EASTMAN KODAK CO
Form 10-Q
August 04, 2015

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

FORM 10-Q

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

For the quarterly period ended June 30, 2015

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 [X] 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 [X] No [ ]

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definition of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	[ ]	Accelerated filer	[X]
Non-accelerated filer	[ ]	Smaller reporting company	[ ]

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Title of each Class	Number of Shares Outstanding at July 31, 2015
Common Stock, $0.01 par value	41,920,455

EASTMAN KODAK COMPANY

Form 10-Q

June 30, 2015

Table of Contents

Part I. FINANCIAL INFORMATION

Item 1. Financial Statements

EASTMAN KODAK COMPANY
CONSOLIDATED STATEMENT OF OPERATIONS (Unaudited)

(in millions, except per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Revenues				
Sales	$372	$432	$709	$825
Services	86	96	176	191
Total revenues	458	528	885	1,016
Cost of revenues				
Sales	309	353	593	678
Services	63	73	129	147
Total cost of revenues	372	426	722	825
Gross profit	86	102	163	191
Selling, general and administrative expenses	62	85	120	172
Research and development costs	16	26	35	53
Restructuring costs and other	6	20	23	33
Other operating (income) expense, net	(1)	-	2	-
Income (loss) from continuing operations before interest expense, other charges, net, reorganization items, net and income taxes	3	(29)	(17)	(67)
Interest expense	15	16	30	32
Other charges, net	(2)	(2)	(12)	(3)
Reorganization items, net	-	5	5	10
Loss from continuing operations before income taxes	(14)	(52)	(64)	(112)
Provision for income taxes	9	8	13	-
Loss from continuing operations	(23)	(60)	(77)	(112)
(Loss) earnings from discontinued operations, net of income taxes	-	(2)	-	17
Net loss	(23)	(62)	(77)	(95)
Less: Net income attributable to noncontrolling interests	1	-	5	3
NET LOSS ATTRIBUTABLE TO EASTMAN KODAK COMPANY	$(24)	$(62)	$(82)	$(98)
Basic and diluted net (loss) earnings per share attributable to Eastman Kodak Company common shareholders:				
Continuing operations	$(0.57)	$(1.44)	$(1.96)	$(2.76)
Discontinued operations	-	(0.05)	-	0.41
Total	$(0.57)	$(1.49)	$(1.96)	$(2.35)
Number of common shares used in basic and diluted net (loss) earnings per share	41.9	41.7	41.9	41.7

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

EASTMAN KODAK COMPANY
CONSOLIDATED STATEMENT OF COMPREHENSIVE LOSS (Unaudited)

(in millions)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
NET LOSS	$ (23)	$ (62)	$ (77)	$ (95)
Less: Net income attributable to noncontrolling interests	1	-	5	3
Net loss attributable to Eastman Kodak Company	(24)	(62)	(82)	(98)
Other comprehensive loss, net of tax:				
Currency translation adjustments	3	6	(4)	7
Unrealized (losses) gains on available-for-sale securities, net of tax	(1)	1	(1)	1
Pension and other postretirement benefit plan obligation activity, net of tax	(2)	(15)	5	(15)
Other comprehensive loss, net of tax attributable to Eastman Kodak Company	-	(8)	-	(7)
COMPREHENSIVE LOSS, NET OF TAX ATTRIBUTABLE TO EASTMAN KODAK COMPANY	$ (24)	$ (70)	$ (82)	$ (105)

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

EASTMAN KODAK COMPANY
CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Unaudited)

(in millions)

	As of June 30, 2015	As of December 31, 2014
ASSETS		
Current Assets		
Cash and cash equivalents	$576	$712
Receivables, net	375	414
Inventories, net	381	349
Deferred income taxes	24	31
Assets held for sale	13	14
Other current assets	31	30
Total current assets	1,400	1,550
Property, plant and equipment, net of accumulated depreciation of $289 and $231, respectively	464	524
Goodwill	90	96
Intangible assets, net of accumulated amortization of $46 and $33, respectively	170	182
Restricted cash	40	37
Deferred income taxes	32	38
Other long-term assets	126	129
TOTAL ASSETS	$2,322	$2,556
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable, trade	$206	$212
Current portion of long-term debt	4	5
Liabilities held for sale	2	10
Other current liabilities	315	372
Total current liabilities	527	599
Long-term debt, net of current portion	671	672
Pension and other postretirement liabilities	588	662
Other long-term liabilities	309	324
Total Liabilities	2,095	2,257
Commitments and Contingencies (Note 5)		
Equity		
Common stock, $0.01 par value	-	-
Additional paid in capital	626	621
Treasury stock, at cost	(5)	(4)
Accumulated deficit	(285)	(204)
Accumulated other comprehensive loss	(136)	(136)
Total Eastman Kodak Company shareholders' equity	200	277
Noncontrolling interests	27	22
Total equity	227	299

