

EASTMAN KODAK CO

FORM 10-Q (Quarterly Report)

Filed 11/08/17 for the Period Ending 09/30/17

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|-------------|--|
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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

FORM 10-Q

Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended September 30, 2017

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 | <input type="checkbox"/> | Accelerated filer | <input checked="" type="checkbox"/> |
| Non-accelerated filer | <input type="checkbox"/> | Smaller reporting company | <input type="checkbox"/> |
| Emerging growth company | <input type="checkbox"/> | | |

(Do not check if a smaller reporting company)

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

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

As of November 1, 2017, the registrant had 42,571,360 shares of common stock, \$0.01 par value per share, outstanding.

EASTMAN KODAK COMPANY
Form 10-Q

September 30, 2017

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Part I. FINANCIAL INFORMATION

Item 1. Financial Statements

**EASTMAN KODAK COMPANY
CONSOLIDATED STATEMENT OF OPERATIONS (Unaudited)**

(in millions, except per share data)

| (in millions) | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|--|-------------------------------------|----------------|------------------------------------|----------------|
| | 2017 | 2016 | 2017 | 2016 |
| Revenues | | | | |
| Sales | \$ 303 | \$ 333 | \$ 893 | \$ 976 |
| Services | 76 | 78 | 224 | 235 |
| Total revenues | 379 | 411 | 1,117 | 1,211 |
| Cost of revenues | | | | |
| Sales | 243 | 268 | 708 | 768 |
| Services | 49 | 50 | 148 | 155 |
| Total cost of revenues | 292 | 318 | 856 | 923 |
| Gross profit | 87 | 93 | 261 | 288 |
| Selling, general and administrative expenses | 49 | 50 | 155 | 153 |
| Research and development costs | 12 | 15 | 42 | 46 |
| Restructuring costs and other | 4 | 2 | 22 | 13 |
| Other operating expense (income), net | 20 | (6) | 32 | 2 |
| Goodwill impairment loss | 56 | — | 56 | — |
| (Loss) earnings from continuing operations before interest expense, other (income) charges, net and income taxes | (54) | 32 | (46) | 74 |
| Interest expense | 8 | 16 | 24 | 48 |
| Other (income) charges, net | (4) | 1 | (33) | 3 |
| (Loss) earnings from continuing operations before income taxes | (58) | 15 | (37) | 23 |
| (Benefit) provision for income taxes | (13) | 3 | (6) | 16 |
| Equity in loss of equity method investment, net of income taxes | 1 | — | 1 | — |
| (Loss) earnings from continuing operations | (46) | 12 | (32) | 7 |
| Loss from discontinued operations, net of income taxes | — | — | (3) | (2) |
| Net (loss) earnings | (46) | 12 | (35) | 5 |
| Less: Net loss attributable to noncontrolling interests | — | (4) | — | — |
| NET (LOSS) EARNINGS ATTRIBUTABLE TO EASTMAN KODAK COMPANY | \$ (46) | \$ 16 | \$ (35) | \$ 5 |
| Basic net (loss) earnings per share attributable to Eastman Kodak Company common shareholders: | | | | |
| Continuing operations | \$ (1.20) | \$ 0.38 | \$ (1.08) | \$ 0.17 |
| Discontinued operations | — | — | (0.07) | (0.05) |
| Total | \$ (1.20) | \$ 0.38 | \$ (1.15) | \$ 0.12 |
| Diluted net (loss) earnings per share attributable to Eastman Kodak Company common shareholders: | | | | |
| Continuing operations | \$ (1.20) | \$ 0.37 | \$ (1.08) | \$ 0.17 |
| Discontinued operations | — | — | (0.07) | (0.05) |
| Total | \$ (1.20) | \$ 0.37 | \$ (1.15) | \$ 0.12 |
| Number of common shares used in basic and diluted net (loss) earnings per share | | | | |
| Basic | 42.5 | 42.3 | 42.5 | 42.2 |
| Diluted | 42.5 | 42.8 | 42.5 | 42.5 |

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 September 30, | | Nine Months Ended September 30, | |
|--|-------------------------------------|--------------|------------------------------------|-----------------|
| | 2017 | 2016 | 2017 | 2016 |
| NET (LOSS) INCOME | \$ (46) | \$ 12 | \$ (35) | \$ 5 |
| Less: Net loss attributable to noncontrolling interests | — | (4) | — | — |
| Net (loss) income attributable to Eastman Kodak Company | (46) | 16 | (35) | 5 |
| Other comprehensive loss, net of tax: | | | | |
| Currency translation adjustments | (5) | 1 | 9 | 10 |
| Pension and other postretirement benefit plan obligation activity, net of tax | (3) | (1) | (9) | (149) |
| Other comprehensive loss, net of tax attributable to Eastman Kodak Company | (8) | — | — | (139) |
| COMPREHENSIVE (LOSS) INCOME, NET OF TAX ATTRIBUTABLE TO EASTMAN KODAK COMPANY | <u>\$ (54)</u> | <u>\$ 16</u> | <u>\$ (35)</u> | <u>\$ (134)</u> |

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

EASTMAN KODAK COMPANY
CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Unaudited)

| (in millions) | September 30, 2017 | December 31, 2016 |
|--|-----------------------|----------------------|
| ASSETS | | |
| Cash and cash equivalents | \$ 342 | \$ 434 |
| Receivables, net | 299 | 311 |
| Inventories, net | 316 | 271 |
| Other current assets | 31 | 23 |
| Total current assets | 988 | 1,039 |
| Property, plant and equipment, net of accumulated depreciation of \$381 and \$343, respectively | 309 | 342 |
| Goodwill | 32 | 88 |
| Intangible assets, net | 92 | 121 |
| Restricted cash | 11 | 36 |
| Deferred income taxes | 65 | 35 |
| Other long-term assets | 121 | 115 |
| TOTAL ASSETS | \$ 1,618 | \$ 1,776 |
| LIABILITIES, REDEEMABLE CONVERTIBLE PREFERRED STOCK AND EQUITY (DEFICIT) | | |
| Accounts payable, trade | \$ 191 | \$ 200 |
| Short-term borrowings and current portion of long-term debt | 8 | 6 |
| Other current liabilities | 212 | 211 |
| Total current liabilities | 411 | 417 |
| Long-term debt, net of current portion | 402 | 405 |
| Pension and other postretirement liabilities | 544 | 603 |
| Other long-term liabilities | 216 | 268 |
| Total Liabilities | 1,573 | 1,693 |
| Commitments and Contingencies (Note 8) | | |
| Redeemable, convertible Series A preferred stock, no par value, \$100 per share liquidation preference | 162 | 156 |
| Equity (Deficit) | | |
| Common stock, \$0.01 par value | — | — |
| Additional paid in capital | 633 | 641 |
| Treasury stock, at cost | (9) | (8) |
| Accumulated deficit | (303) | (268) |
| Accumulated other comprehensive loss | (438) | (438) |
| Total shareholders' deficit | (117) | (73) |
| TOTAL LIABILITIES, REDEEMABLE CONVERTIBLE PREFERRED STOCK AND DEFICIT | \$ 1,618 | \$ 1,776 |

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

EASTMAN KODAK COMPANY
CONSOLIDATED STATEMENT OF CASH FLOWS (Unaudited)

| (in millions) | Nine Months Ended September 30, | |
|---|------------------------------------|--------|
| | 2017 | 2016 |
| Cash flows from operating activities: | | |
| Net (loss) earnings | \$ (35) | \$ 5 |
| Adjustments to reconcile to net cash used in operating activities: | | |
| Depreciation and amortization | 62 | 82 |
| Pension income | (91) | (110) |
| Change in fair value of embedded conversion features derivative liability | (42) | — |
| Prosper asset remeasurement | 12 | — |
| Non-cash restructuring costs and asset impairments | 87 | 20 |
| Net gain on sales of assets/businesses | (2) | (7) |
| Stock based compensation | 7 | 6 |
| (Benefit) provision for deferred income taxes | (18) | 5 |
| Decrease in receivables | 28 | 47 |
| Increase in inventories | (42) | (9) |
| Decrease in trade payables | (17) | (11) |
| Decrease in liabilities excluding borrowings and trade payables | (20) | (59) |
| Other items, net | (6) | (1) |
| Total adjustments | (42) | (37) |
| Net cash used in operating activities | (77) | (32) |
| Cash flows from investing activities: | | |
| Additions to properties | (28) | (26) |
| Proceeds from sales of assets/businesses, net | 2 | 10 |
| Proceeds from sales of marketable securities | 1 | — |
| Net cash used in investing activities | (25) | (16) |
| Cash flows from financing activities: | | |
| Repayment of emergence credit facilities | (1) | (20) |
| Repayment of capital leases | (3) | — |
| Net VIE borrowings | — | 4 |
| Payment of contingent consideration related to the sale of a business | (7) | (4) |
| Equity transactions of noncontrolling interests | — | 2 |
| Preferred stock dividend payments | (7) | — |
| Treasury stock purchases | (1) | (2) |
| Net cash used in financing activities | (19) | (20) |
| Effect of exchange rate changes on cash | 9 | 2 |
| Net decrease in cash, cash equivalents and restricted cash | (112) | (66) |
| Cash, cash equivalents and restricted cash, beginning of period | 478 | 600 |
| Cash, cash equivalents and restricted cash, end of period | \$ 366 | \$ 534 |

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

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, 2016.

Reclassifications

Certain amounts for prior periods have been reclassified to conform to the current period classification due to changes to Kodak’s organization structure effective January 1, 2017 and April 1, 2017 and a change in the presentation of discontinued operations and assets held for sale. In addition to the changes in segment reporting under the new organization structure, solvent recovery income for the Consumer and Film segment previously reported in Cost of Revenues is reported in Revenues and there is a change in the segment measure of profitability. Refer to Note 20, “Segment Information” and Note 21, “Discontinued Operations” for additional information.

RECENTLY ADOPTED ACCOUNTING PRONOUNCEMENTS

In May 2017, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No 2017-09, Compensation—Stock Compensation (Topic 718) — Scope of Modification Accounting, to clarify when to account for a change to the terms or conditions of a share-based payment award as a modification. Under the new standard, modification is required only if the fair value, the vesting conditions, or the classification of an award as equity or liability changes as a result of the change in terms or conditions. The ASU is effective prospectively for annual and interim periods beginning after December 15, 2017 (January 1, 2018 for Kodak). Early adoption is permitted, including adoption in any interim period, for reporting periods for which financial statements have not yet been issued. Kodak early adopted ASU 2017-09 effective April 1, 2017. The adoption of this guidance had no impact on Kodak’s Consolidated Financial Statements.

In January 2017, the FASB issued ASU No: 2017-04, Intangibles – Goodwill and Other (Topic 350): Simplifying the Accounting for Goodwill Impairment. The ASU simplifies the accounting for goodwill impairment by removing Step 2 of the goodwill impairment test, which required a hypothetical purchase price allocation. The ASU requires entities to calculate a goodwill impairment as the amount by which a reporting unit’s carrying value exceeds its fair value, not to exceed the carrying amount of goodwill. The same one-step impairment test applies to goodwill at all reporting units, even those with zero or negative carrying amounts. The ASU requires entities to disclose the amount of goodwill at reporting units with zero or negative carrying amounts. The ASU is effective prospectively for annual periods beginning after December 15, 2019, (January 1, 2020 for Kodak) with early adoption permitted for goodwill impairment tests performed after January 1, 2017. Kodak early adopted ASU 2017-04 effective January 1, 2017. The adoption of this guidance had no impact on Kodak’s Consolidated Financial Statements. As of September 30, 2017, the Unified Workflow Solutions reporting unit had a negative carrying value. Total goodwill assigned to the Unified Workflow Solutions reporting unit is \$6 million.

In November 2016, the FASB issued ASU 2016-18 Statement of Cash Flows (Topic 230): Restricted Cash. ASU 2016-18 requires entities to show the changes in the total of cash, cash equivalents, restricted cash and restricted cash equivalents in the statement of cash flows. As a result, entities will no longer present transfers between cash and cash equivalents and restricted cash and restricted cash equivalents in the statement of cash flows. The ASU requires changes in the Company’s restricted cash to be classified as either operating activities, investing activities or financing activities in the Consolidated Statement of Cash Flows, depending on the nature of the activities that gave rise to the restriction. The new standard is effective for annual reporting periods beginning after December 15, 2017, (January 1, 2018 for Kodak) including interim reporting periods within those annual reporting periods. Early adoption in an interim period is permitted, but any adjustments must be reflected as of the beginning of the fiscal year that includes that interim period. Kodak early adopted ASU 2016-18 effective January 1, 2017 which resulted in a decrease of \$9 million in net cash flows provided by investing activities from what was previously reported for the nine-month period ended September 30, 2016.

In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments. ASU 2016-15 provides clarification with respect to classification of several cash flow issues on the Statement of Cash Flows including debt prepayment or extinguishment costs, proceeds from the settlement of insurance claims, and distributions received from equity method investees. The new standard is effective for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2017 (January 1, 2018 for Kodak). Kodak early adopted ASU 2016-15 retrospectively effective January 1, 2017. The adoption of this guidance had no impact on Kodak's Consolidated Financial Statements.

In October 2016, the FASB issued ASU 2016-16, Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other than Inventory. ASU 2016-16 requires the recognition of the income tax consequences of intra-entity transfers of assets other than inventory when the transfer occurs. The new standard is effective on a modified retrospective basis for annual reporting periods beginning after December 15, 2017, (January 1, 2018 for Kodak) including interim reporting periods within those annual reporting periods. Early adoption is permitted as of the beginning of an annual reporting period for which financial statements (interim or annual) have not been issued or made available for issuance (January 1, 2017 for Kodak). Kodak early adopted ASU 2016-16 on a modified retrospective basis during the first quarter of 2017. The adoption of this guidance had no impact on Kodak's Consolidated Financial Statements.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In March 2017, the FASB issued ASU 2017-07, Compensation—Retirement 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. ASU 2017-07 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2017 (January 1, 2018 for Kodak). Retrospective application is required for the presentation of the service cost and other cost components however the restrictions on the capitalization eligibility will be applied prospectively from the date of adoption. The components of net benefit cost are shown in Note 14, "Retirement Plans and Other Postretirement benefits". The guidance will impact presentation in the Consolidated Financial Statements and the capitalization of costs to inventory. The current presentation of the service cost component is consistent with the requirements of the new standard. Upon adoption, the other components (which are currently being presented within Cost of revenues, Selling and general administrative expenses and Research and development costs) are expected to be presented separately on the face of the Consolidated Statement of Operations. The segment profit measure currently includes only the service cost and amortization of prior service credits components of net periodic pension costs (refer to Note 20, "Segment Information").

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). ASU 2017-05 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2017 (January 1, 2018 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 recognized at the date of initial application. Kodak expects to apply the modified retrospective adoption approach and expects that application of this standard will not have a significant impact on its consolidated financial statements.

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 anticipates that the adoption of the amended lease guidance will materially affect its consolidated balance sheet and will require certain changes to its systems and processes.

