of Second Lien Debt:

\$500 million 9  $\frac{3}{4}$  due 3/1/18                      price 65

\$250 million 10  $\frac{5}{8}$  due 3/15/19                      price 65

Estimate of Second Lien Debt Claim \$850 million.

#### **We rate the Second Lien Debt as Buy.**

We expect a recovery for distressed debt investors which may include pre and post petition interest. Our opinion is based on the senior position these securities have in Eastman Kodak's capital structure and expect a full recovery for this claim. We expect these bonds to appreciate in price once there is a clearer picture to the outcome of the sale of the patent portfolio.

On February 14, 2012 the Company reached an adequate protection agreement with the Second Lien Note Holders. A portion of the proceeds from the sale of patents will be paid subject to certain waterfall provisions. As a result of the adequate protection agreement reached with the Second Lien Note Holders, these debt obligations are considered fully secured by the company and have not been reported as liabilities subject to compromise.

**See Important Disclosures**

## Liabilities Subject to Compromise (in Millions)

10Q

3/31/2012

A P.....	\$321
Debt.....	592
Pension + Post Retirement.....	1,773
Other.....	145
Payables and Advances.....	194
Liabilities Subject to Compromise.....	\$3,025

### Eastman Kodak Debt

500m	9.75% 2 <sup>nd</sup> Lien Senior Secured notes due 3/1/18
250m	10.625% 2 <sup>nd</sup> Lien Senior Secured notes due 3/15/19
250m	7.25% Senior Notes due 11/15/13
400m	7.0% Convertible Senior Notes due 4/1/17

### History

Eastman Kodak was founded by George Eastman in 1889. Kodak sold inexpensive cameras and made large profits from film, chemicals and paper. Although Kodak developed the first digital technology, their product development spanned several decades and other competitors ate Kodak's lunch. Kodak executives could not fathom a world without traditional film. The film business, where Kodak enjoyed high margins, fell 18% in 2005. Digital cameras have gradually been displaced by cameras on cellphones, smartphones and tablets.

Kodak in recent years under CEO Antonio Perez has spent hundreds of millions of dollars to build up a high margin printer and ink business. Home photo printers, high speed commercial inkjet presses, workflow software and packaging are viewed as the company's new core businesses. Core products include; document scanners, digital plates and the Retail Systems Solutions products and services.

## **Future Growth**

The growth businesses at Kodak are consumer inkjet printers, digital printing, workflow software and packaging. These business products have failed to turn a profit over recent years. It is managements hope that Kodak emerging from bankruptcy with a diminished debt load and fresh cash from the sale of part of it's patent portfolio will lead the companies future growth. Considering where Kodak is today investors wonder about the value of these business products.

## **Will There Be A Battle For Eastman Kodak Patents?**

Kodak's plan to squeeze cash from it's patent portfolio has suffered some setbacks. The sale is not expected until August 2012. A recent ruling from an International Trade Commission judge, rejecting the validity of Kodak's 218 patent may depress the value of the portfolio. The value of this portfolio depends on to what extent this intellectual property can block other companies from introducing their products such as tablets into a market.

According to Kodak's DIP Motion filed on 1/19/2012, Kodak estimates it's (DC) and (KISS) patent portfolio is valued at \$2.21 billion to \$2.57 billion. This valuation range was determined by 284 Partners, LLC. Envision IP, Inc. reviewed the 284 Partners valuation and originally valued the portfolio between \$1.74 billion and \$2.58 billion, assuming licensing revenue of \$250 million to \$350 million. If the 218 patent invalidity is upheld the portfolio value drops to \$818 million to \$1.43 billion.

## **Summary**

### **We rate the Second Lien Debt as Buy.**

We expect a full recovery for the Second Lien Debt Claim, current price of 65 cents on the dollar. Distressed debt investors and traders should look for price weakness to accumulate this debt and or a clearer picture of the patent portfolio sale. Kodak's recent court set backs have put pressure on the price of these bonds. Our opinion is based on the senior position these securities have in Eastman Kodak's capital structure and moderate expectations for the sale of the patent portfolio.