TOTAL LIABILITIES AND EQUITY	$2,322	$2,556

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

EASTMAN KODAK COMPANY
CONSOLIDATED STATEMENT OF CASH FLOWS (Unaudited)

(in millions)

	Six Months Ended June 30,	
	2015	2014
Cash flows from operating activities:		
Net loss	$(77)	$(95)
Adjustments to reconcile to net cash used in operating activities:		
Depreciation and amortization	77	112
Pension and other postretirement income	(54)	(47)
Net gain on sales of businesses/assets	(4)	(22)
Non-cash restructuring costs, asset impairments and other charges	6	2
Stock based compensation	11	4
Non-cash reorganization items, net	-	(8)
Payment of claims	(10)	-
Provision for deferred income taxes	5	2
Decrease in receivables	20	113
Increase in inventories	(42)	(58)
Decrease in liabilities excluding borrowings	(49)	(143)
Other items, net	13	8
Total adjustments	(27)	(37)
Net cash used in operating activities	(104)	(132)
Cash flows from investing activities:		
Additions to properties	(14)	(13)
Proceeds from sales of businesses/assets, net	2	16
(Funding) use of restricted cash	(7)	60
Net cash (used in) provided by investing activities	(19)	63
Cash flows from financing activities:		
Repayment of emergence credit facilities	(2)	(2)
Net repayment of VIE credit facility	(1)	-
Treasury stock purchases	(1)	-
Net cash used in financing activities	(4)	(2)
Effect of exchange rate changes on cash	(9)	(5)
Net decrease in cash and cash equivalents	(136)	(76)
Cash and cash equivalents, beginning of period	712	844
Cash and cash equivalents, end of period	$576	$768

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

EASTMAN KODAK COMPANY
NOTES TO FINANCIAL STATEMENTS (Unaudited)

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 financial statements should be read in conjunction with the Company's Annual Report on Form 10-K for the year ended December 31, 2014.

Kodak is the primary beneficiary of a utilities variable interest entity, RED – Rochester, LLC ("RED"). Therefore, Kodak consolidates RED's assets, liabilities and results of operations. Consolidated assets and liabilities of RED are $75 million and $10 million, respectively, as of June 30, 2015 and $77 million and $11 million, respectively, as of December 31, 2014. RED's equity in those net assets as of June 30, 2015 and December 31, 2014 is $26 million and $21 million, respectively. RED's results of operations are reflected in net income attributable to noncontrolling interest in the accompanying Consolidated Statement of Operations.

Reclassifications
Certain amounts for prior periods have been reclassified to conform to the current period classification due to Kodak's new organization structure as of January 1, 2015 and for a change in the segment measure of profitability. Refer to Note 14, "Segment Information" for more information about these changes. In addition to the changes in segment reporting under the new organization structure, tenant rental income for Eastman Business Park previously reported in Cost of Revenues is now reported in Sales.

RECENTLY ADOPTED ACCOUNTING PRONOUNCEMENTS

In April 2014, the Financial Accounting Standards Board ("FASB") issued ASU 2014-08, "Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360)." ASU 2014-08 defines a discontinued operation as a disposal of a component (or group of components) of an entity that was disposed of or is classified as held for sale and represents a strategic shift that has (or will have) a major effect on an entity's operations and financial results. ASU 2014-08 expands the disclosures when an entity retains a significant continuing involvement with a discontinued operation as well as for disposals of individually material components that do not qualify as discontinued operations. The amendments in the update are effective prospectively for fiscal years, and interim periods within those years, beginning after December 15, 2014 (January 1, 2015 for Kodak) to new disposals and new disposal groups classified as held for sale after the effective date. The adoption of this guidance did not have a material impact on Kodak's consolidated financial statements.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In April 2015, the FASB issued ASU 2015-07, Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent). ASU 2015-07 removes the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value per share. The ASU is effective for fiscal years, and interim periods within those years, beginning after December 15, 2015 (January 1, 2016 for Kodak) with retrospective application to all periods presented. Early application is permitted. The adoption of this guidance requires changes in presentation only and will not have an impact on Kodak's Consolidated Financial Statements.