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. The clarification and measurement guidance will be effective for Kodak beginning January 1, 2018, including interim periods within those fiscal years. Kodak does not expect the adoption of this guidance to have a material impact on its 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. In July 2015, the FASB deferred the effective date of ASU 2014-09. In 2016 the FASB issued ASU 2016-08, ASUs 2016-10 through 12 and ASU 2016-20 clarifying guidance regarding principle vs agent considerations, identification of performance obligations, analysis of licensing transactions, impairment considerations and disclosures. The new revenue standards are collectively effective for fiscal years, and interim periods within those years, beginning after December 15, 2017 (January 1, 2018 for Kodak) and allow either a full retrospective adoption to all periods presented or a modified retrospective adoption approach with the cumulative effect of initial application recognized at the date of initial application. Kodak currently anticipates applying the modified retrospective adoption approach. Brand license revenue recognized in the three months ended September 30, 2017 of \$6 million would be recognized over time under the new revenue standards, which will result in a transition adjustment of \$6 million. With the exception of brand license revenue, Kodak has not identified any changes in the timing of revenue recognition which will result in a material transition adjustment. Kodak’s implementation efforts are ongoing and such assessments may change prior to the January 1, 2018 implementation date. Kodak is in the process of implementing appropriate changes to the business processes, systems and controls to support recognition and disclosure under the new standard. Training of employees on the impacts of the standard and changes to processes, systems and controls will continue throughout 2017.

NOTE 2: CASH, CASH EQUIVALENTS AND RESTRICTED CASH

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

| (in millions) | September 30, 2017 | December 31, 2016 |
|---|-----------------------|----------------------|
| Cash and cash equivalents | \$ 342 | \$ 434 |
| Restricted cash included in Other current assets | 13 | 8 |
| Long-term restricted cash | 11 | 36 |
| Total cash, cash equivalents and restricted cash shown in the Statement of Cash Flows | <u>\$ 366</u> | <u>\$ 478</u> |

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

Long-term restricted cash as of September 30, 2017 and December 31, 2016 includes \$6 million and \$7 million, respectively, of security posted related to Brazilian legal contingencies. Long-term restricted cash as of December 31, 2016 also included \$25 million supporting compliance with the Excess Availability threshold under the Amended and Restated Credit Agreement (“Amended Credit Agreement”). During the second quarter of 2017, the amount of outstanding letters of credit issued under the Amended Credit Agreement was reduced by \$20 million, which had a corresponding reduction in the amount of long-term restricted cash necessary to support compliance with the Excess Availability threshold. See Note 8, “Commitments and Contingencies” and “Sources of Liquidity” in Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations for additional information.

NOTE 3: RECEIVABLES, NET

| (in millions) | September 30, 2017 | December 31, 2016 |
|---|-----------------------|----------------------|
| Trade receivables | \$ 263 | \$ 277 |
| Miscellaneous receivables | 36 | 34 |
| Total (net of allowances of \$9 as of September 30, 2017 and \$8 as of December 31, 2016) | <u>\$ 299</u> | <u>\$ 311</u> |

Approximately \$26 million of the total trade receivable amounts as of both September 30, 2017 and December 31, 2016 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

| (in millions) | September 30, 2017 | December 31, 2016 |
|-----------------|-----------------------|----------------------|
| Finished goods | \$ 188 | \$ 149 |
| Work in process | 64 | 57 |
| Raw materials | 64 | 65 |
| Total | <u>\$ 316</u> | <u>\$ 271</u> |

NOTE 5: GOODWILL AND OTHER INTANGIBLE ASSETS

The following table presents the changes in the carrying amount of goodwill by reportable segment. The Enterprise Inkjet Systems, Advanced Materials and 3D Printing Technology and Eastman Business Park segments do not have goodwill and are therefore not presented:

| (in millions) | Print Systems | Flexographic Packaging | Software and Solutions | Consumer and Film | Consolidated Total |
|----------------------------------|------------------|---------------------------|---------------------------|----------------------|--------------------|
| Balance as of December 31, 2016 | \$ 56 | \$ 20 | \$ 6 | \$ 6 | \$ 88 |
| Impairment | (56) | — | — | — | (56) |
| Balance as of September 30, 2017 | <u>\$ -</u> | <u>\$ 20</u> | <u>\$ 6</u> | <u>\$ 6</u> | <u>\$ 32</u> |

Gross goodwill and accumulated impairment losses were \$96 million and \$8 million, respectively, as of December 31, 2016 and \$96 million and \$64 million, respectively, as of September 30, 2017.

The Print Systems segment has two goodwill reporting units: Prepress Solutions and Electrophotographic Printing Solutions. The Software and Solutions segment has two goodwill reporting units: Kodak Technology Solutions and Unified Workflow Solutions. The Consumer and Film segment has two goodwill reporting units: Consumer Products and Motion Picture, Industrial Chemicals and Films. The Flexographic Packaging segment, Enterprise Inkjet Systems segment, Advanced Materials and 3D Printing Technology segment and Eastman Business Park segment all have one goodwill reporting unit. Goodwill is recorded in the Prepress Solutions, Flexographic Packaging, Unified Workflow Solutions and Consumer Products reporting units.

Given the decline in Kodak's financial projections for the year and its market capitalization from the last goodwill impairment test (December 31, 2016), Kodak performed an interim goodwill impairment test as of September 30, 2017. Kodak utilized the discounted cash flow method and guideline public company method for the reporting units with goodwill. For these reporting units, Kodak selected equal weighting of the guideline public company method and the discounted cash flow method as the valuation approaches produced comparable ranges of fair value. Fair values for the other reporting units were estimated using the discounted cash flow method only.

Based upon the results of Kodak's September 30, 2017 analysis, Kodak concluded that the Prepress Solutions reporting unit's carrying value exceeded its fair value and recorded a pre-tax goodwill impairment loss of \$56 million in the Consolidated Statement of Operations. No impairment of goodwill was indicated for the other reporting units.

The gross carrying amount and accumulated amortization by major intangible asset category as of September 30, 2017 and December 31, 2016 were as follows:

| (in millions) | September 30, 2017 | | | |
|------------------|--------------------------|-----------------------------|--------------|---|
| | Gross Carrying Amount | Accumulated Amortization | Net | Weighted-Average Amortization Period |
| Technology-based | \$ 105 | \$ 60 | \$ 45 | 6 years |
| Kodak trade name | 40 | - | 40 | Indefinite life |
| Customer-related | 11 | 6 | 5 | 6 years |
| Other | 2 | - | 2 | 21 years |
| Total | <u>\$ 158</u> | <u>\$ 66</u> | <u>\$ 92</u> | |

| (in millions) | December 31, 2016 | | | Weighted-Average Amortization Period |
|------------------|--------------------------|-----------------------------|---------------|---|
| | Gross Carrying Amount | Accumulated Amortization | Net | |
| Technology-based | \$ 122 | \$ 57 | \$ 65 | 6 years |
| Kodak trade name | 40 | - | 40 | Indefinite life |
| Customer-related | 26 | 12 | 14 | 6 years |
| Other | 2 | - | 2 | 21 years |
| Total | \$ 190 | \$ 69 | \$ 121 | |

In the third quarter of 2017, due to canceling its copper mesh touch screen program, Kodak wrote off related intangible assets with a gross carrying amount of \$33 million and accumulated amortization of \$21 million and recorded an impairment charge of \$12 million.

Amortization expense related to intangible assets was \$5 million and \$4 million for the three months ended September 30, 2017 and 2016 respectively, and \$14 million and \$15 million for the nine months ended September 30, 2017 and 2016, respectively.

During the first quarter of 2017, Kodak recorded \$4 million to adjust the Prosper intangible asset carrying value to the amount that would have been recorded had the Prosper intangible assets been continuously classified as held and used. Refer to Note 10, "Other Operating Expense (Income), net" and Note 21, "Discontinued Operations".

Estimated future amortization expense related to intangible assets that are currently being amortized as of September 30, 2017, is as follows:

| (in millions) | |
|---------------------|--------------|
| Q4 2017 | \$ 4 |
| 2018 | 12 |
| 2019 | 8 |
| 2020 | 6 |
| 2021 | 4 |
| 2022 and thereafter | 18 |
| Total | \$ 52 |

NOTE 6: OTHER CURRENT LIABILITIES

| (in millions) | September 30, 2017 | December 31, 2016 |
|---|-----------------------|----------------------|
| Employee related liabilities | \$ 54 | \$ 49 |
| Deferred revenue | 30 | 32 |
| Customer rebates | 26 | 27 |
| Restructuring liabilities | 11 | 8 |
| Deferred consideration on disposed businesses | 10 | 7 |
| Workers compensation | 9 | 8 |
| Other | 72 | 80 |
| Total | \$ 212 | \$ 211 |

NOTE 7: OTHER LONG-TERM LIABILITIES

| (in millions) | September 30, 2017 | December 31, 2016 |
|---|-----------------------|----------------------|
| Workers compensation | \$ 102 | \$ 105 |
| Asset retirement obligations | 38 | 38 |
| Deferred taxes | 17 | 16 |
| Deferred consideration on disposed businesses | 14 | 24 |
| Environmental liabilities | 12 | 12 |
| Embedded conversion features derivative liability (1) | 1 | 43 |
| Other | 32 | 30 |
| Total | <u>\$ 216</u> | <u>\$ 268</u> |

(1) Refer to Note 22, "Financial Instruments"

NOTE 8: COMMITMENTS AND CONTINGENCIES

As of September 30, 2017, the Company had outstanding letters of credit of \$96 million issued under the Amended Credit Agreement, as well as bank guarantees and letters of credit of \$4 million, surety bonds in the amount of \$53 million, and restricted cash and deposits of \$26 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 September 30, 2017, 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 \$54 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, 2017, Kodak has posted security composed of \$6 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 \$73 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, 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 9: GUARANTEES

EKC guarantees obligations to third parties for some of its consolidated subsidiaries. The maximum amount guaranteed is \$10 million and the outstanding amount for those guarantees is \$4 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. 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, 2016 to September 30, 2017, 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, 2016 | \$ 24 |
| New extended warranty and maintenance arrangements in 2017 | 97 |
| Recognition of extended warranty and maintenance arrangement revenue in 2017 | (98) |
| Deferred revenue on extended warranties as of September 30, 2017 | <u>\$ 23</u> |

NOTE 10: OTHER OPERATING EXPENSE (INCOME), NET

| (in millions) | Three Months Ended | | Nine Months Ended | |
|---------------------------------|--------------------|---------------|-------------------|-------------|
| | September 30, | | September 30, | |
| | 2017 | 2016 | 2017 | 2016 |
| Expense (income): | | | | |
| Asset impairments (1) (2) (3) | \$ 20 | \$ — | \$ 22 | \$ 25 |
| Prosper asset remeasurement (4) | — | — | 12 | — |
| Legal settlements (5) (6) | — | (6) | — | (16) |
| Gain on sale of assets (7) | — | — | (2) | (7) |
| Total | <u>\$ 20</u> | <u>\$ (6)</u> | <u>\$ 32</u> | <u>\$ 2</u> |

- (1) In the third quarter of 2017, due to canceling its copper mesh touch screen program, Kodak concluded that the carrying value of property, plant and equipment (PP&E) and intangible assets associated with those operations exceeded their fair value. Kodak recorded pre-tax impairment charges in the three months ended September 30, 2017 of \$8 million related to the PP&E and \$12 million for the intangible assets.
- (2) In the first quarter of 2016, due to the exit of its position in silver metal mesh touch screen development, Kodak concluded that the carrying value of PP&E associated with those operations exceeded their fair value and recorded pre-tax impairment charges of \$12 million. Kodak also wrote off related intangible assets with a gross carrying amount of \$14 million and accumulated amortization of \$6 million and recorded an impairment charge of \$8 million.
- (3) In the first quarter of 2016, Kodak concluded the carrying value of the Kodak trade name exceeded its fair value and recorded an impairment charge of \$5 million related to the Kodak trade name.
- (4) 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 had the Prosper assets been continuously classified as held and used. Refer to Note 21, "Discontinued Operations".
- (5) In the third quarter of 2016, Kodak settled a legal contingency and reduced the associated reserve by \$6 million.
- (6) In the first quarter of 2016, Kodak received \$10 million representing net litigation proceeds from DuPont.
- (7) On June 30, 2016, Kodak sold certain assets of its brand protection business to eApeiron Solutions Inc. in exchange for cash consideration of approximately \$6 million and an equity investment of 19.9%. Kodak is accounting for this investment under the equity method of accounting. Kodak recognized a gain of approximately \$7 million on this transaction.

NOTE 11: OTHER (INCOME) CHARGES, NET

| (in millions) | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|-------------------------------------|------|------------------------------------|------|
| | 2017 | 2016 | 2017 | 2016 |
| Change in fair value of embedded conversion features derivative liability (1) | \$ (6) | \$ — | \$ (42) | \$ — |
| Loss on foreign exchange transactions | 2 | 1 | 7 | 3 |
| Other | — | — | 2 | — |
| Total | \$ (4) | \$ 1 | \$ (33) | \$ 3 |

(1) Refer to Note 22, “Financial Instruments”.

NOTE 12: INCOME TAXES

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

| (in millions) | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|--|-------------------------------------|--------|------------------------------------|-------|
| | 2017 | 2016 | 2017 | 2016 |
| (Loss) earnings from continuing operations before income taxes | \$ (58) | \$ 15 | \$ (37) | \$ 23 |
| Effective tax rate | 22.4% | 20.0% | 16.2% | 69.6% |
| (Benefit) provision for income taxes | (13) | 3 | (6) | 16 |
| (Benefit) provision for income taxes @ 35% | (20) | 5 | (13) | 8 |
| Difference between tax at effective vs. statutory rate | \$ 7 | \$ (2) | \$ 7 | \$ 8 |

For the three and nine months ended September 30, 2017, the difference between Kodak’s recorded (benefit) provision and the (benefit) provision, respectively, that would result from applying 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 the tax impact of a goodwill impairment, and (4) changes in audit reserves, including settlements with taxing authorities in locations outside the U.S .

For the three and nine months ended September 30, 2016, the difference between Kodak’s recorded provision and the provision that would result from applying 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.

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 nine months of 2017 were initiated to reduce Kodak’s cost structure as part of its commitment to drive sustainable profitability and included actions associated with the Prosper business cost reduction, voluntary workforce transition plans in the U.S., an office closure in Switzerland, the cancellation of the copper touch screen program, as well as 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 nine months ended September 30, 2017 were as follows:

| (in millions) | Severance Reserve (1) | Exit Costs Reserve (1) | Long-lived Asset Impairments and Inventory Write-downs (1) | Total |
|--|--------------------------|------------------------------|---|--------------|
| Balance as of December 31, 2016 | \$ 5 | \$ 3 | \$ — | \$ 8 |
| Q1 charges | 5 | — | 8 | 13 |
| Q1 utilization/cash payments | (3) | — | (8) | (11) |
| Q1 other adjustments and reclasses (2) | (1) | — | — | (1) |
| Balance as of March 31, 2017 | <u>\$ 6</u> | <u>\$ 3</u> | <u>\$ —</u> | <u>\$ 9</u> |
| Q2 charges | \$ 8 | \$ 3 | \$ — | \$ 11 |
| Q2 utilization/cash payments | (3) | (1) | — | (4) |
| Q2 other adjustments and reclasses (3) | (4) | — | — | (4) |
| Balance as of June 30, 2017 | <u>\$ 7</u> | <u>\$ 5</u> | <u>\$ —</u> | <u>\$ 12</u> |
| Q3 charges | \$ 4 | \$ — | \$ 1 | \$ 5 |
| Q3 utilization/cash payments | (2) | — | (1) | (3) |
| Q3 other adjustments and reclasses (4) | (3) | — | — | (3) |
| Balance as of September 30, 2017 | <u>\$ 6</u> | <u>\$ 5</u> | <u>\$ —</u> | <u>\$ 11</u> |

- (1) The severance and exit costs reserves require the outlay of cash, while long-lived asset impairments and inventory write-downs represent non-cash items.
- (2) The \$(1) million represents severance related charges for pension plan special termination benefits, which are reflected in Pension and other postretirement liabilities in the Consolidated Statement of Financial Position.
- (3) The \$(4) million includes \$(5) million of severance related charges for pension plan special termination benefits, which were reclassified to Pension and other postretirement liabilities, and \$1 million of foreign currency translation adjustments.
- (4) The \$(3) million represents severance related charges for pension plan special termination benefits, which are reflected in Pension and other postretirement liabilities in the Consolidated Statement of Financial Position.