**EASTMAN KODAK COMPANY**  
**(DEBTOR-IN-POSSESSION)**  
**CONSOLIDATED STATEMENT OF OPERATIONS (Unaudited)**  
(In millions, except per share data)

	Three Months Ended March 31,	
	2012	2011
<b>Net Sales:</b>		
Products.....	\$ 841	\$ 1,115
Services.....	182	192
Licensing & royalties.....	(58)	15
Total net sales.....	\$ 965	\$ 1,322
Cost of sales:		
Products.....	\$ 777	\$ 1,043
Services.....	150	154
Total cost of sales:	\$ 927	\$ 1,197
Gross profit.....	38	\$ 125
Selling, general and administrative expenses.....	227	331
Research and development costs.....	66	78
Restructuring costs and other.....	94	33
Other operating expenses (income) net.....	(1)	(70)
Loss from continuing operations before interest expenses, other income (charges), net, reorganization items, net and income taxes....	(348)	(227)
Interest expenses (contractual interest of \$46).....	36	38
Loss on early extinguishment of debt, net.....	7	-
Other income (charges), net.....	3	(8)
Reorganization items, net.....	88	-
Loss from continuing operations before income taxes.....	(476)	(273)
Benefit for income taxes.....	(110)	(24)
Loss from continuing operations.....	(366)	(249)
Earnings from discontinued operations, net of income taxes	-	3
<b>NET LOSS ATTRIBUTABLE TO EASTMAN KODAK COMPANY....</b>	<b>\$ (366)</b>	<b>\$ (246)</b>
Basic and diluted net (loss) earnings per share Attributable to Eastman Kodak Company common shareholders:		
Continuing operations.....	\$ (1.35)	\$ (0.92)
Discontinued operations.....	-	0.01
Total	\$ (1.35)	\$ (0.91)
Number of common shares used in basic and diluted net (loss) earnings per share	271	269

**EASTMAN KODAK COMPANY**  
**(DEBTOR COMBINED BALANCE SHEET (Unaudited))**  
(Amounts in \$000's)

As of  
March 31,  
2012

**ASSETS**

**Current Assets**

Cash and cash equivalents.....	\$ 574,217
Trade receivables, net.....	174,888
Receivables and advances from non-debtor entities, net.....	248,308
Inventories, net.....	331,204
Deferred income taxes.....	10,150
Other current assets.....	46,637
<b>Total current assets.....</b>	<b>\$1,385,404</b>

Property, plant and equipment, net.....	505,745
Goodwill.....	143,773
Investment in non-debtor entities.....	2,007,794
Other long-term assets.....	61,074
<b>Total Assets</b>	<b>\$4,103,790</b>

**LIABILITIES AND EQUITY**

**Current Liabilities**

Accounts payable, trade.....	\$ 191,230
Accrued income taxes.....	33,696
Other current liabilities.....	400,164
<b>Total current liabilities.....</b>	<b>625,090</b>

Long-term debt.....	738,965
Debtor-in-possession financing.....	656,837
Other long-term liabilities.....	294,210
Liabilities subject to compromise.....	2,980,891
<b>Total Liabilities</b>	<b>\$ 5,295,993</b>

Shareholders Equity (Deficit).....	(1,192,203)
<b>Total Liabilities and Shareholders Equity.....</b>	<b>\$ 4,103,790</b>

## **Discloser - Certification**

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## RATING SYSTEM EXPLANATION

**Buy:** We generally expect “**Buy**” rated investment returns to be greater than or equal to plus + 20% from date of the original recommendation.

**Neutral:** We general expect “**Neutral**” rated investment returns to deviate plus or minus + or – 20% from the date of the original recommendation.

**Sell:** We generally expect “**Sell**” rated investment returns to be equal to or greater than minus – 20% from the date of the original recommendation.

## ANALYST RATING DISTRIBUTION AS OF 6/18/2012

	Number of Companies	Percent of Total
<b>Buy</b>	4	35%
<b>Neutral</b>	5	45%
<b>Sell</b>	2	20%
<b>Total</b>	11	100%