

## Judge Approves Kodak Bonus Plan For Noninsider Employees

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NEW YORK (Dow Jones)--A judge on Monday said Eastman Kodak Co. (EKDKQ) could pay millions of dollars in bonuses to several hundred employees to keep them happy and at the company, overruling an objection by the Justice Department's bankruptcy-watchdog unit.

Judge Allan L. Gropper of U.S. Bankruptcy Court in Manhattan approved the measure, in which Kodak will pay retention bonuses to employees needed for its restructuring but won't pay the bonuses to top management like Chief Executive Antonio M. Perez. U.S. trustee Tracy Hope Davis had objected to the wording in the bonus proposal that she feared could lead to money ending up in the hands of Perez and other company "insiders."

In court Monday, a lawyer for the trustee, Brian Masumoto, said the office was still concerned about "whether or not the proposed plan excludes all insiders."

Gropper said, "I will take the debtors at their representation that this plan does not include any insiders." He added earlier, "If a debtor is going to be successful in reorganizing, it has to have the best possible management at hand."

Masumoto also said he wants the company to share information with creditors about the salaries of top executives, something that Gropper agreed with and that Kodak agreed to do.

Amendments to the Bankruptcy Code in 2005 restricted a company's ability to pay critical employees to stick with them as they reorganized. Executives and other insiders are no longer allowed to receive such retention bonuses. Instead, their bonuses must now be tied to certain benchmarks, like operational and financial goals.

According to Kodak, all of its noninsider, full-time employees would be eligible for up to \$13.5 million in retention payments. Its plan describes two tiers of employees: The first tier consists of about 119 middle managers and higher-ranking employees who would share \$8.5 million, and the second tier would likely cover at least 200 employees who would be eligible for the remaining \$5 million.

Gropper on Monday also approved Kodak's \$23.8 million sale of its Internet photo business to Shutterfly Inc. (SFLY) after no other bidders emerged for the unit.

Once the deal is completed, Kodak Gallery customer accounts will be transferred to Shutterfly's service. Kodak Gallery has more than 75 million users, Kodak has said. The deal is expected to close by Wednesday, a Kodak lawyer said.

Kodak said in February that it will close its digital photo business, which makes digital cameras, pocket video cameras and digital picture frames, in a move that could save it \$100 million annually. It has said it will focus its consumer business instead on retail and desktop-inkjet printing as it attempts to sell its valuable patent portfolio and cut labor costs.

Gropper praised the deal as one completed "in relatively short time and on terms that appear to be beneficial to the estates."

Kodak filed for Chapter 11 in January and has until June to file procedures for an auction of its digital-imaging patent portfolio, which it estimates to be worth between \$2.2 billion and \$2.6 billion. The tight timetable is dictated by its \$950 million bankruptcy loan, which sets certain benchmarks for Kodak to meet for it to keep using the money.

In a procedural move, Gropper on Monday also approved Kodak's request to extend until October the amount of time it has to file its own plan to reorganize unencumbered by the threat of rival proposals.

(Dow Jones Daily Bankruptcy Review covers news about distressed companies and those under bankruptcy protection.)

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