For the three months ended September 30, 2017 the \$5 million of charges including \$1 million of charges for inventory write-downs which were reported in Cost of revenues in the Consolidated Statement of Operations. The remaining \$4 million was reported as Restructuring costs and other.

The severance costs for the three months ended September 30, 2017 related to the elimination of approximately 100 positions including approximately 25 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 25 throughout the rest of the world.

For the nine months ended September 30, 2017 the \$29 million of charges includes \$7 million of charges for inventory write-downs which were reported in Cost of revenues in the Consolidated Statement of Operations. The remaining \$22 million was reported as Restructuring costs and other.

The severance costs for the nine months ended September 30, 2017 related to the elimination of approximately 300 positions including approximately 100 manufacturing/service positions, 50 research and development positions and 150 administrative positions. The geographic composition of these positions includes approximately 200 in the United States and Canada and 100 throughout the rest of the world.

As a result of these initiatives, the majority of the severance will be paid during periods through the first quarter of 2018. 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 the remainder of 2017 and beyond.

NOTE 14: 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:

| (in millions) | Three Months Ended September 30, | | | | Nine Months Ended September 30, | | | |
|--|-------------------------------------|----------|---------|----------|------------------------------------|----------|----------|----------|
| | 2017 | | 2016 | | 2017 | | 2016 | |
| | 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 | \$ 3 | \$ — | \$ 3 | \$ 1 | \$ 9 | \$ 2 | \$ 9 | \$ 2 |
| Interest cost | 29 | 3 | 27 | 4 | 86 | 9 | 85 | 11 |
| Expected return on plan assets | (61) | (7) | (65) | (8) | (183) | (20) | (196) | (22) |
| Amortization of: | | | | | | | | |
| Prior service credit | (2) | — | (2) | — | (5) | — | (5) | — |
| Actuarial loss | — | 1 | 2 | — | — | 2 | 4 | — |
| Net pension income before special termination benefits | (31) | (3) | (35) | (3) | (93) | (7) | (103) | (9) |
| Special termination benefits | 3 | — | — | — | 9 | — | 3 | — |
| Net pension income | (28) | (3) | (35) | (3) | (84) | (7) | (100) | (9) |
| Other plans | — | (1) | — | — | — | — | — | (1) |
| Total net pension income | \$ (28) | \$ (4) | \$ (35) | \$ (3) | \$ (84) | \$ (7) | \$ (100) | \$ (10) |

For both the three and nine months ended September 30, 2017 and 2016 the special termination benefits charges were incurred as a result of Kodak's restructuring actions.

NOTE 15: REDEEMABLE, CONVERTIBLE SERIES A PREFERRED STOCK

On November 15, 2016, the Company issued 2,000,000 shares of 5.50% Series A Convertible Preferred Stock, no par value per share (the "Series A Preferred Stock"), for an aggregate purchase price of \$200 million, or \$100 per share. The Company has classified the Series A Preferred Stock as temporary equity in the Consolidated Statement of Financial Position. Kodak allocated \$43 million of the net proceeds received to a derivative liability based on the aggregate fair value of the embedded conversion features on the date of issuance which reduced the net carrying value of the Series A Preferred Stock (see Note 22, "Financial Instruments"). The carrying value of the Series A Preferred Stock at the time of issuance, \$155 million (\$200 million aggregate gross proceeds less \$43 million allocated to the derivative liability and \$2 million in transaction costs), is being accreted to the mandatory redemption amount using the effective interest method to Additional paid in capital in the Consolidated Statement of Financial Position as a deemed dividend from the date of issuance through the mandatory redemption date, November 15, 2021. The holders of Series A Preferred Stock are entitled to cumulative dividends payable quarterly in cash at a rate of 5.50% per annum. The Company declared a cash dividend of approximately \$3 million in September 2017, which was paid on October 19, 2017. The accrual for the cash dividend declared is included in Other current liabilities in the accompanying Consolidated Statement of Financial Position as of September 30, 2017. As of September 30, 2017, the Series A Preferred Stock has not been converted and none of the antidilution provisions have been triggered. Any shares of Series A Preferred Stock not converted prior to the fifth anniversary of the initial issuance of the Series A Preferred Stock are required to be redeemed at \$100 per share plus the amount of accrued and unpaid dividends.

NOTE 16: EARNINGS PER SHARE

Basic earnings per share computations are based on the weighted-average number of shares of common stock outstanding during the period. Diluted earnings per share include any dilutive effect of potential common shares. In periods with a net loss from continuing operations available to common shareholders, diluted earnings per share are calculated using weighted-average basic shares for that period, as utilizing diluted shares would be anti-dilutive to loss per share.

A reconciliation of the amounts used to calculate basic and diluted earnings per share for the three and nine months ended September 30, 2017 follows: (in millions):

| | Three Months Ended September 30, 2017 | Nine Months Ended September 30, 2017 |
|--|--|---|
| Loss from continuing operations attributable to Eastman Kodak Company | \$ (46) | \$ (32) |
| Less: Series A convertible preferred stock cash dividend | (3) | (8) |
| Less: Series A convertible preferred stock deemed dividend | (2) | (6) |
| Loss from continuing operations available to common shareholders - basic and diluted | <u>\$ (51)</u> | <u>\$ (46)</u> |
| Loss from net earnings attributable to Eastman Kodak Company | \$ (46) | \$ (35) |
| Less: Series A convertible preferred stock cash dividend | (3) | (8) |
| Less: Series A convertible preferred stock deemed dividend | (2) | (6) |
| Loss from net earnings available to common shareholders - basic and diluted | <u>\$ (51)</u> | <u>\$ (49)</u> |
| Weighted-average common shares outstanding - basic and diluted | 42.5 | 42.5 |

As a result of the net loss from continuing operations available to common shareholders for the three and nine months ending September 30, 2017, Kodak calculated diluted earnings per share using weighted-average basic shares outstanding for those periods. If Kodak reported earnings from continuing operations available to common shareholders for the three and nine months ending September 30, 2017, the calculation of diluted earnings per share would have included the assumed conversion of 0.2 million of unvested restricted stock units.

The computation of diluted earnings per share for the three and nine months ended September 30, 2017 also excluded the impact of (1) the assumed conversion of 2.0 million shares of Series A convertible preferred shares, (2) the assumed conversion of net share settled warrants to purchase 1.8 million shares of common stock at an exercise price of \$14.93, (3) the assumed conversion of net share settled warrants to purchase 1.8 million shares of common stock at an exercise price of \$16.12 and (4) the assumed conversion of 4.6 million outstanding employee stock options because the effects would have been anti-dilutive.

Weighted average diluted shares were 42.8 million for the three-month period and 42.5 for the nine-month period ended September 30, 2016, respectively, and included the dilutive effect of 0.4 million and 0.3 million unvested restricted stock units for the three and nine month periods ended September 30, 2016, respectively. In addition, the weighted average diluted shares for the three-month period ended September 30, 2016 included the dilutive effect of net share settled warrants to purchase 0.1 million shares of common stock at an exercise price of \$14.93.

The computation of diluted earnings per share for the three and nine month periods ended September 30, 2016 excluded the impact of the assumed conversion of net share settled warrants to purchase 1.8 million shares of common stock at an exercise price of \$16.12 and the assumed conversion of 2.0 million outstanding employee stock options because they would have been anti-dilutive. In addition, the computation of diluted earnings per share for the nine-month period ended September 30, 2016 excluded the impact of conversion of net share settled warrants to purchase 1.8 million shares of common shares at an exercise price of \$14.93 because the effects would have been anti-dilutive.

NOTE 17: SHAREHOLDERS' EQUITY

Kodak has 560 million shares of authorized stock, consisting of: (i) 500 million shares of common stock, par value \$0.01 per share and (ii) 60 million shares of preferred stock, no par value, issuable in one or more series. As of September 30, 2017 and December 31, 2016, there were 42.6 million and 42.4 million shares of common stock outstanding and 2.0 million shares of Series A preferred stock issued and outstanding, respectively. Treasury stock consisted of approximately 0.5 million shares at both September 30, 2017 and December 31, 2016.

NOTE 18: OTHER COMPREHENSIVE (LOSS) INCOME

The changes in Other comprehensive (loss) income, by component, were as follows:

| (in millions) | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|-------------------------------------|------|------------------------------------|----------|
| | 2017 | 2016 | 2017 | 2016 |
| Currency translation adjustments | \$ (5) | \$ 1 | \$ 9 | \$ 10 |
| Pension and other postretirement benefit plan changes | | | | |
| Newly established net actuarial loss | (1) | (1) | (2) | (145) |
| Tax benefit | — | — | — | 1 |
| Newly established net actuarial loss, net of tax | (1) | (1) | (2) | (144) |
| Reclassification adjustments: | | | | |
| Amortization of prior service credit | (a) (2) | (1) | (6) | (5) |
| Amortization of actuarial (gains) losses | (a) (1) | 1 | (2) | — |
| Recognition of gains due to settlements | — | — | — | (1) |
| Total reclassification adjustments | (3) | — | (8) | (6) |
| Tax provision | 1 | — | 1 | 1 |
| Reclassification adjustments, net of tax | (2) | — | (7) | (5) |
| Pension and other postretirement benefit plan changes, net of tax | (3) | (1) | (9) | (149) |
| Other comprehensive loss | \$ (8) | \$ — | \$ — | \$ (139) |

(a) Reclassified to Total Net Periodic Benefit Cost - refer to Note 14, "Retirement Plans and Other Postretirement Benefits".

NOTE 19: ACCUMULATED OTHER COMPREHENSIVE LOSS

Accumulated other comprehensive loss is composed of the following:

| (in millions) | September 30, 2017 | December 31, 2016 |
|---|-----------------------|----------------------|
| Currency translation adjustments | \$ (87) | \$ (96) |
| Pension and other postretirement benefit plan changes | (351) | (342) |
| Ending balance | \$ (438) | \$ (438) |

NOTE 20: SEGMENT INFORMATION

Effective January 1, 2017, Kodak changed its organizational structure. Micro 3D Printing, within the Micro 3D Printing and Packaging segment, was moved into the Intellectual Property Solutions segment, which has been renamed the Advanced Materials and 3D Printing Technology segment. The Flexographic Packaging business, formerly part of the Micro 3D Printing and Packaging segment, is now being reported as a dedicated segment.

Effective April 1, 2017, Kodak made another change to its organizational structure. Digital front-end controllers within the Prosper business in the Enterprise Inkjet Systems segment was moved to the Unified Workflow Solutions business within the Software and Solutions segment.

Prior period segment results have been revised to conform to the current period segment reporting structure.

Financial information is reported for seven reportable segments: Print Systems, Enterprise Inkjet Systems, Flexographic Packaging, Software and Solutions, Consumer and Film, Advanced Materials and 3D Printing Technology and Eastman Business Park. A description of the reportable segments follows.

Print Systems : The Print Systems segment is comprised of two lines of business: Prepress Solutions and Electrophotographic Printing Solutions.

Enterprise Inkjet Systems : The Enterprise Inkjet Systems segment is comprised of two lines of business: the Prosper business and the Versamark business.

Flexographic Packaging : The Flexographic Packaging segment is comprised of the Packaging line of business.

Software and Solutions : The Software and Solutions segment is comprised of two lines of business: Unified Workflow Solutions and Kodak Technology Solutions.

Consumer and Film : The Consumer and Film segment is comprised of three lines of business: Industrial Film and Chemicals, Motion Picture and Consumer Products (which includes Consumer Inkjet Solutions).

Advanced Materials and 3D Printing Technology : The Advanced Materials and 3D Printing Technology segment includes the Kodak Research Laboratories and associated new business opportunities and intellectual property licensing not directly related to other business segments.

Eastman Business Park : The Eastman Business Park segment includes the operations of the Eastman Business Park, a more than 1,200-acre technology center and industrial complex.

Segment financial information is shown below:

Segment Revenues

| (in millions) | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|-------------------------------------|---------------|------------------------------------|-----------------|
| | 2017 | 2016 | 2017 | 2016 |
| Print Systems | \$ 232 | \$ 250 | \$ 681 | \$ 739 |
| Enterprise Inkjet Systems | 33 | 47 | 105 | 123 |
| Flexographic Packaging | 34 | 34 | 104 | 98 |
| Software and Solutions | 21 | 21 | 64 | 66 |
| Consumer and Film | 55 | 55 | 151 | 174 |
| Advanced Materials and 3D Printing Technology | — | — | — | — |
| Eastman Business Park | 4 | 4 | 12 | 11 |
| Consolidated total | <u>\$ 379</u> | <u>\$ 411</u> | <u>\$ 1,117</u> | <u>\$ 1,211</u> |

Segment Operational EBITDA and Consolidated (Loss) Earnings from Continuing Operations Before Income Taxes

| (in millions) | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|--|-------------------------------------|-------|------------------------------------|-------|
| | 2017 | 2016 | 2017 | 2016 |
| Print Systems | \$ 13 | \$ 27 | \$ 42 | \$ 67 |
| Enterprise Inkjet Systems | 1 | (8) | 2 | (18) |
| Flexographic Packaging | 7 | 7 | 21 | 17 |
| Software and Solutions | 1 | — | — | (1) |
| Consumer and Film | (2) | 1 | (10) | 18 |
| Advanced Materials and 3D Printing Technology | (6) | (6) | (21) | (21) |
| Eastman Business Park | 1 | 1 | 3 | 2 |
| Total of reportable segments | 15 | 22 | 37 | 64 |
| All Other (1) | — | (2) | — | 2 |
| Corporate components of pension and OPEB income (2) | 37 | 40 | 108 | 121 |
| Depreciation and amortization | (21) | (25) | (62) | (82) |
| Restructuring costs and other | (5) | (2) | (29) | (13) |
| Stock based compensation | (2) | (3) | (7) | (6) |
| Consulting and other costs (3) | (2) | (3) | (3) | (6) |
| Idle costs (4) | — | — | (2) | (2) |
| Manufacturing costs originally planned to be absorbed by silver metal mesh touch screen production (5) | — | (1) | — | (2) |
| Other operating (expense) income, net (6) | (20) | 6 | (32) | (2) |
| Goodwill impairment loss (6) | (56) | — | (56) | — |
| Interest expense (6) | (8) | (16) | (24) | (48) |
| Other income (charges), net (6) | 4 | (1) | 33 | (3) |
| Consolidated (loss) earnings from continuing operations before income taxes | \$ (58) | \$ 15 | \$ (37) | \$ 23 |

- (1) RED utilities variable interest entity, which was deconsolidated as of December 31, 2016 (interest and depreciation of RED are included in the respective lines below).
- (2) Composed of interest cost, expected return on plan assets, amortization of actuarial gains and losses and curtailment and settlement components of pension and other postretirement benefit expenses.
- (3) Consulting and other costs are professional services and internal costs associated with certain corporate strategic initiatives.
- (4) Consists of third party costs such as security, maintenance and utilities required to maintain land and buildings in certain locations not used in any Kodak operations.
- (5) Consists of manufacturing costs originally planned to be absorbed by silver metal mesh touch screen production that are excluded from the segment measure of profit and loss.
- (6) As reported in the Consolidated Statement of Operations.

