

# Justice Unit Fights Kodak Executive Bonus Plan

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An arm of the U.S. Department of Justice is moving to block [Eastman Kodak Co.](#) EKDKQ +21.21% from paying its executives almost \$9 million in bonuses.

U.S. Trustee Tracy Hope Davis, part of a Justice unit that monitors bankruptcy proceedings, is urging the U.S. Bankruptcy Court to block Kodak from paying the bonuses to nine executives and six other "key management employees."

Kodak says the bonuses are tied to performance benchmarks and are therefore legal incentive payments for employees "essential" to its success, but Ms. Davis says the company hasn't offered any proof of that. Instead, she said the bonuses represent an illegal effort to pay company insiders to induce them to stick with the company while it restructures. The Bankruptcy Code severely restricts a company's ability to pay retention bonuses to insiders.

"Here, at best, incentivizing the key employees is merely a secondary purpose of the performance plan," she said in court papers filed Monday.

According to Kodak, which on Monday disclosed that it lost \$160 million in June, it would pay out bonuses when it exits Chapter 11 protection or sells its still-operating business. The amount of bonuses would depend on what the company is able to pay its unsecured creditors, who rank low on the priority scale of creditors when it comes time for payment.

Bonuses would kick in once unsecured creditors recover more than 10% of their claims, Kodak said. The company is targeting a recovery of 30%, which would make the 15 employees eligible to share \$8.8 million in cash and deferred stock.

For Chief Executive Antonio Perez, that would come out to 200% of his base salary, Kodak said, while Chief Financial Officer Antoinette McCorvey would get 178% of her base salary.

"Each key management employee drives a significant portion of the debtors' business operations and is deeply involved in restructuring efforts, and therefore is capable of directly influencing stakeholder recovery," Kodak said in its request. "The greater the value produced for the debtors' unsecured creditors, the greater the awards earned by the key management employees."

Ms. Davis, the U.S. trustee, questioned whether the creditor-recovery requirement was a true benchmark, arguing that it appeared that company insiders would earn a bonus "regardless of whether an actual distribution is made to unsecured creditors."

Kodak didn't identify the other executives and managers eligible for bonuses, which Ms. Davis protested.

She also objected to a separate bonus plan that Kodak says would pay out \$4.5 million to company leaders based on their ability to achieve "meaningful stretch goals" tied to the company's restructuring and operating results.

Ms. Davis said these bonuses also appear to be retention-related and called for Kodak to disclose the specific financial benchmarks that would trigger bonuses under this plan.

Judge Allan L. Gropper will consider the latter bonus plan at an Aug. 6 hearing, but the company said it would push back the hearing on its restructuring bonus plan. It hasn't yet chosen a new date, court papers show.

The proposed bonuses have drawn the ire of Kodak retirees, who have written to the bankruptcy judge to argue that executives shouldn't be rewarded while they face the possible loss or modification of their benefits.