In April 2015, the FASB issued ASU 2015-03, Imputation of Interest (Sub-Topic 835.30): Simplifying the Presentation of Debt Issuance Costs. ASU 2015-03 requires debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The amendments in this ASU are effective retrospectively for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2015 (January 1, 2016 for Kodak). Early adoption is permitted for financial statements not previously issued. Kodak does not expect the adoption of this guidance to have a material impact on its Consolidated Financial Statements.

In February 2015, the FASB issued ASU 2015-02, "Consolidation (Topic 810): Amendments to the Consolidation Analysis". The amendments in ASU 2015-02 change the analysis that a reporting entity must perform to determine whether it should consolidate certain types of legal entities. The amendments in this ASU are effective for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2015 (January 1, 2016 for Kodak). Early adoption is permitted, including adoption in an interim period. A reporting entity may apply the amendments in this ASU either retrospectively or use a modified retrospective approach by recording a cumulative-effect adjustment to equity as of the beginning of the fiscal year of adoption. 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 July 2015, the FASB deferred the effective date of ASU 2014-09. The new revenue standard 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 of the revised guidance recognized at the date of initial application. Kodak is currently evaluating the adoption alternatives and impact of this ASU.

NOTE 2: RECEIVABLES, NET

(in millions)	June 30, 2015	As of December 31, 2014
Trade receivables	$326	$361
Miscellaneous receivables	49	53
Total (net of allowances of $10 and $11 as of June 30, 2015 and December 31, 2014, respectively)	$375	$414

Approximately $24 million and $31 million of the total trade receivable amounts as of June 30, 2015 and December 31, 2014, respectively, 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 3: INVENTORIES, NET

(in millions)	June 30, 2015	As of December 31, 2014
Finished goods	$218	$204
Work in process	79	73
Raw materials	84	72
Total	$381	$349

NOTE 4: GOODWILL

The following table presents the changes in the carrying value of goodwill by reportable segment. The Enterprise Inkjet Systems and Eastman Business Park segments do not have goodwill and are therefore not presented.

(in millions)	Print Systems	Micro 3D Printing and Packaging	Software and Solutions	Consumer and Film	Intellectual Property Solutions	Total
Balance as of January 1, 2015:	$56	$26	$6	$6	$2	$96
Impairment	-	(6)	-	-	-	(6)
Balance as of June 30, 2015:	$56	$20	$6	$6	$2	$90

As a result of the change in segments that became effective as of January 1, 2015, Kodak's goodwill reporting units changed. Refer to Note 14, "Segment Information" for additional information on the change to Kodak's organizational structure. The Print Systems segment has two goodwill reporting units: Prepress Solutions and Electrophotographic Printing Solutions. The Micro 3D Printing and Packaging segment has two goodwill reporting units: Packaging and Functional Printing. The Software and Solutions segment has two goodwill reporting units: Kodak Technology Solutions and Unified Workflow Solutions. The Consumer and Film segment has three goodwill reporting units: Consumer Inkjet Solutions, Entertainment Imaging and Commercial Films and Brand Licensing. The Enterprise Inkjet Systems segment has two goodwill reporting units: Commercial Inkjet Printing Solutions and Digital Front-End Controllers. The Intellectual Property Solutions segment and the Eastman Business Park segment each have one goodwill reporting unit.

As of December 31, 2014, the goodwill balance of $96 million under the prior year segment reporting structure was comprised of $67 million for the Graphics, Entertainment and Commercial Films segment and $29 million for the Digital Printing and Enterprise segment. The goodwill in the Graphics, Entertainment and Commercial Films segment was reported in the Graphics and Intellectual Property and Brand Licensing reporting units. The goodwill in the Digital Printing and Enterprise segment was reported in the Packaging and Functional Printing and Consumer Inkjet Systems reporting units.

Goodwill previously reported in the Graphics goodwill reporting unit was transferred to the Prepress Solutions goodwill reporting unit and the Unified Workflow Solutions goodwill reporting unit. The goodwill previously reported in the Packaging and Functional Printing goodwill reporting unit was transferred to the Packaging goodwill reporting unit and the Functional Printing goodwill reporting unit. The goodwill previously reported in the Intellectual Property and Brand Licensing goodwill reporting unit was transferred to the Intellectual Property Solutions goodwill reporting unit and the Brand Licensing goodwill reporting unit. Goodwill was reassigned to affected reporting units using a relative fair value allocation.

Due to the change in Kodak's reporting units and the delay in commercializing new technologies in the Functional Printing reporting unit, Kodak concluded that the carrying value of the Functional Printing reporting unit exceeded its implied fair value. The fair value of the Functional Printing reporting unit was estimated using the discounted cash flow method in which the future cash flows, including a terminal value at the end of the projection period, were discounted to present value. Kodak recorded a pre-tax impairment charge of $6 million in the first quarter of 2015, that is included in Other operating income, net in the Consolidated Statement of Operations representing the entire amount of goodwill for this reporting unit.