Segment Measure of Profit and Loss

Kodak's segment measure of profit and loss is an adjusted earnings before interest, taxes, depreciation and amortization ("Operational EBITDA"). As demonstrated in the above table, Operational EBITDA represents the (loss) earnings from continuing operations excluding the provision for income taxes; corporate components of pension and OPEB income; depreciation and amortization expense; restructuring costs; stock-based compensation expense; consulting and other costs; idle costs; manufacturing costs originally planned to be absorbed by silver metal mesh touch screen production; other operating expense, net (unless otherwise indicated); goodwill impairment losses; interest expense; and other (income) charges, net. Overhead costs no longer absorbed by the Prosper discontinued operations of \$4 million and \$12 million in the three and nine months ended September 30, 2016, respectively, were also excluded from segment earnings while the business was reported in discontinued operations. As the Prosper business is no longer reported in discontinued operations, overhead allocations are included in the Enterprise Inkjet Solutions segment measure for all periods presented.

Kodak's segments are measured using Operational EBITDA both before and after allocation of corporate selling, general and administrative expenses ("SG&A"). The segment earnings measure reported is after allocation of corporate SG&A as this most closely aligns with U.S. GAAP.

Research and Development activities not directly related to the other segments are reported within the Advanced Materials and 3D Printing Technology segment.

Change in Segment Measure of Profitability

During the first quarter of 2017 the segment measure was changed to exclude internal costs associated with corporate strategic initiatives. The segment measure already excluded external costs associated with those initiatives. Additionally, third party costs associated with incremental idle building space has been added to idle costs.

NOTE 21: DISCONTINUED OPERATIONS

KODAK PROSPER Enterprise Inkjet Business

The results of the Prosper business were previously presented as discontinued operations. However, the held for sale criteria were no longer met as of March 31, 2017. In April 2017, Kodak decided to retain the Prosper business. The assets and liabilities of the Prosper business, previously presented as held for sale, have been reclassified to held and used in the Consolidated Statement of Financial Position as of December 31, 2016, and the results of the Prosper business have been reclassified from discontinued operations to continuing operations for all periods presented. The Prosper business' assets and liabilities as of March 31, 2017 were measured at the carrying amount before the assets were classified as held for sale, reduced by \$12 million representing the depreciation and amortization expense that would have been recognized had the assets been continuously classified as held for use. The \$12 million reduction to the carrying value of the Prosper assets was reported in Other operating expense, net in the first quarter of 2017.

The reclassification of the results of the Prosper Business to continuing operations had the following impacts on the Consolidated Statement of Operations:

| (in millions) | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|-------------------------------------|---------|------------------------------------|---------|
| | 2017 | 2016 | 2017 | 2016 |
| Revenues | \$ — | \$ 29 | \$ — | \$ 68 |
| Cost of revenues | — | 27 | — | 58 |
| Selling, general and administrative expenses | — | 6 | — | 20 |
| Research and development costs | — | 5 | — | 16 |
| Other operating (income) expense, net | — | — | 12 | — |
| Income (loss) from continuing operations before taxes | — | (9) | (12) | (26) |
| Provision for income taxes | — | 1 | — | 1 |
| Income (loss) from continuing operations | \$ — | \$ (10) | \$ (12) | \$ (27) |

NOTE 22: FINANCIAL INSTRUMENTS

Kodak, as a result of its global operating and financing activities, is exposed to changes in foreign currency exchange rates and interest rates, which may adversely affect its results of operations and financial position. Kodak manages such exposures, in part, with derivative financial instruments. Foreign currency forward contracts are used to mitigate currency risk related to foreign currency denominated assets and liabilities. Kodak's exposure to changes in interest rates results from its investing and borrowing activities used to meet its liquidity needs. Kodak does not utilize financial instruments for trading or other speculative purposes.

Kodak's foreign currency forward contracts are not designated as hedges and are marked to market through net (loss) earnings at the same time that the exposed assets and liabilities are remeasured through net (loss) earnings (both in Other (income) charges, net in the Consolidated Statement of Operations). The notional amount of such contracts open at September 30, 2017 and December 31, 2016 was approximately \$543 million and \$340 million, respectively. The majority of the contracts of this type held by Kodak as of September 30, 2017 are denominated in Swiss francs and euros. The majority of the contracts of this type held by Kodak as of December 31, 2016 were denominated in euros, British pounds, and Chinese renminbi.

The net effect of foreign currency forward contracts in the results of operations is shown in the following table:

| (in millions) | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|-------------------------------------|--------|------------------------------------|--------|
| | 2017 | 2016 | 2017 | 2016 |
| Net loss from derivatives not designated as hedging instruments | \$ (8) | \$ (2) | \$ (8) | \$ (3) |

Kodak had no derivatives designated as hedging instruments for the three and nine months ended September 30, 2017 and 2016.

In the event of a default under the Company's Senior Secured First Lien Term Credit Agreement, the Amended Credit Agreement, or a default under any derivative contract or similar obligation of Kodak, subject to certain minimum thresholds, the derivative counterparties would have the right, although not the obligation, to require immediate settlement of some or all open derivative contracts at their then-current fair value, but with liability positions netted against asset positions with the same counterparty.

As discussed in Note 15, "Redeemable, Convertible, Series A Preferred Stock", the Company concluded that the Series A Preferred Stock is considered more akin to a debt-type instrument and that the economic characteristics and risks of the embedded conversion features, except where the conversion price was increased to the liquidation preference, were not considered clearly and closely related to the Series A Preferred Stock. The embedded conversion features not considered clearly and closely related are the conversion at the option of the holder ("Optional Conversion"); the ability of Kodak to automatically convert the stock after the second anniversary of issuance ("Mandatory Conversion") and the conversion in the event of a fundamental change or reorganization ("Fundamental Change or Reorganization Conversion"). Accordingly, these embedded conversion features were bifurcated from the Series A Preferred Stock and separately accounted for on a combined basis as a single derivative liability which is reported in Other long-term liabilities in the Consolidated Statement of Financial Position. The derivative liability is being accounted for at fair value with changes in fair value being reported in Other (income) charges, net in the Consolidated Statement of Operations.

Fair Value

Fair values of marketable securities are determined using quoted prices in active markets for identical assets (Level 1 fair value measurements). Fair values of Kodak's foreign currency forward contracts are determined using observable inputs (Level 2 fair value measurements) and are based on the present value of expected future cash flows (an income approach valuation technique) considering the risks involved and using discount rates appropriate for the duration of the contracts. The gross fair value of foreign currency forward contracts in an asset position are reported in Receivables, net and the gross fair value of foreign currency forward contracts in a liability position are reported in Other current liabilities in the Consolidated Statement of Financial Position. Neither the fair value of marketable securities nor the gross fair values of the foreign currency forward contracts was material as of September 30, 2017 and December 31, 2016.

Transfers between levels of the fair value hierarchy are recognized based on the actual date of the event or change in circumstances that caused the transfer. There were no transfers between levels of the fair value hierarchy during the three and nine months ended September 30, 2017.

The fair value of the embedded conversion features derivative liability is calculated using unobservable inputs (Level 3 fair measurements). The value of the Optional Conversion and Mandatory Conversion is calculated using a binomial lattice model. The following table presents the key inputs in the determination of the fair value of the Optional Conversion and Mandatory Conversion at September 30, 2017 and December 31, 2016:

| | Valuation Date | |
|--|-----------------------|----------------------|
| | September 30, 2017 | December 31, 2016 |
| Total value of embedded derivative liability (\$ millions) | \$ 1 | \$ 43 |
| Kodak's closing stock price | 7.35 | 15.50 |
| Expected stock price volatility | 43.27% | 42.85% |
| Risk free rate | 1.79% | 1.93% |
| Yield on the preferred stock | 12.46% | 11.38% |

The Fundamental Change and Reorganization Conversion value at issuance was calculated as the difference between the total value of the Series A Preferred Stock and the sum of the net present value of the cash flows if the Series A Preferred Stock is redeemed on its fifth anniversary and the values of the other embedded derivatives. The Fundamental Change and Reorganization Conversion value reduces the value of the embedded conversion features derivative liability. Unless events occur which would alter the likelihood of a fundamental change or reorganization event, the value of the Fundamental Change and Reorganization Conversion reflects the value as of the issuance date, amortized for the passage of time.

The fair values of long-term borrowings (Level 2 fair value measurements) are determined by reference to quoted market prices of similar instruments, if available, or by pricing models based on the value of related cash flows discounted at current market interest rates. The fair values of long-term borrowings were \$411 million and \$406 million at September 30, 2017 and December 31, 2016, respectively.

The carrying values of cash and cash equivalents and restricted cash approximate their fair values.

Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations

CAUTIONARY STATEMENT PURSUANT TO SAFE HARBOR PROVISIONS OF THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995

This report on Form 10-Q includes “forward-looking statements” as that term is defined under the Private Securities Litigation Reform Act of 1995.

Forward-looking statements include statements concerning Kodak’s plans, objectives, goals, strategies, future events, future revenue or performance, capital expenditures, liquidity, investments, financing needs and business trends and other information that is not historical information. When used in this document, the words “estimates,” “expects,” “anticipates,” “projects,” “plans,” “intends,” “believes,” “predicts,” “forecasts,” “strategy,” “continues,” “goals,” “targets” or future or conditional verbs, such as “will,” “should,” “could,” or “may,” and similar expressions, as well as statements that do not relate strictly to historical or current facts, are intended to identify forward-looking statements. All forward-looking statements, including management’s examination of historical operating trends and data, are based upon Kodak’s expectations and various assumptions. Future events or results may differ from those anticipated or expressed in the forward-looking statements. Important factors that could cause actual events or results to differ materially from the forward-looking statements include, among others, the risks and uncertainties described in more detail in Kodak’s Annual Report on Form 10-K for the year ended December 31, 2016 under the headings “Business,” “Risk Factors,” “Legal Proceedings,” and/or “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources,” in the corresponding sections of this report on Form 10-Q and in Kodak’s quarterly report on Form 10-Q for the quarters ended March 31, 2017 and June 30, 2017, and in other filings Kodak makes with the SEC from time to time, as well as the following:

- Kodak’s ability to improve and sustain its operating structure, cash flow, profitability and other financial results;
- the ability of Kodak to achieve cash forecasts, financial projections, and projected growth;
- Kodak’s ability to achieve the financial and operational results contained in its business plans;
- Kodak’s ability to comply with the covenants in its various credit facilities;
- Kodak’s ability to fund continued investments, capital needs and restructuring payments and service its debt and Series A Preferred Stock;
- Kodak’s ability to discontinue, sell or spin-off certain businesses or operations, or otherwise monetize assets;
- changes in foreign currency exchange rates, commodity prices and interest rates;
- Kodak’s ability to effectively anticipate technology trends and develop and market new products, solutions and technologies;
- Kodak’s ability to effectively compete with large, well-financed industry participants;
- continued sufficient availability of borrowings and letters of credit under the Amended Credit Agreement, Kodak’s ability to obtain additional financing if and as needed and Kodak’s ability to provide or facilitate financing for its customers;
- the performance by third parties of their obligations to supply products, components or services to Kodak; and
- the impact of the global economic environment on Kodak.

There may be other factors that may cause Kodak’s actual results to differ materially from the forward-looking statements. All forward-looking statements attributable to Kodak or persons acting on its behalf apply only as of the date of this report on Form 10-Q and are expressly qualified in their entirety by the cautionary statements included or referenced in this document. Kodak undertakes no obligation to update or revise forward-looking statements to reflect events or circumstances that arise after the date made or to reflect the occurrence of unanticipated events.

OVERVIEW

Kodak is a global commercial printing and imaging company with proprietary technologies in materials science, digital imaging science and software, and deposition processes (methods whereby one or more layers of various materials in gaseous, liquid or small particle form are deposited on a substrate in precise quantities and positions). Kodak leverages its core technology products and services to develop solutions for the product goods packaging and graphic communications markets, and is commercializing products in functional printing markets. Kodak also offers brand licensing and intellectual property opportunities, provides products and services for motion pictures and other commercial films, and sells ink to its existing installed consumer inkjet printer base.

Revenue declined \$32 million (8%) and \$94 million (8%) compared to the prior year quarter and first nine months, respectively.

Kodak's strategy is to:

- Use Kodak's divisional structure to drive accountability, transparency and speed of decision making;
- Focus product investment in growth engines - Sonora, Prosper, FLEXCEL NX Systems and Plates, Advanced Materials and 3D Printing and Software and Services;
- Maintain its market leadership position and cash flows associated with Print Systems;
- Manage the expected decline in and maximize cash generated by mature businesses;
- Continue to streamline processes to drive cost reductions and improve operating leverage; and
- Continue to explore opportunities to monetize the asset base.

