

## Kodak employees, retirees, shareholders, management all could be bankruptcy losers

Eastman Kodak's Chapter 11 bankruptcy filing is like a large rock dropped into a pond, with its impact rippling out in all directions.

Each bankruptcy is unique, meaning it's almost impossible to say definitively what its effect will be, at least for now. But here's how it might impact some of the key stakeholders:

### Retirees

According to the U.S. Labor Department, pension assets generally aren't at risk in a company bankruptcy because pension cash, under federal law, is kept separate from **business** assets.

Additionally, some pension benefits are insured by the federal government through the Pension Benefit Guaranty Corp., though 401(k) plans are not. But it looks unlikely that the Kodak pension would even become the purview of the PBGC since the pension is largely funded, said Derek Szczupakowski, a financial consultant with **AXA** Advisors LLC.

But while a company cannot dip into its pension fund, said Van Conway, CEO of Detroit-based business turnaround consulting firm Conway MacKenzie Inc., it might seek to avoid having to fill any shortfall in the pension fund. And Kodak currently is spending upward of \$50 million a year through 2014 — and then at least \$90 million a year through 2022 — to fill a financial hole in its United Kingdom pension plan.

Retirees' and workers' 401(k) plans also are safe, as creditors cannot go after those assets, Szczupakowski said. But potentially those 401(k) plans could be frozen for weeks or even months, meaning no withdrawals, until Kodak's reorganization plan is approved by federal Bankruptcy Court, he said.

"I'm telling people, just move that money into an IRA," Szczupakowski said. "There's no downside to it."

Kodak traditionally had one of the best benefits programs in the nation, which

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made its 2008 announcement that it was ending retirees' dental coverage and company-paid life insurance and beginning a 10-year phase-out of medical coverage for retirees' dependents so jarring to the Rochester region's 25,000 retired Kodakers.

"Retirees having health care (from their former employer) nowadays is a rare thing," Szczupakowski said.

Given the large costs of health care, those benefits likely will be cut during bankruptcy, said John Striebich, chairman of business administration at Monroe Community College.

"If I was a Kodak retiree, I'd be very, very afraid," said Joseph J. McCauley, an assistant professor of business administration at MCC.

### **Employees**

Bankruptcy always brings cost cutting and one likely target is employees, meaning Kodak could cut current workers' benefits as well as the number of workers, Striebich said.

"Benefits have become such a big cost of business today," he said.

### **Investors**

Typically, common and preferred shareholders are wiped out in a bankruptcy, said Edward S. Adams, a professor of finance and law at the University of Minnesota and a bankruptcy expert. When a company files for

bankruptcy, "The only trade you should be making is to sell it," Adams said.

In most cases, a company that successfully goes through Chapter 11 winds up issuing all new shares and wipes out the old, with the new equity going to creditors.

### **Customers**

In some industries, such as airlines, bankruptcy typically means nothing to customers, who assume they still can hop flights to their destinations, said Conway.

"If you're in a complicated manufacturing industry and making sophisticated products for a customer, the customer is going to say 'wait a minute.' In some industries, the customers care. You could have to worry about customer contraction, going elsewhere or buying less. People worry about a warranty, they worry about parts."

### **Company management**

Their jobs could be in jeopardy. If creditors disagree with management's past h

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andling of the company or its plans, they can press the judge to replace the managers with a trustee, McCauley said.

### **Kodak itself**

The company has been dogged for more than three months with bankruptcy rumors that drove its share price down to practically nothing. So the bankruptcy itself comes as little surprise.

And bankruptcy today is considered less a sign that a company is a hopeless failure than it once was, Striebich said.

“Twenty five years ago, (bankruptcy) was this bad thing, a black mark,” he said. “It’s weird how the stigma that used to be attached to it” is gone.

Since the bankruptcy gives the company a chance to make substantive changes that could guarantee its long-term survival, “Overall, it’d be good for Kodak,” McCauley said. “But for a lot of the stakeholders in Rochester, not so good.”

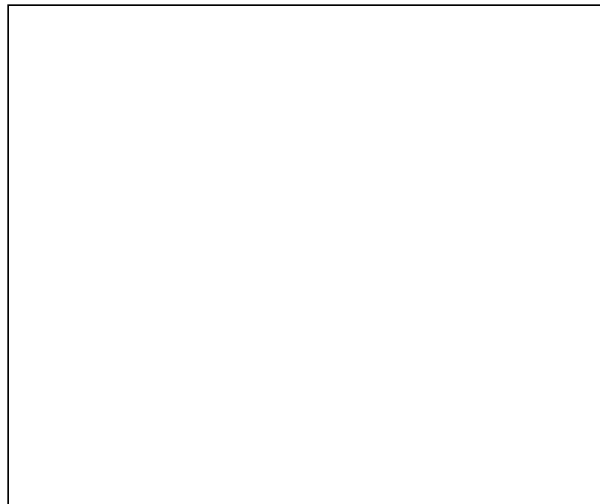
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