NOTE 5: COMMITMENTS AND CONTINGENCIES

Environmental

The Company provided an indemnity as part of the 1994 sale of Sterling Corporation (now “STWB”), which covered a number of environmental sites including the Lower Passaic River Study Area (“LPRSA”) portion of the Diamond Alkali Superfund Site. STWB, now owned by Bayer Corporation, is a potentially responsible party at the LPRSA site based on alleged releases from facilities formerly owned by subsidiaries of Sterling. On February 29, 2012, the Company notified STWB and Bayer that, under the voluntary petition for bankruptcy by the Company and its U.S. subsidiaries, it elected to discontinue funding and participation in remedial investigations of the LPRSA. STWB and its parent, Bayer, filed proofs of claim against the Company and its U.S. subsidiaries. These claims have been discharged pursuant to the First Amended Joint Chapter 11 Plan of Reorganization. Environmental matters at three sites owned by the Company and one site for which the Company was not the owner but was responsible for the remediation were not resolved by the discharge. On March 17, 2015, the Company entered into an agreement with STWB related to these four sites. The agreement calls for the Company to retain ownership and environmental responsibility of one of the sites. Ownership and environmental responsibility for one site and environmental responsibility for the unowned site transferred to STWB in the second quarter of 2015. Ownership of the remaining site is expected to pass to an unrelated party by 2018 at which point the Company’s environmental responsibility will pass to STWB. If the ownership for the fourth site does not transfer to that unrelated party prior to January 1, 2020, then the Company and STWB will share approximately equally in the ongoing costs of the site. As a result of this agreement, the Company reduced its environmental liabilities by approximately $5 million and recognized a gain in the first quarter of 2015 of the same amount.

Other Commitments and Contingencies

As of June 30, 2015, the Company had outstanding letters of credit of $119 million issued under the Asset Based Revolving Credit Agreement (the “ABL Credit Agreement”), as well as bank guarantees and letters of credit of $5 million, surety bonds in the amount of $19 million, and restricted cash and deposits of $59 million, primarily to ensure the payment of possible casualty and workers’ compensation claims, environmental liabilities, legal contingencies, 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 June 30, 2015, 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 $57 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 June 30, 2015, Kodak has posted security composed of $7 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 $77 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, remediation and proceedings, including 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 6: GUARANTEES

EKC guarantees obligations to third parties for some of its consolidated subsidiaries. The maximum amount guaranteed is $49 million and the outstanding amount for those guarantees is $19 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.

Warranty Costs

Kodak has warranty obligations in connection with the sale of its products and equipment. The original warranty period is generally three months or less. In limited cases it may be longer but never exceeding one year. The costs incurred to provide for these warranty obligations are estimated and recorded as an accrued liability at the time of sale. Kodak estimates its warranty cost at the point of sale for a given product based on historical failure rates and related costs to repair.

The change in Kodak's accrued warranty obligations balance, which is reflected in Other current liabilities in the accompanying Consolidated Statement of Financial Position, was as follows:

(in millions)

Accrued warranty obligations as of December 31, 2014	$5
Actual warranty experience during 2015	(4)
2015 warranty provisions	4
Accrued warranty obligations as of June 30, 2015	$5

Kodak also offers its customers extended warranty arrangements that are generally one year, but may range from three months to five 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, 2014 to June 30, 2015, 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, 2014	$27
New extended warranty and maintenance arrangements in 2015	94
Recognition of extended warranty and maintenance arrangement revenue in 2015	(94)
Deferred revenue on extended warranties as of June 30, 2015	$27

NOTE 7: INCOME TAXES

Kodak's income tax provision and effective tax rate were as follows:

(in millions)	Three Months Ended June 30, 2015	Three Months Ended June 30, 2014	Six Months Ended June 30, 2015	Six Months Ended June 30, 2014
Loss from continuing operations before income taxes	$(14)	$(52)	$(64)	$(112)
Effective tax rate	(64.3)%	(15.4)%	(20.3)%	0.0%
Provision for income taxes	9	8	13	-
Benefit for income taxes @ 35%	(5)	(18)	(22)	(39)
Difference between tax at effective vs. statutory rate	$14	$26	$35	$39

The difference between the Company's recorded provision and the benefit that would result from applying the U.S. statutory rate of 35.0% for the three and six month periods ended June 30, 2015 is primarily attributable to: (1) losses generated within the U.S. and certain jurisdictions outside the U.S. for which no benefit was recognized due to management's conclusion that it was more likely than not that the tax benefits would not be realized and (2) a provision associated with foreign withholding taxes on undistributed earnings.