A discussion of opportunities and challenges related to Kodak's strategy follows:

- Print Systems' revenues accounted for approximately 61% of Kodak's revenues for both the three and nine months ended September 30, 2017. Print Systems' revenues declined \$18 million (7%) and \$58 million (8%) compared with the prior year quarter and first nine months, respectively. Segment earnings declined \$14 million (52%) and \$25 million (37%) compared with the prior year quarter and first nine months, respectively, driven by pricing and volume pressures. While digital plate offerings are experiencing market driven volume and pricing pressure, innovations in Kodak product lines which command premium prices, such as SONORA Process Free Plates, are expected to offset some of the long-term erosion in the market and manufacturing efficiencies are expected to mitigate the impact on earnings from revenue declines.
- In Enterprise Inkjet Systems, the legacy Versamark business is expected to continue to decline as a percentage of the segment's total revenue as the Prosper business continues to grow. The Prosper Inkjet Systems business is expected to continue to build profitability. Investment in the next generation technology, Ultrastream, is focused on the ability to place Ultrastream writing systems in original equipment manufacturers and hybrid applications. Enterprise Inkjet Systems' revenue decreased \$14 million (30%) and \$18 million (15%) but the segment earnings improved \$9 million and \$20 million compared with the prior year quarter and first nine months, respectively, driven by a streamlining of the Prosper business, as well as a favorable comparison for a customer cost in the prior year period.
- Within the Flexographic Packaging segment, growth in the installed base of FLEXCEL NX System computer-to-plate (CtP) imaging and related equipment is expected to drive continued growth of FLEXCEL NX printing consumables. The Other Packaging Business includes packaging printing products and services that are in mature stages in their product life cycles. Flexographic Packaging revenue and segment earnings were unchanged compared to the prior year quarter and increased \$6 million (6%) and \$4 million (24%), respectively, compared with the prior year first nine months. Segment revenue growth from FLEXCEL NX consumables in the quarter and first nine months was mitigated by the impact on segment revenue from declines in FLEXCEL NX equipment sales. FLEXCEL NX consumables experience shifts in demand from quarter to quarter based on order patterns of existing customers and the rate at which new customers ramp-up plate volume. FLEXCEL NX equipment sales have been affected by the timing of trade shows in the prior and current year. Drupa 2016 was held in May, and many of the orders taken at the show were installed in the third quarter of 2016. In 2017, the largest packaging industry trade show (Label Expo) was held in September, resulting in different quarterly comparisons on CtP equipment unit sales from year to year.
- The Software and Solutions segment is comprised of Unified Workflow Solutions and Kodak Technology Solutions which includes enterprise services and solutions. Unified Workflow Solutions is an established product line, whereas Kodak Technology Solutions includes document management and managed print services businesses as well as businesses that leverage existing technologies and intellectual property in new applications. The contributions these business initiatives make to earnings are expected to grow with a modest amount of additional investment. Sales in Kodak Technology Solutions are project-based and can vary from year to year depending on the nature and number of projects in existence that year.
- Consumer and Film's revenue was unchanged compared to the prior year quarter and declined \$23 million (13%) compared with the prior year first nine months. Segment earnings declined \$3 million and \$28 million compared with the prior year quarter and first nine months, respectively, driven by the declining installed base of consumer inkjet printers, increased unit costs in the film businesses and one-time items that favorably impacted the prior year. A modification to a brand licensing agreement improved current quarter results. Kodak plans to continue to promote the use of film to utilize as much film manufacturing capacity as possible.
- Film and related component manufacturing operations and Kodak Research Laboratories utilize capacity at Eastman Business Park ("EBP"), which helps cost absorption for both Kodak operations and tenants at EBP.
- Kodak plans to capitalize on its intellectual property through new business or licensing opportunities in 3D printing materials, smart material applications, and printed electronics markets.
- Kodak plans to continue to pursue monetization of its asset base, selling and licensing intellectual property, selling and leasing excess capacity in its properties, and pursuing rights to an earn-out from a previous divestiture.

CURRENT KODAK OPERATING MODEL AND REPORTING STRUCTURE

Effective January 1, 2017, Kodak changed its organizational structure. Micro 3D Printing within the Micro 3D Printing and Packaging segment was moved into the Intellectual Property Solutions segment which has been renamed the Advanced Materials and 3D Printing Technology segment. The Flexographic Packaging business, formerly part of the Micro 3D Printing and Packaging segment, is now being reported as a dedicated segment. Additionally, effective April 1, 2017, digital front-end controllers within the Prosper business in the Enterprise Inkjet Systems segment was moved to the Unified Workflow Solutions business within the Software and Solutions segment.

Prior period segment results have been revised to conform to the current period segment reporting structure.

Financial information is reported for seven reportable segments: Print Systems, Enterprise Inkjet Systems, Flexographic Packaging, Software and Solutions, Consumer and Film, Advanced Materials and 3D Printing Technology and Eastman Business Park.

Print Systems

The Print Systems segment is comprised of Prepress Solutions, which includes Kodak's digital offset plate offerings and computer-to-plate imaging solutions, and Electrophotographic Printing Solutions, which offers high-quality digital printing solutions using electrically charged toner based technology. The Print Systems segment provides digital and traditional product and service offerings to a variety of commercial industries, including commercial print, direct mail, book publishing, newspapers and magazines and packaging.

Prepress Solutions capitalizes on a contract-based, stable and recurring cash flow-generative business model. The average duration of customer contracts is two years. These contracts offer stability and generate recurring revenue. The core of the business is the manufacturing of aluminum digital printing plates of varying sizes. These plates can be as small as 23cm x 27cm and as large as 126cm x 287cm. Unexposed plates are sold to commercial printing companies for use in the offset printing process. Kodak also manufactures equipment, known as Computer to Plate ("CTP") equipment, which images the plates with a laser. The plates are used in the offset printing process, which transfers ink from the plate onto a rubber blanket and then onto the substrate to be printed. Due to the nature of the imaging and printing process, a new plate must be used for each printing run. As a result, there is a recurring revenue stream from the sale of these plates.

The Print Systems products and services are sold globally to customers through both a direct sales team as well as indirectly through dealers.

Prepress Solutions:

- Digital offset plates include KODAK SONORA Process Free Plates. KODAK SONORA Process Free Plates are prepared directly with a CTP thermal output device and do not require subsequent processing chemistry, processing equipment or chemical disposal. As a result, the plates deliver cost savings and efficiency for customers and promote environmental sustainability practices.
- CTP output devices are used by customers to transfer images onto aluminum offset printing plates and provide consistent and high quality imaging for offset press applications. CTP products provide high resolution, consistency and stability in thermal imaging. Kodak also offers a lower cost CTP system using TH5 imaging technology, which provides a highly efficient and cost-effective imaging solution at a lower price point.

Electrophotographic Printing Solutions:

- NEXPRESS printers produce high-quality, differentiated printing of short-run, personalized print applications, such as direct mail, books, marketing collateral and photo products.
- DIGIMASTER printers use monochrome electrophotographic printing technology for transactional printing, short-run books, corporate documentation, manuals and direct mail.

The Print Systems segment also provides service and support related to these products.

Enterprise Inkjet Systems

The Enterprise Inkjet Systems segment contains the Prosper business and the Versamark business. The Enterprise Inkjet Systems products include production press systems, consumables (primarily ink), inkjet components and services.

Prosper:

- The Prosper business product offerings, including the PROSPER Press systems and PROSPER Components, feature ultrafast inkjet droplet generation. This includes the PROSPER 6000 Press, which delivers a continuous flow of ink that enables constant and consistent operation, with uniform ink droplet size and accurate placement, even at very high print speeds. Applications of the PROSPER Press include publishing, commercial print, direct mail and packaging. PROSPER System Components are integrated into original equipment manufacturer partner products and systems. Sales of equipment that incorporate the PROSPER Writing Systems result in recurring revenue from sales of ink and other consumables and equipment service. The level of recurring revenue depends on the application for which the equipment is used, which drives the total number of pages printed and, therefore, the amount of ink usage.

Versamark:

- The KODAK VERSAMARK Products are the predecessor products to the PROSPER Press. Users of KODAK VERSAMARK Products continue to purchase ink and other consumables as well as service from Kodak.

Flexographic Packaging

The Flexographic Packaging segment consists of flexographic imaging equipment, printing plates, consumables and related services, which enable graphic customization of a wide variety of packaging materials.

FLEXCEL NX:

- The FLEXCEL NX System, a fully-integrated digital flexographic plate imaging solution, enables prepress service providers and printers to create printing plates that provide high quality flexographic printing and enhance the efficiency of customers' printing processes.

Other Packaging Business:

- The FLEXCEL SR Plates portfolio comprises a full range of analog flexographic plates designed for trade shops and packaging printers that have not yet transitioned to digital technology. Kodak also manufactures and sells DITR Film, a no-process alternative to conventional graphic arts film and a wide range of analog and digital letterpress plates. Also included under this category are equipment service and the legacy APPROVAL proofing business.

Software and Solutions

The Software and Solutions segment is comprised of Unified Workflow Solutions and Kodak Technology Solutions, which includes enterprise services and solutions. Unified Workflow Solutions is an established product line whereas Kodak Technology Solutions includes document management and managed print services businesses as well as businesses that leverage existing Kodak technologies and intellectual property in new applications.

Unified Workflow Solutions:

- Unified Workflow Solutions offers a leading suite of solutions for print production workflow, including the PRINERGY workflow production software, by providing customer value through automation, web integration and integration with other Kodak systems and third-party offerings. Production workflow software is used by customers to manage digital and conventional print content from file creation to output. Production workflow software manages content and color, reduces manual errors and helps customers manage the collaborative creative process. Kodak believes it is a leader in production workflow solutions for the commercial print and packaging industries with over 15,000 systems installed in some of the largest printing and packaging establishments around the world. The Unified Workflow Solutions business includes digital front-end controllers which manage the delivery of personalized content to digital presses while controlling color and print consistency.

Kodak Technology Solutions:

- Kodak Technology Solutions assists organizations with challenges and opportunities created by the worldwide digital transformation. It provides print and managed media services that assist customers with solutions for their printing requirements and document management services, including expertise in the capture, archiving, retrieval and delivery of documents. Kodak Technology Solutions serves enterprise customers primarily in the government and financial services sectors.

Consumer and Film

The Consumer and Film segment is comprised of three lines of business: Consumer Products, Industrial Film and Chemicals, and Motion Picture.

Consumer Products:

- Includes licensing of Kodak brands to third parties and consumer products. Kodak currently licenses its brand for use with a range of consumer products including batteries, cameras and camera accessories, printers and recordable media. Kodak intends to continue efforts to grow its portfolio of consumer product licenses to generate both ongoing royalty streams and upfront payments.
- Consumer Inkjet Solutions, which involves the sale of ink to an existing installed base of consumer inkjet printers.
- Kodak developed consumer products, including the Super 8 camera.

Industrial Film and Chemicals:

- Offers industrial film, including films used by the electronics industry to produce printed circuit boards, as well as manufactures professional and consumer still photographic film.
- Includes related component businesses: Polyester Film; Solvent Recovery; and Specialty Chemicals, Inks and Dispersions.

Motion Picture:

- Includes the motion picture film business serving the entertainment and advertising industries. Motion picture products are sold directly to studios, external laboratories and independent filmmakers.
- Kodak motion picture film processing laboratories offering onsite processing services at strategic locations in the U.S. and Europe.

Advanced Materials and 3D Printing Technology

The Advanced Materials and 3D Printing Technology segment contains the Kodak Research Laboratories and associated new business opportunities and intellectual property licensing not directly related to other business divisions. Kodak conducts research and files patent applications with fundamental inventions from the Kodak Research Laboratories. Additionally, Kodak continues to file new patent applications in areas aligned with its core businesses. Via these core business patent applications along with the research inventions, Kodak maintains a large worldwide portfolio of pending applications and issued patents. Because product solutions in Advanced Materials and 3D Printing are in the process of being commercialized or are new business opportunities, a higher-level of investment has been required. Going forward, Advanced Materials and 3D Printing Technology will significantly reduce the level of this investment and only concentrate on the opportunities that are commercialized or nearly commercialized with identified markets and customers.

Advanced Materials:

- Advanced Materials is developing solutions for component smart materials based on the materials science inventions and innovations from the research laboratories. There are multiple applications that Kodak contemplated addressing in this category, but the singular focus now is light blocking particles for the textile market.
- Kodak actively seeks opportunities to leverage its patents and associated technology in licensing and/or cross-licensing deals to support both revenue growth and its ongoing businesses. While revenues from these licensing activities tend to be unpredictable in nature, this segment still carries the potential for material revenue generation from intellectual property licensing and new materials businesses.

3D Printing:

- 3D Printing products have the potential to offer many advantages over traditionally manufactured products, including lower cost points, freedom of digital design, customization for small or large runs, and improvements in sustainable manufacturing. Kodak has been focusing its 3D printed touch screen technology on industrial applications (such as consumer appliances). Kodak has decided to cancel the copper mesh touch screen program and to focus on printed electronics partnerships and/or licensing opportunities and materials development for 3D printing. On materials development for 3D printing, Kodak is working with 3D printing customers and is producing materials for their printers.

Eastman Business Park

The Eastman Business Park segment includes the operations of Eastman Business Park, a more than 1,200-acre technology center and industrial complex in Rochester, New York and the leasing activities related to that space. A large portion of this facility is used in Kodak's own manufacturing and other operations, while the remaining portion is occupied by external tenants or available for rent to external tenants.

Segment Revenues

| (in millions) | Three Months Ended | | Nine Months Ended | |
|---|--------------------|---------------|-------------------|-----------------|
| | September 30, | | September 30, | |
| | 2017 | 2016 | 2017 | 2016 |
| Print Systems | \$ 232 | \$ 250 | \$ 681 | \$ 739 |
| Enterprise Inkjet Systems | 33 | 47 | 105 | 123 |
| Flexographic Packaging | 34 | 34 | 104 | 98 |
| Software and Solutions | 21 | 21 | 64 | 66 |
| Consumer and Film | 55 | 55 | 151 | 174 |
| Advanced Materials and 3D Printing Technology | — | — | — | — |
| Eastman Business Park | 4 | 4 | 12 | 11 |
| Consolidated total | <u>\$ 379</u> | <u>\$ 411</u> | <u>\$ 1,117</u> | <u>\$ 1,211</u> |

Segment Operational EBITDA and Consolidated (Loss) Earnings from Continuing Operations Before Income Taxes

| (in millions) | Three Months Ended | | Nine Months Ended | |
|---|--------------------|--------------|-------------------|--------------|
| | September 30, | | September 30, | |
| | 2017 | 2016 | 2017 | 2016 |
| Print Systems | \$ 13 | \$ 27 | \$ 42 | \$ 67 |
| Enterprise Inkjet Systems | 1 | (8) | 2 | (18) |
| Flexographic Packaging | 7 | 7 | 21 | 17 |
| Software and Solutions | 1 | — | — | (1) |
| Consumer and Film | (2) | 1 | (10) | 18 |
| Advanced Materials and 3D Printing Technology | (6) | (6) | (21) | (21) |
| Eastman Business Park | 1 | 1 | 3 | 2 |
| All Other ⁽¹⁾ | — | (2) | — | 2 |
| Corporate components of pension and OPEB income ⁽²⁾ | 37 | 40 | 108 | 121 |
| Depreciation and amortization | (21) | (25) | (62) | (82) |
| Restructuring costs and other | (5) | (2) | (29) | (13) |
| Stock based compensation | (2) | (3) | (7) | (6) |
| Consulting and other costs ⁽³⁾ | (2) | (3) | (3) | (6) |
| Idle costs ⁽⁴⁾ | — | — | (2) | (2) |
| Manufacturing costs originally planned to be absorbed by silver metal mesh touch screen production ⁽⁵⁾ | — | (1) | — | (2) |
| Other operating (expense) income, net ⁽⁶⁾ | (20) | 6 | (32) | (2) |
| Goodwill impairment loss ⁽⁶⁾ | (56) | — | (56) | — |
| Interest expense ⁽⁶⁾ | (8) | (16) | (24) | (48) |
| Other income (charges), net ⁽⁶⁾ | 4 | (1) | 33 | (3) |
| Consolidated (loss) earnings from continuing operations before income taxes | <u>\$ (58)</u> | <u>\$ 15</u> | <u>\$ (37)</u> | <u>\$ 23</u> |

- (1) RED utilities variable interest entity which was deconsolidated as of December 31, 2016 (interest and depreciation of RED are included in the respective lines below).
- (2) Composed of interest cost, expected return on plan assets, amortization of actuarial gains and losses, and curtailment and settlement components of pension and other postretirement benefit expenses.
- (3) Consulting and other costs are professional services and internal costs associated with certain corporate strategic initiatives.
- (4) Consists of third party costs such as security, maintenance and utilities required to maintain land and buildings in certain locations not used in any Kodak operations.
- (5) Consists of manufacturing costs originally planned to be absorbed by silver metal mesh touch screen production that are excluded from the segment measure of profit and loss.
- (6) As reported in the Consolidated Statement of Operations.

