

## Kodak seeks to pay up to \$13.5M in bonuses to executives

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Afraid of losing some key employees in bankruptcy midstream, Eastman Kodak Co. is seeking U.S. Bankruptcy Court approval to spend up to \$13.5 million on retention bonuses for more than 100 mid- and upper-level executives.



“Absent employee continuity, (Kodak’s) business operations would be compromised, jeopardizing their restructuring efforts and significantly reducing the likelihood that the debtors will emerge successfully from Chapter 11,” Kodak argued in court paperwork this week.

In its motion seeking bankruptcy court approval for an employee continuity plan, Kodak says it has identified 119 employees among whom it would divide up \$8.5 million, with the bonuses being equivalent to 35 percent to 50 percent of the recipient’s base salary. At \$8.5 million, that works out to bonuses of \$71,400 on average.

The company also wants authorization to spend another \$5 million on retention of other employees as need be.

Kodak filed for protection from its creditors on Jan. 19 and, under Chapter 11 of the bankruptcy code, remains in business while seeking to reorganize and emerge from bankruptcy next year. So far much of its post-Jan. 19 activity has centered around cutting costs instead of additional spending.

But such bonuses are standard in big bankruptcy cases and typically get approved unless the request is “over the top greedy,” said Scott Dillon, senior bankruptcy associate with Albany law firm Tully Rinckey PLLC. “Without those key managers, there will be nobody left to steer the business,” he said.

In its motion, Kodak does not give any details on the identities of those 119, but the bonuses are for not for corporate offices such as CEO Antonio M. Perez. Instead, according to Kodak, the 119 are middle managers and higher, chosen for their particular skills or leadership capabilities and the high potential risk they might leave the company. While Kodak’s Chapter 11 bankruptcy involves only its U.S. operations, Kodak wants to give retention bonuses to 23 non-U.S. managers.

People jumping ship has become a growing problem, Kodak acknowledges. Kodak said in court paperwork that it has seen “a substantial increase in voluntary employee turnover beginning in the first quarter of 2012 as rumors surfaced about a potential chapter 11 filing as well as in response to the filing on Jan. 19. This increase has been particularly damaging for critical positions as the non-insider manager level.”

The retention bonuses also are intended to replace the performance bonuses that were a sizable part of these workers’ compensation before bankruptcy, Kodak said. The company says it does not plan to issue any long-term performance incentives while in Chapter 11, so the 119 “have suffered what amounts to a significant pay cut,” Kodak said.

“Many more of (Kodak’s) approximately 7,600 non-insider employees have unique and valuable skills that are important to the successful operation of the debtor’s business,” Kodak said in its motion. “However, due to limited funds ... the debtors are forced to select only a limited number of employees as participants.”

A hearing on the retention bonus motion is scheduled for an April 18 hearing before U.S. Bankruptcy Court Judge Allan Gropper.



## Kodak Memo on Retention Bonuses

4/4/12 4:32 PM

*Kodak filed a motion in federal court to pay up to 300 workers retention awards to make sure they don't resign for other jobs.*

*This is the memo that went out to employees:*

Today we filed a motion with the U.S. Bankruptcy Court requesting approval to implement an Employee Continuity Plan, a retention program similar to plans adopted by other companies during the restructuring process. It is important to understand what this means and what role it plays in helping companies successfully emerge from Chapter 11.

The Employee Continuity Plan is designed to give the company the ability to retain people in key positions based on business needs throughout the Chapter 11 process. If the motion is approved by the court, we will provide incentives to a limited number of employees, based on their critical roles in developing and delivering a profitable, sustainable business strategy. The incentive will be paid if they remain employed by Kodak through a specified period. Members of the Executive Council and certain other senior management positions are not eligible for this program.

The court is scheduled to hear the motion on April 18. Assuming we receive approval for the plan, the initial group of designated participants will be notified soon after.

We recognize that everyone at Kodak is working harder and doing more with less, and we value everyone who works here. But given the constraints on our resources, and the scope of a program that the court would approve under bankruptcy law, limiting the participants in the Employee Continuity Plan to mission critical positions was a necessary choice to drive toward a successful emergence from Chapter 11 – an outcome that is in the best interest of all employees.

We have talked a lot about our four objectives in filing for Chapter 11. Achieving those objectives and launching the Kodak of the future requires that we successfully use the time and special resources that are made possible through a court-supervised reorganization to capitalize on our strengths. We need to move fast, operate more efficiently, and make tough choices with our new capital in order to accomplish critical goals.

Thanks to all of you for doing your part as we move through this process together.

## **At a Glance: Employee Continuity Plan**

**Kodak has filed a motion with the U.S. Bankruptcy Court to implement an Employee Continuity Plan, similar to plans adopted by other companies during Chapter 11.**

The program will provide incentives to employees in a limited number of key positions, based on business needs throughout the Chapter 11 process.

The payment is contingent on the participant remaining with Kodak through a specified period.

The majority of incentives will be equal to 25% or less of a participant's base salary.

Members of the Executive Council and certain other senior management positions are not eligible for the program.

**The plan can only cover only a limited number of key positions.**

A maximum of about \$13.5 million would be used under the plan.

Expect about 300 total participants.

Initial participants include about 120 management-level employees worldwide. The Executive Council and business leaders made the selections, which were confirmed by company Presidents and the Chief Administrative Officer. The total of incentives to these participants is expected to be about \$8.5 million.

The remaining funds – approximately \$5 million – will be a reserve available for subsequent incentives to other employees. Future participants will be identified by their managers in consultation with Human Resources, and selections will be confirmed by an Executive Council member and the Chief Administrative Officer.

**The court is scheduled to hear the motion on April 18. If approved, the initial group of participants will be notified soon after.**