Segment Measure of Profit and Loss

Kodak's segment measure of profit and loss is an adjusted earnings before interest, taxes, depreciation and amortization ("Operational EBITDA"). As demonstrated in the above table, Operational EBITDA represents the (loss) earnings from continuing operations excluding the provision for income taxes; corporate components of pension and OPEB income; depreciation and amortization expense; restructuring costs; stock-based compensation expense; consulting and other costs; idle costs; manufacturing costs originally planned to be absorbed by silver metal mesh touch screen production; other operating expense, net (unless otherwise indicated); goodwill impairment losses; interest expense; and other (income) charges, net. Overhead costs no longer absorbed by the Prosper discontinued operations of \$4 million and \$12 million in the three and nine months ended September 30, 2016, respectively, were also excluded from segment earnings while the business was reported in discontinued operations. As the Prosper business is no longer reported in discontinued operations, overhead allocations are included in the Enterprise Inkjet Solutions segment measure for all periods presented.

Kodak's segments are measured using Operational EBITDA both before and after allocation of corporate selling, general and administrative expenses ("SG&A"). The segment earnings measure reported is after allocation of corporate SG&A as this most closely aligns with U.S. GAAP. Research and development activities not directly related to the other segments are reported within the Advanced Materials and 3D Printing Technology segment.

Change in Segment Measure of Profitability

During the first quarter of 2017 the segment measure was changed to exclude internal costs associated with corporate strategic initiatives. The segment measure already excluded external costs associated with those initiatives. Additionally, third party costs associated with incremental idle building space has been added to idle costs.

2017 COMPARED WITH 2016
THIRD QUARTER RESULTS OF OPERATIONS

| (in millions) | Three Months Ended September 30, | | | | | Nine Months Ended September 30, | | | | |
|--|----------------------------------|-------------|--------------|------------|----------------|---------------------------------|------------|-------------|------------|----------------|
| | 2017 | % of Sales | 2016 | % of Sales | \$ Change | 2017 | % of Sales | 2016 | % of Sales | \$ Change |
| Revenues | \$ 379 | | \$ 411 | | \$ (32) | \$ 1,117 | | \$ 1,211 | | \$ (94) |
| Cost of revenues | 292 | | 318 | | (26) | 856 | | 923 | | (67) |
| Gross profit | 87 | 23% | 93 | 23% | (6) | 261 | 23% | 288 | 24% | (27) |
| Selling, general and administrative expenses | 49 | 13% | 50 | 12% | (1) | 155 | 14% | 153 | 13% | 2 |
| Research and development costs | 12 | 3% | 15 | 4% | (3) | 42 | 4% | 46 | 4% | (4) |
| Restructuring costs and other | 4 | 1% | 2 | 0% | 2 | 22 | 2% | 13 | 1% | 9 |
| Other operating expense (income), net | 20 | 5% | (6) | (1)% | 26 | 32 | 3% | 2 | 0% | 30 |
| Goodwill impairment loss | 56 | 15% | — | 0% | 56 | 56 | 5% | — | 0% | 56 |
| (Loss) earnings from continuing operations before interest expense, other (income) charges, net and income taxes | (54) | (14)% | 32 | 8% | (86) | (46) | (4)% | 74 | 6% | (120) |
| Interest expense | 8 | 2% | 16 | 4% | (8) | 24 | 2% | 48 | 4% | (24) |
| Other (income) charges, net | (4) | (1)% | 1 | 0% | (5) | (33) | (3)% | 3 | 0% | (36) |
| (Loss) earnings from continuing operations before income taxes | (58) | (15)% | 15 | 4% | (73) | (37) | (3)% | 23 | 2% | (60) |
| Provision for income taxes | (13) | (3)% | 3 | 1% | (16) | (6) | (1)% | 16 | 1% | (22) |
| Equity in loss of equity method investment, net of income taxes | 1 | 0% | — | 0% | 1 | 1 | — | — | — | — |
| (Loss) earnings from continuing operations | (46) | -12% | 12 | 3% | (58) | (32) | -3% | 7 | 1% | -3900% |
| Loss from discontinued operations, net of income taxes | — | — | — | — | — | (3) | 0% | (2) | 0% | (1) |
| Net (loss) income | (46) | -12% | 12 | 3% | (58) | (35) | -3% | 5 | 0% | (40) |
| Less: Net loss attributable to noncontrolling interests | — | — | (4) | (1)% | 4 | — | — | — | — | — |
| NET (LOSS) EARNINGS ATTRIBUTABLE TO EASTMAN KODAK COMPANY | \$ (46) | -12% | \$ 16 | 4% | \$ (62) | \$ (35) | -3% | \$ 5 | 0% | \$ (40) |

Revenue

Current Quarter

For the three months ended September 30, 2017 revenues declined approximately \$32 million compared with the same period in 2016. The decline was primarily driven by volume and pricing declines within Print Systems (\$21 million) and volume declines within Enterprise Inkjet Systems (\$14 million) and Consumer and Film (\$6 million). Partially offsetting these impacts was a royalty payment from the modification of a brand licensing arrangement (\$6 million). See segment discussions for additional details.

Year to Date

For the nine months ended September 30, 2017 revenues declined approximately \$94 million compared with the same period in 2016. The decline was primarily driven by volume and pricing declines within Print Systems (\$54 million) and volume declines within Consumer and Film (\$28 million) and Enterprise Inkjet Systems (\$16 million). Also contributing to the decline was the unfavorable impact of foreign currency (\$9 million). Partially offsetting these impacts were volume improvements within Flexographic Packaging (\$8 million) and the modification of a brand licensing arrangement (\$6 million). See segment discussions for additional details.

Gross Profit

Current Quarter

The decrease in gross profit for the three months ended September 30, 2017 of approximately \$6 million compared with the same period in 2016 reflected volume and pricing declines within Print Systems (\$15 million) and higher manufacturing costs within Consumer and Film (\$7 million).

Partially offsetting these declines were a royalty payment from the modification of a brand licensing arrangement (\$6 million) and the deconsolidation of the RED utilities variable interest entity (\$6 million). See segment discussions for additional details.

Year to Date

The decrease in gross profit for the nine months ended September 30, 2017 of approximately \$27 million compared with the same period in 2016 reflected volume and pricing declines within Print Systems (\$33 million), increased manufacturing costs in Consumer and Film (\$15 million), volume declines within Consumer and Film (\$13 million) and increased inventory write-offs due to restructuring (\$7 million). Partially offsetting these declines were manufacturing cost improvements within Print Systems (\$5 million) and Enterprise Inkjet Systems (\$4 million), a royalty payment from the modification of a brand licensing arrangement (\$6 million), volume improvements within Flexographic Packaging (\$5 million), reduced costs with the deconsolidation of the RED utilities variable interest entity (\$10 million) and lower depreciation expense (\$8 million, excluding depreciation within the RED utilities variable interest entity). See segment discussions for additional details.

Selling, General and Administrative Expenses

Consolidated SG&A decreased \$1 million for the three months ended September 30, 2017 primarily due to lower investment in segment selling and marketing activities (\$2 million) driven by a lower investment in Enterprise Inkjet Systems. For the nine months ended September 30, 2017, consolidated SG&A increased \$2 million due to lower pension income (\$10 million) partially offset by higher costs in 2016 from participation in drupa 2016 (\$6 million).

Research and Development Costs

Consolidated R&D expenses decreased \$3 million for the three months ended September 30, 2017 primarily due to lower spending on the Super 8 movie camera in the current year period (\$2 million). For the nine months ended September 30, 2017, consolidated R&D expenses decreased \$4 million, due to lower investment in segment R&D activities (\$6 million), primarily reflecting reduced investment in Enterprise Inkjet Systems, partially offset by lower pension income (\$2 million).

PRINT SYSTEMS SEGMENT

| (in millions) | Three Months Ended September 30, | | | Nine Months Ended September 30, | | |
|---------------------------------------|----------------------------------|--------|-----------|---------------------------------|--------|-----------|
| | 2017 | 2016 | \$ Change | 2017 | 2016 | \$ Change |
| Revenues | \$ 232 | \$ 250 | \$ (18) | \$ 681 | \$ 739 | \$ (58) |
| Operational EBITDA | \$ 13 | \$ 27 | \$ (14) | \$ 42 | \$ 67 | \$ (25) |
| Operational EBITDA as a % of revenues | 6% | 11% | | 6% | 9% | |

Revenues

Current Quarter

The decrease in Print Systems revenues for the three months ended September 30, 2017 of approximately \$18 million primarily reflected lower pricing (\$11 million) due to competitive pressures in the industry and lower volumes (\$7 million) driven by declines in plates in Prepress Solutions. Also contributing to the decline was lower volume in Electrophotographic Printing Solutions (\$3 million) due to declines in consumables and service. Offsetting these declines was the favorable impact of foreign currency (\$3 million).

Year to Date

The decrease in Print Systems revenues for the nine months ended September 30, 2017 of approximately \$58 million primarily reflected lower pricing (\$24 million) due to competitive pressures in the industry and lower volumes (\$17 million) driven by declines in plates and service in Prepress Solutions. Also contributing to the decline was lower volume in Electrophotographic Printing Solutions (\$12 million) due to declines in consumables and service. Unfavorable foreign currency (\$4 million) also negatively impacted revenues.

Operational EBITDA

Current Quarter

The decrease in Print Systems Operational EBITDA for the three months ended September 30, 2017 of approximately \$14 million reflected lower pricing in Prepress Solutions (\$11 million) as well as lower volume in Electrophotographic Printing Solutions (\$3 million). Manufacturing cost improvements in Prepress plates (\$3 million) were offset by higher aluminum costs (\$4 million).

Year to Date

The decrease in Print Systems Operational EBITDA for the nine months ended September 30, 2017 of approximately \$25 million reflected pricing and volume declines in Prepress Solutions (\$24 million and \$3 million, respectively) as well as lower volume in Electrophotographic Printing Solutions (\$6 million). Partially offsetting these declines were manufacturing costs improvements in Prepress plates and service due to improved manufacturing efficiency (\$11 million) partially offset by higher aluminum costs (\$6 million) and lower investment in marketing, advertising and sales activities (\$2 million) driven by the prior year participation in drupa 2016.

ENTERPRISE INKJET SYSTEMS SEGMENT

| (in millions) | Three Months Ended September 30, | | | Nine Months Ended September 30, | | |
|---------------------------------------|----------------------------------|--------|-----------|---------------------------------|---------|-----------|
| | 2017 | 2016 | \$ Change | 2017 | 2016 | \$ Change |
| Revenues | \$ 33 | \$ 47 | \$ (14) | \$ 105 | \$ 123 | \$ (18) |
| Operational EBITDA | \$ 1 | \$ (8) | \$ 9 | \$ 2 | \$ (18) | \$ 20 |
| Operational EBITDA as a % of revenues | 3% | (17)% | | 2% | (15)% | |

Revenues

Current Quarter

The decrease in Enterprise Inkjet Systems revenues for the three months ended September 30, 2017 of approximately \$14 million primarily reflected lower volume of PROSPER systems (\$11 million), due to focusing on high volume applications, and components (\$6 million), due to a strong quarter in the prior year driven by the timing of drupa 2016. In addition, volume of VERSAMARK service and consumables decreased due to declines in the installed base of VERSAMARK systems (\$2 million). These declines were partially offset by a revenue reduction due to consideration provided to a customer in the prior year (\$5 million).

Year to Date

The decrease in Enterprise Inkjet Systems revenues for the nine months ended September 30, 2017 of approximately \$18 million primarily reflected lower volume of PROSPER systems (\$15 million), due to focusing on high volume applications, and components (\$6 million), due to a strong third quarter in the prior year driven by the timing of drupa 2016. In addition, volume of VERSAMARK service and consumables decreased due to declines in the installed base of VERSAMARK systems (\$7 million). These unfavorable drivers were partially offset by increased volume of PROSPER service and consumable sales (\$6 million) primarily driven by a larger installed base of PROSPER systems and components, a revenue reduction due to consideration provided to a customer in the prior year (\$5 million) and higher volume of VERSAMARK equipment sales (\$2 million) due to the sale of used equipment in the first quarter of 2017. Unfavorable foreign currency (\$2 million) also negatively impacted revenues.

Operational EBITDA

Current Quarter

The increase in Enterprise Inkjet Systems Operational EBITDA for the three months ended September 30, 2017 of approximately \$9 million was primarily due to a lower level of investment in marketing, advertising and sales activities (\$3 million) and R&D activities (\$1 million) as well as a revenue reduction due to consideration provided to a customer in the prior year (\$4 million). A portion of the lower investments in marketing, advertising and sales and R&D activities represents savings from the PROSPER restructuring actions announced in January 2017 (refer to the "Restructuring Costs and Other – Prosper Business Cost Reduction" section in this Management's Discussion and Analysis). The negative impact of the lower volume of PROSPER component sales was largely offset by the positive impact on profitability from the volume reduction in PROSPER systems.

Year to Date

The increase in Enterprise Inkjet Systems Operational EBITDA for the nine months ended September 30, 2017 of approximately \$20 million was primarily due to a lower level of investment in marketing, advertising and sales activities (\$10 million) due in part to the \$3 million for participation in drupa 2016 in the prior year and R&D activities (\$4 million), and a revenue reduction due to consideration provided to a customer in the prior year (\$4 million). A portion of the lower investments in marketing, advertising and sales and R&D activities represents savings from the PROSPER restructuring actions announced in January 2017 (refer to the “Restructuring Costs and Other – Prosper Business Cost Reduction” section in this Management’s Discussion and Analysis). The negative impact of the lower volume of PROSPER component sales was largely offset by the positive impact on profitability from the volume reduction in PROSPER systems.

FLEXOGRAPHIC PACKAGING SEGMENT

| (in millions) | Three Months Ended September 30, | | | Nine Months Ended September 30, | | |
|---------------------------------------|----------------------------------|-------|-----------|---------------------------------|-------|-----------|
| | 2017 | 2016 | \$ Change | 2017 | 2016 | \$ Change |
| Revenues | \$ 34 | \$ 34 | \$ - | \$ 104 | \$ 98 | \$ 6 |
| Operational EBITDA | \$ 7 | \$ 7 | \$ - | \$ 21 | \$ 17 | \$ 4 |
| Operational EBITDA as a % of revenues | 21% | 21% | | 20% | 17% | |

Revenues

Current Quarter

Flexographic Packaging revenues for the three months ended September 30, 2017 were unchanged compared to the prior year period, reflecting volume improvements in FLEXCEL NX consumables (\$2 million) due to a larger installed base of FLEXCEL NX systems offset by fewer FLEXCEL NX unit placements (\$2 million), due to a strong quarter in the prior year driven by the timing of drupa 2016.

Year to Date

The increase in Flexographic Packaging revenues for the nine months ended September 30, 2017 of approximately \$6 million primarily reflected volume improvements in FLEXCEL NX consumables (\$11 million) due to a larger installed base of FLEXCEL NX systems partially offset by fewer FLEXCEL NX unit placements (\$2 million), declining revenues from other packaging products (\$1 million) and unfavorable foreign exchange (\$1 million).

Operational EBITDA

Current Quarter

Flexographic Packaging Operational EBITDA was unchanged for the three months ended September 30, 2017 compared to the prior year period. Product cost improvements (\$1 million) and the favorable impact of currency (\$1 million) were partially offset by increased investment in marketing and sales activities (\$1 million) and fewer FLEXCEL NX unit placements (\$1 million).

Year to Date

Flexographic Packaging Operational EBITDA increased for the nine months ended September 30, 2017 by approximately \$4 million. Volume improvements in FLEXCEL NX consumables (\$7 million) and product cost improvements (\$1 million) were partially offset by volume and pricing declines in other packaging products (\$2 million) and increased investment in marketing and sales activities (\$2 million).

SOFTWARE AND SOLUTIONS SEGMENT

| (in millions) | Three Months Ended September 30, | | | Nine Months Ended September 30, | | |
|---------------------------------------|----------------------------------|-------|-----------|---------------------------------|--------|-----------|
| | 2017 | 2016 | \$ Change | 2017 | 2016 | \$ Change |
| Revenues | \$ 21 | \$ 21 | \$ - | \$ 64 | \$ 66 | \$ (2) |
| Operational EBITDA | \$ 1 | \$ — | \$ 1 | \$ — | \$ (1) | \$ 1 |
| Operational EBITDA as a % of revenues | 5% | 0% | | 0% | (2)% | |

Revenues

Current Quarter

Software and Solutions revenues for the three months ended September 30, 2017 were unchanged compared to the prior year period.

Year to Date

The decrease in Software and Solutions revenues for the nine months ended September 30, 2017 of approximately \$2 million primarily reflected volume declines in Kodak Technology Solutions due to the divestitures of the Design2Launch and brand protection businesses in the second quarter of 2016 (\$2 million).

Operational EBITDA

Current Quarter

The improvement in Software and Solutions Operational EBITDA for the three months ended September 30, 2017 was approximately \$1 million.

Year to Date

The improvement in Software and Solutions Operational EBITDA for the nine months ended September 30, 2017 of approximately \$1 million primarily reflects a lower level of R&D expenses (\$2 million) partially offset by increased sales and marketing initiatives (\$1 million).

CONSUMER AND FILM SEGMENT

| (in millions) | Three Months Ended September 30, | | | Nine Months Ended September 30, | | |
|---------------------------------------|----------------------------------|-------|-----------|---------------------------------|--------|-----------|
| | 2017 | 2016 | \$ Change | 2017 | 2016 | \$ Change |
| Revenues | \$ 55 | \$ 55 | \$ - | \$ 151 | \$ 174 | \$ (23) |
| Operational EBITDA | \$ (2) | \$ 1 | \$ (3) | \$ (10) | \$ 18 | \$ (28) |
| Operational EBITDA as a % of revenues | (4)% | 2% | | (7)% | 10% | |

Revenues

Current Quarter

Consumer and Film revenues for the three months ended September 30, 2017 were unchanged reflecting a royalty payment from the modification of a brand licensing arrangement (\$6 million) offset by volume declines in Consumer Inkjet Systems (\$3 million) driven by lower sales of ink to the existing installed base of printers and volume declines in Industrial Film and Chemicals (\$3 million) driven by lower demand for photo paper chemicals. The brand licensing modification provided for a payment upon signing satisfying annual minimum royalty payments through 2023.

Year to Date

The decrease in Consumer and Film revenues for the nine months ended September 30, 2017 of approximately \$23 million reflected volume declines in Consumer Inkjet Systems (\$13 million) driven by lower sales of ink to the existing installed base of printers, volume declines in Industrial Film and Chemicals (\$7 million) driven by lower demand for photo paper chemicals and lower volume in Motion Picture (\$2 million). These unfavorable impacts were offset by a royalty payment from the modification of a brand licensing arrangement (\$6 million). The brand licensing modification provided for a payment upon signing satisfying annual minimum royalty payments through 2023. Additionally, the prior year included \$5 million fulfillment of a significant industrial film order and \$3 million related to the fulfillment of motion picture film volume commitments.

Operational EBITDA

Current Quarter

The decrease in Consumer and Film Operational EBITDA for the three months ended September 30, 2017 of approximately \$3 million reflected volume declines in Consumer Inkjet Systems (\$3 million) driven by lower sales of ink to the existing installed base of printers, unfavorable manufacturing costs in Motion Picture (\$5 million), and unfavorable cost absorption in Industrial and Film Chemicals (\$5 million). This was offset by the brand licensing revenue (\$6 million) and lower R&D costs (\$2 million) as the prior year included higher investment in the Super 8 movie camera.

Year to Date

The decrease in Consumer and Film Operational EBITDA for the nine months ended September 30, 2017 of approximately \$28 million reflected volume declines in Consumer Inkjet Systems (\$10 million) driven by lower sales of ink to the existing installed base of printers, unfavorable cost absorption in Industrial Film and Chemicals (\$8 million), unfavorable manufacturing costs in Motion Picture (\$8 million) and higher SG&A (\$6 million) driven by an increased investment in sales and marketing initiatives. This was offset by the brand licensing revenue (\$6 million) and lower costs in Consumer Inkjet Systems (\$2 million). The prior year included the impact of a significant industrial film order (\$4 million) and the fulfillment of motion picture film volume commitments (\$3 million).

ADVANCED MATERIALS AND 3D PRINTING TECHNOLOGY SEGMENT

| (in millions) | Three Months Ended September 30, | | | Nine Months Ended September 30, | | |
|---------------------------------------|----------------------------------|--------|-----------|---------------------------------|---------|-----------|
| | 2017 | 2016 | \$ Change | 2017 | 2016 | \$ Change |
| Revenues | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| Operational EBITDA | \$ (6) | \$ (6) | \$ - | \$ (21) | \$ (21) | \$ - |
| Operational EBITDA as a % of revenues | N/A | N/A | | N/A | N/A | |

Advanced Materials and 3D Printing Technology Operational EBITDA was unchanged. R&D not directly related to other segments is included in the Advanced Materials and 3D Printing Technology segment.

EASTMAN BUSINESS PARK SEGMENT

Eastman Business Park revenue and Operational EBITDA did not change significantly.

A tenant that represented approximately thirty percent of segment revenues, for both the nine months ended September 30, 2017 and the year ended December 31, 2016 notified Kodak that it does not plan to renew its lease upon expiration in the third quarter of 2018.

RESTRUCTURING COSTS AND OTHER

Kodak recorded \$5 million and \$29 million of charges for the three and nine months ended September 30, 2017, respectively, of which \$4 million and \$22 million, respectively, was reported as Restructuring costs and other and \$1 million and \$7 million, respectively, was reported as Cost of revenues in the accompanying Consolidated Statement of Operations.

Kodak made cash payments related to restructuring of approximately \$2 million and \$9 million during the three and nine months ended September 30, 2017.

The restructuring actions implemented in the nine months of 2017 are expected to generate future annual cash savings of approximately \$23 million. These savings are expected to reduce future annual Cost of revenues, SG&A and R&D expenses by \$7 million, \$11 million, and \$5 million, respectively. Kodak began realizing a portion of these savings in the first nine months, and expects the majority of the annual savings to be in effect by the end of 2017 as actions are completed.

Prosper Business Cost Reduction

On January 12, 2017, Kodak announced an action to streamline costs in its Prosper business. This action is pursuant to Kodak's initiative to focus the Prosper business on developing next generation Ulstream technology with solutions that place writing systems in original equipment manufacturer and hybrid applications and the continued placement of Prosper 6000 presses and components in suitable high volume applications. Kodak expects the action to be substantially completed by the end of the fourth quarter of 2017.

As a result of this decision, Kodak currently expects to incur total restructuring and related charges of \$12 to \$16 million, including \$4 to \$6 million of charges related to separation benefits, \$6 million of non-cash related charges for inventory write-downs, \$2 to \$3 million of non-cash related charges for asset write-offs and up to \$1 million in other cash related charges associated with this action.

During the three and nine months ended September 30, 2017 under this program, Kodak incurred severance charges of \$1 million and \$4 million, inventory write-downs of \$0 million and \$6 million, and asset write-offs of \$0 million and \$2 million, respectively.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES UPDATE

Updates to critical accounting policies and estimates in Kodak's 2016 Annual Report on Form 10-K are presented in this section. Refer to Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations" in the 2016 Annual Report on Form 10-K for a complete discussion of all Kodak's critical accounting policies.

Taxes

As of September 30, 2017, Kodak's deferred tax asset valuation allowance is \$1,193 million. Of this amount, \$249 million was attributable to the Company's net deferred tax assets outside the U.S. of \$336 million, and \$944 million related to the Company's net deferred tax assets in the U.S. of \$905 million, for which Kodak believes it is more likely than not that the assets will not be realized.

Kodak establishes valuation allowances for deferred income tax assets in accordance with U.S. GAAP, which provides that such valuation allowances shall be established unless realization of the income tax benefits is more likely than not. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. At each reporting period, Kodak considers the scheduled reversal of deferred tax liabilities and assets, available taxes in carryback periods, tax planning strategies and projected future taxable income in making this assessment.

Kodak has improved profitability in its businesses, particularly outside the U.S. Accordingly, Kodak may be able to make the determination that the realization of those deferred tax assets in certain foreign jurisdictions are more likely than not in the near future. If Kodak was to make a determination that it is more likely than not that deferred tax assets, for which there is currently a valuation allowance, would be realized, the related valuation allowance would be reduced and a benefit to earnings would be recorded. Kodak will continue to evaluate whether valuation allowances are needed, at a jurisdictional level, in future reporting periods. It is possible that sufficient positive evidence, including sustained profitability, may become available in future periods with respect to one or more jurisdictions to reach a conclusion that all or part of the valuation allowance with respect to such jurisdictions could be reversed.

Utilization of post-emergence net operating losses (“NOL”) and tax credits may be subject to limitations in the event of significant changes in stock ownership of the Company in the future. Section 382 of the Internal Revenue Code of 1986, as amended, imposes annual limitations on the utilization of NOL carryforwards, other tax carryforwards, and certain built-in losses as defined under that Section, upon an ownership change. In general terms, an ownership change may result from transactions that increase the aggregate ownership of five percent stockholders in Kodak’s stock by more than 50 percentage points over a testing period (generally three years). The Company has a relatively high concentration of five percent stockholders. There have been several recently reported transactions with those five percent stockholders that, combined with future transactions, could aggregate an ownership change during the testing period in excess of 50 percentage points. A Section 382 ownership change would significantly impair Kodak’s ability to utilize NOLs and tax credits in the U.S. As of December 31, 2016, Kodak had available U.S. NOL carry-forwards for income tax purposes of approximately \$801 million and unused foreign tax credits of \$335 million. Any impairment of these tax attributes would be fully offset by a corresponding decrease in Kodak’s U.S. valuation allowance, which would result in no net tax provision.

Valuation and Useful Lives of Long-Lived Assets, Including Goodwill and Intangible Assets

Kodak performs its annual goodwill impairment test as of December 31st. Given the decline in Kodak’s financial projections for the year and market capitalization from the last goodwill impairment test (December 31, 2016), Kodak performed an interim goodwill impairment test as of September 30, 2017.

Goodwill is tested for impairment at a level of reporting referred to as a reporting unit, which is an operating segment or one level below an operating segment (a component) if the component constitutes a business for which discrete financial information is available and regularly reviewed by segment management.

The Print Systems segment has two goodwill reporting units: Prepress Solutions and Electrophotographic Printing Solutions. The Software and Solutions segment has two goodwill reporting units: Kodak Technology Solutions and Unified Workflow Solutions. The Consumer and Film segment has two goodwill reporting units: Consumer Products and Motion Picture, Industrial Chemicals and Films. The Flexographic Packaging segment, Enterprise Inkjet Systems segment, Advanced Materials and 3D Printing Technology segment and Eastman Business Park segment all have one goodwill reporting unit. Goodwill is recorded in the Prepress Solutions, Flexographic Packaging, Unified Workflow Solutions and Consumer Products reporting units.

Kodak early adopted ASU 2017-04 effective January 1, 2017 which requires entities to calculate a goodwill impairment as the amount by which a reporting unit’s carrying value exceeds its fair value, not to exceed the carrying amount of goodwill.

Determining the fair value of a reporting unit involves the use of significant estimates and assumptions. Kodak estimates the fair value of its reporting units using the guideline public company method and discounted cash flow method. To estimate fair value utilizing the guideline public company method, Kodak applies valuation multiples, derived from the operating data of publicly-traded benchmark companies, to the same operating data of the reporting units. The valuation multiples are based on earnings before interest, taxes, depreciation and amortization (“EBITDA”). To estimate fair value utilizing the discounted cash flow method, Kodak establishes an estimate of future cash flows for each reporting unit and discounts those estimated future cash flows to present value.

Kodak performed a quantitative test of impairment for all reporting units as of September 30, 2017. Kodak utilized the discounted cash flow method and guideline public company method for the reporting units with goodwill. For these reporting units, Kodak selected equal weighting of the guideline public company method and the discounted cash flow method as the valuation approaches produced comparable ranges of fair value. Fair values for the other reporting units were estimated using the discounted cash flow method only.

To estimate fair value utilizing the discounted cash flow method, Kodak established an estimate of future cash flows for the period ranging from October 1, 2017 to December 31, 2022 and discounted the estimated future cash flows to present value. The expected cash flows were derived from earnings forecasts and assumptions regarding growth and margin projections, as applicable. The discount rates are estimated based on an after-tax

weighted average cost of capital (“WACC”) for each reporting unit reflecting the rate of return that would be expected by a market participant. The WACC also takes into consideration a company specific risk premium for each reporting unit reflecting the risk associated with the overall uncertainty of the financial projections. Discount rates of 10.2% to 45.0% were utilized in the valuation based on Kodak’s best estimates of the after- tax weighted-average cost of capital of each reporting unit.

A terminal value was included for all reporting units at the end of the cash flow projection period to reflect the remaining value that the reporting unit is expected to generate. The terminal value was calculated using either the constant growth method (“CGM”) based on the cash flows of the final year of the discrete period or the H-model, which assumes the growth during the terminal period starts at a higher rate and declines in a linear manner over a specified transition period toward a stable growth rate.

Based upon the results of Kodak’s September 30, 2017 analysis, Kodak concluded that the Prepress Solutions reporting unit’s carrying value exceeded its fair value and recorded a pre-tax goodwill impairment loss of \$56 million in the Consolidated Statement of Operations. As a result of the impairment, Kodak recorded an \$18 million tax benefit. No impairment of goodwill was indicated for the other reporting units. Impairment of goodwill could occur in the future if a reporting unit’s fair value changes significantly, if Kodak’s market capitalization significantly declines, if a reporting unit’s carrying value changes materially compared with changes in its fair value, or as a result of changes in operating segments or reporting units.

Kodak performs its annual indefinite-lived intangible asset impairment test as of December 31st. Given the revised financial projections, Kodak performed an interim impairment test related to the Kodak trade name as of September 30, 2017.

The fair value of the Kodak trade name, which has a carrying value of \$40 million, was valued using the income approach, specifically the relief from royalty method based on the following significant assumptions: (a) forecasted revenues ranging from October 1, 2017 to December 31, 2022, including a terminal year with growth rates ranging from –4.5% to 2.5%; (b) royalty rates ranging from .4% to 1% of expected net sales determined with regard to comparable market transactions and profitability analysis; and (c) discount rates ranging from 10.2% to 45.0%, which were based on the after-tax weighted-average cost of capital.

Based on the results of Kodak’s September 30, 2017 assessment, the fair value of the Kodak trade name exceeded its carrying value by 8% and no impairment was indicated. Impairment of the Kodak trade name could occur in the future if expected revenues decline or if there are significant changes in the discount or royalty rates.

LIQUIDITY AND CAPITAL RESOURCES

| (in millions) | September 30, 2017 | December 31, 2016 |
|--|-----------------------|----------------------|
| Cash, cash equivalents and restricted cash | \$ 366 | \$ 478 |

Cash Flow Activity

| (in millions) | Nine Months Ended September 30, | | |
|--|------------------------------------|---------|---------|
| | 2017 | 2016 | Change |
| Cash flows from operating activities: | | | |
| Net cash used in operating activities | \$ (77) | \$ (32) | \$ (45) |
| Cash flows from investing activities: | | | |
| Net cash used in investing activities | (25) | (16) | (9) |
| Cash flows from financing activities: | | | |
| Net cash used in financing activities | (19) | (20) | 1 |
| Effect of exchange rate changes on cash | 9 | 2 | 7 |
| Net decrease in cash, cash equivalents and restricted cash | \$ (112) | \$ (66) | \$ (46) |

Operating Activities

Net cash used in operating activities increased \$45 million for the nine months ended September 30, 2017 as compared with the corresponding period in 2016 due to increased cash usage for working capital driven by inventory increases in anticipation of sequential quarter sales growth at higher rates relative to prior year sequential quarter sales growth, less cash provided by accounts receivable and lower cash earnings partially offset by reduced payments for current liabilities in the current year.

Cash earnings included lower interest expense (\$24 million) in the current year period primarily due to the prepayment of the Senior Secured Second Lien Term Credit Agreement and \$10 million in net litigation proceeds from DuPont received in the prior year period.

Investing Activities

Net cash used in investing activities increased \$9 million for the nine months ended September 30, 2017 as compared with the corresponding period in 2016 primarily due to a decrease in proceeds received from sales of assets.

Financing Activities

Net cash used in financing activities decreased \$1 million in the nine months ended September 30, 2017 as compared with the corresponding period in 2016, primarily due to repayments of emergence credit facilities in the prior year period partially offset by the dividend payments made to the holders of Series A Preferred Stock and larger payment of contingent consideration related to the sale of a business made in the current year period. In addition, the prior year period included financing activities associated with the RED variable interest entity, which was deconsolidated as of December 31, 2016.

Sources of Liquidity

Available liquidity includes cash balances and the unused portion of the Amended Credit Agreement. The Amended Credit Agreement had \$20 million of net availability as of September 30, 2017. The amount of available liquidity is subject to fluctuations and includes cash balances held by various entities worldwide. At September 30, 2017 and December 31, 2016 approximately \$154 million and \$205 million, respectively, of cash and cash equivalents were held within the U.S. and approximately \$188 million and \$229 million, respectively, of cash and cash equivalents were held outside the U.S. Cash balances held outside the U.S. are generally required to support local country operations and may have high tax costs or other limitations that delay the ability to repatriate, and therefore may not be readily available for transfer to other jurisdictions. Kodak utilizes cash balances outside the U.S. to fund needs in the U.S. through the use of intercompany loans. As of September 30, 2017, outstanding inter-company loans to the U.S. were \$388 million which includes short-term intercompany loans of \$95 million. In China, where approximately \$106 million of cash and cash equivalents was held as of September 30, 2017, there are limitations related to net asset balances that may impact the ability to make cash available to other jurisdictions in the world. Under the terms of the Senior Secured First Lien Term Credit Agreement (the "Term Credit Agreement") and the Amended Credit Agreement, the Company is permitted to invest up to \$100 million in subsidiaries and joint ventures that are not party to these loan agreements.

As of September 30, 2017 and December 31, 2016, Kodak had funded \$0 million and \$25 million, respectively, to the Eligible Cash account held with the Amended and Restated Credit Agreement Administrative Agent which was classified as Restricted cash in the Consolidated Statement of Financial Position, supporting the Excess Availability amount. During the second quarter of 2017, the Company reduced the amount of outstanding letters of credit issued under the Amended Credit Agreement by \$20 million, which increased the amount of Excess Availability by a corresponding amount, enabling the Company to release the Eligible Cash. The reduction of outstanding letters of credit was primarily attributable to the substitution of partially collateralized surety bonds in place of outstanding letters of credit. If the Company's credit ratings were to decline, the Company would be required to provide up to \$19 million of letters of credit to the issuers of the surety bonds to fully collateralize the bonds. Under the Amended Credit Agreement, if Excess Availability (\$20 million at September 30, 2017) falls below 12.5% of lender commitments (\$18.75 million at September 30, 2017), Kodak would be required to be in compliance with the minimum Fixed Charge Coverage Ratio (the only financial covenant in the Amended Credit Agreement) and could become subject to cash dominion control. In addition to Eligible Cash, the borrowing base is supported by Eligible Receivables, Eligible Inventory and Eligible Equipment. To the extent the assets supporting the borrowing base decline and/or letters of credit issued under the Amended Credit Agreement increase, if the remaining assets included in the borrowing base are not sufficient to support the required Excess Availability amount, funding of Eligible Cash may be required. Kodak intends to maintain Excess Availability above the minimum threshold. Since Excess Availability was greater than 12.5% of lender commitments as of September 30, 2017, Kodak is not required to have a minimum Fixed Charge Coverage Ratio of 1.0 to 1.0. As of September 30, 2017, Kodak is in compliance with all covenants under the Amended Credit Agreement and, had Kodak been required to have a Fixed Charge Coverage Ratio of 1.0 to 1.0, EBITDA (as defined in the Amended Credit agreement) exceeded Fixed Charges by approximately \$1 million.

Under the terms of the Senior Secured First Lien Term Credit Agreement (the "Term Credit Agreement"), Kodak is required to maintain a Secured Leverage Ratio (the only financial covenant in the Term Credit Agreement) not to exceed 2.75 to 1. The Secured Leverage Ratio is tested at the end of each quarter based on the prior four quarters and is generally determined by dividing secured debt, net of U.S. cash and cash equivalents, by consolidated EBITDA, as calculated under the Term Credit Agreement. As of September 30, 2017, Kodak's EBITDA, as calculated under the Term Credit Agreement, exceeded the EBITDA necessary to satisfy the covenant ratio by approximately \$13 million.

Kodak intends to conduct its operations in a manner that will result in continued compliance with the Secured Leverage Ratio covenant; however, compliance for future quarters may depend on Kodak undertaking one or more non-operational transactions, such as 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 Kodak's 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.

The holders of the 5.50% Series A Convertible Preferred Stock are entitled to cumulative dividends payable quarterly in cash at a rate of 5.50% per annum. The Company declared a cash dividend of approximately \$3 million in September 2017, which was paid on October 19, 2017.

Kodak made net contributions (funded plans) or paid benefits (unfunded plans) totaling approximately \$11 million to its defined benefit pension and postretirement benefit plans in the first nine months of 2017. For the balance of 2017, the forecasted contribution (funded plans) and benefit payment (unfunded plans) requirements for its pension and postretirement plans are approximately \$6 million.

Cash flow from investing activities included \$28 million of capital expenditures for the nine months ended September 30, 2017. Kodak expects approximately \$30 million to \$35 million of total capital expenditures for 2017. Kodak is expanding its manufacturing facility in Weatherford, Oklahoma to provide additional production capacity for FLEXCEL NX Plates. The additional capacity will supplement Kodak's existing plate manufacturing facility in Yamanashi, Japan and is designed to meet increasing demand. The new production line is expected to be in full production by mid-2019 and will initially focus on supplying FLEXCEL NX Plates to customers in the United States, Canada and Latin America. Kodak invested approximately \$4 million in the first nine months of 2017, expects to invest approximately \$12 million for the full year 2017 and expects the total investment for the project to be approximately \$16 million.

Kodak believes that its liquidity position is adequate to fund its operating and investing needs for the next year and to provide the flexibility to respond as necessary to any changes in the business environment.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Kodak, as a result of its global operating and financing activities, is exposed to changes in foreign currency exchange rates, commodity prices, and interest rates, which may adversely affect its results of operations and financial position. In seeking to minimize the risks associated with such activities, Kodak may enter into derivative contracts. Kodak does not utilize financial instruments for trading or other speculative purposes. Foreign currency forward contracts are used to hedge existing foreign currency denominated assets and liabilities, especially those of Kodak's International Treasury Center, as well as forecasted foreign currency denominated intercompany sales. Kodak's exposure to changes in interest rates results from its investing and borrowing activities used to meet its liquidity needs. Long-term debt is generally used to finance long-term investments, while short-term debt is used to meet working capital requirements.

Using a sensitivity analysis based on estimated fair value of open foreign currency forward contracts using available forward rates, if the U.S. dollar had been 10% stronger at September 30, 2017 and December 31, 2016, the fair value of open forward contracts would have decreased at both dates by \$20 million. Such changes in fair value would be substantially offset by the revaluation or settlement of the underlying positions hedged.

Kodak is exposed to interest rate risk primarily through its borrowing activities. Kodak may utilize borrowings to fund its working capital and investment needs. The majority of short-term and long-term borrowings are in variable rate instruments. There is inherent roll-over risk for borrowings and marketable securities as they mature and are renewed at current market rates. The extent of this risk is not predictable because of the variability of future interest rates and business financing requirements.

Kodak's Senior Secured First Lien Term Credit Agreement and Amended Credit Agreement are in variable-rate instruments, the Senior Secured First Lien Term Credit Agreement with an interest rate floor. At September 30, 2017 the three-month LIBOR rate was approximately 1.33%. At December 31, 2016 the one-month LIBOR rate was approximately 0.77%. When LIBOR rates rise above the 1% floor, interest expense increases approximately \$4 million per annum for each 1% of LIBOR above the floor.

Kodak's financial instrument counterparties are high-quality investment or commercial banks with significant experience with such instruments. Kodak manages exposure to counterparty credit risk by requiring specific minimum credit standards and diversification of counterparties. Kodak has procedures to monitor the credit exposure amounts. The maximum credit exposure at September 30, 2017 was not significant to Kodak.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Kodak maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in Kodak's reports filed or submitted under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to management, including Kodak's Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. Kodak's management, with participation of Kodak's Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of Kodak's disclosure controls and procedures as of the end of the period covered by this Quarterly Report on Form 10-Q. Kodak's Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of the period covered by this Quarterly Report on Form 10-Q, Kodak's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) were effective.

Changes in Internal Control over Financial Reporting

There have been no changes in Kodak's internal control over financial reporting during the most recently completed fiscal quarter that have materially affected, or are reasonably likely to materially affect, Kodak's internal control over financial reporting.

Part II. Other Information

Item 1. Legal Proceedings

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 and income taxes. Kodak's Brazilian operations are disputing these matters and intend to vigorously defend their position. Kodak routinely assesses 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, 2017, Kodak maintained accruals of approximately \$11 million for claims aggregating approximately \$210 million inclusive of interest and penalties where appropriate. In connection with assessments and litigation in Brazil, local regulations may require Kodak to post security for a portion of the amounts in dispute. Generally, any encumbrances of 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, 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 condition 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.

Item 1A. Risk Factors

Reference is made to the Risk Factors set forth in Part I, Item 1A. of the 2016 Form 10-K. The Risk Factors remain applicable from the 2016 Form 10-K.

Item 2. Unregistered Sales of Securities and Use of Proceeds

(a) Sales of unregistered securities during the quarter ended September 30, 2017

Not Applicable

(b) Issuer purchases of equity securities during the quarter ended September 30, 2017

Repurchases related to Stock Compensation Plans ⁽¹⁾:

| | Total Number of Shares Purchased | Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs | Maximum That May Be Purchased under the Plans or Programs |
|------------------------|----------------------------------|------------------------------|--|---|
| August 1 through 31 | 4,309 | 8.49 | n/a | n/a |
| September 1 through 30 | 36,283 | 7.80 | n/a | n/a |
| Total | 40,592 | | | |

(1) These repurchases are made pursuant to the terms of the 2013 Omnibus Incentive Plan providing the Company the right to withhold amounts deliverable under the plan to satisfy minimum statutory tax withholding requirements.

Items 3 and 4.

Not applicable.

Item 5. Other Information

Not applicable.

Item 6. Exhibits

(a) Exhibits required as part of this report are listed in the index appearing below.

Eastman Kodak Company
Index to Exhibits

- (31.1) [Certification signed by Jeffrey J. Clarke, filed herewith.](#)
- (31.2) [Certification signed by David E. Bullwinkle, filed herewith.](#)
- (32.1) [Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, signed by Jeffrey J. Clarke, filed herewith.](#)
- (32.2) [Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 signed by David E. Bullwinkle, filed herewith.](#)
- (101.CAL) XBRL Taxonomy Extension Calculation Linkbase.
- (101.INS) XBRL Instance Document.
- (101.LAB) XBRL Taxonomy Extension Label Linkbase.
- (101.PRE) XBRL Taxonomy Extension Presentation Linkbase.
- (101.SCH) XBRL Taxonomy Extension Schema Linkbase.
- (101.DEF) XBRL Taxonomy Extension Definition Linkbase

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

EASTMAN KODAK COMPANY
(Registrant)

Date November 8, 2017

/s/ Eric Samuels

Eric Samuels
Chief Accounting Officer and Corporate Controller
(Chief Accounting Officer and Authorized Signatory)

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CERTIFICATION

I, Jeffrey J. Clarke, certify that:

- 1) I have reviewed this Form 10-Q;
- 2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
- 3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
- 4) The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
- 5) The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/Jeffrey J. Clarke
Jeffrey J. Clarke
Chief Executive Officer

Date: November 8, 2017

CERTIFICATION

I, David E. Bullwinkle, certify that:

- 1) I have reviewed this Form 10-Q;
- 2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
- 3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
- 4) The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
- 5) The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/David E. Bullwinkle
David E. Bullwinkle
Chief Financial Officer

Date: November 8, 2017

**CERTIFICATION PURSUANT TO
18 U.S.C. Section 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Eastman Kodak Company (the "Company") on Form 10-Q for the period ended September 30, 2017 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Jeffrey J. Clarke, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

- 1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- 2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/Jeffrey J. Clarke
Jeffrey J. Clarke
Chief Executive Officer

Date: November 8, 2017

**CERTIFICATION PURSUANT TO
18 U.S.C. Section 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Eastman Kodak Company (the "Company") on Form 10-Q for the period ended September 30, 2017 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, David E. Bullwinkle, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

- 1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- 2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/David E. Bullwinkle
David E. Bullwinkle
Chief Financial Officer

Date: November 8, 2017