For the three months ended June 30, 2014, the difference between the Company's recorded provision and the benefit that would result from applying the U.S. statutory rate of 35.0% is primarily attributable to losses generated within the U.S. and certain jurisdictions outside the U.S. for which no benefit was recognized due to management's conclusion that it was more likely than not that the tax benefits would not be realized.

For the six months ended June 30, 2014, the difference between the Company's recorded provision and the benefit that would result from applying the U.S. statutory rate of 35.0% is primarily attributable to: (1) losses generated within the U.S. for which no benefit was recognized, offset by income in certain jurisdictions outside the U.S. for which no provision was recognized due to management's conclusion that it was more likely than not that the tax benefits would not be realized, (2) a benefit as a result of Kodak reaching a settlement with a taxing authority in a location outside the U.S. related to withholding taxes, and (3) a benefit associated with foreign withholding taxes on undistributed earnings.

NOTE 8: 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 half of 2015 were initiated to reduce Kodak's cost structure as part of its commitment to drive sustainable profitability and included continued progress toward the Leeds plate manufacturing facility exit, as well as various targeted reductions in service, sales, research and development and other administrative functions.

Leeds Plate Manufacturing Facility Exit

On March 3, 2014, Kodak announced a plan to exit its prepress plate manufacturing facility located in Leeds, England. This decision was pursuant to Kodak's initiative to consolidate manufacturing operations globally, and is expected to result in a more efficient delivery of its products and solutions. Kodak began the exit of the facility in the second quarter of 2014, and expects to phase out production at the site by late 2015 and to complete the exit of the facility by the second quarter of 2016.

As a result of the decision, Kodak currently expects to incur total charges of $20 to $30 million, including $8 to $10 million of charges related to separation benefits, $10 to $15 million of non-cash related charges for accelerated depreciation and asset write-offs and $2 to $5 million in other cash related charges associated with this action.

Kodak incurred severance charges of $0 million and $6 million and accelerated depreciation charges of $2 million and $5 million in the three and six months ended June 30, 2015, respectively, under this program.

Under this program, on a life-to-date basis as of June 30, 2015, Kodak has recorded severance charges of $9 million, long-lived asset impairment charges of $2 million, and accelerated depreciation charges of $7 million.

Restructuring Reserve Activity

The activity in the accrued balances and the non-cash charges and credits incurred in relation to restructuring activities for the three and six months ended June 30, 2015 were as follows:

(in millions)	Severance Reserve (1)	Exit Costs Reserve (1)	Long-lived Asset Impairments and Inventory Write-downs (1)	Accelerated Depreciation (1)	Total
Balance as of December 31, 2014	$22	$5	$ -	$ -	$27
Q1 2015 charges	16	1	-	3	20
Q1 utilization/cash payments	(10)	(1)	-	(3)	(14)
Q1 2015 other adjustments & reclasses (2)	(6)	-	-	-	(6)
Balance as of March 31, 2015	$22	$5	$ -	$ -	$27
Q2 2015 charges	$5	$1	$ -	$ 2	$8
Q2 utilization/cash payments	(10)	(1)	-	(2)	(13)
Q2 2015 other adjustments & reclasses (3)	(1)	-	-	-	(1)
Balance as of June 30, 2015	$16	$5	$ -	$ -	$21

(1) The severance and exit costs reserves require the outlay of cash, while long-lived asset impairments, accelerated depreciation and inventory write-downs represent non-cash items.

(2) The $(6) million includes $(4) million of 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, and $(2) million of foreign currency translation adjustments.

(3) 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.

For the three months ended June 30, 2015, the $8 million of charges includes $2 million of charges for accelerated depreciation which were reported in Cost of revenues in the accompanying Consolidated Statement of Operations. The remaining $6 million was reported as Restructuring costs and other.

The severance costs for the three months ended June 30, 2015 related to the elimination of approximately 75 positions, including approximately 25 manufacturing/ service positions and 50 administrative positions. The geographic composition of these positions includes approximately 25 in the United States and Canada and 50 throughout the rest of the world.

For the six months ended June 30, 2015, the $28 million of charges includes $5 million of charges for accelerated depreciation which were reported in Cost of revenues in the accompanying Consolidated Statement of Operations. The remaining $23 million was reported as Restructuring costs and other.

The severance costs for the six months ended June 30, 2015 related to the elimination of approximately 400 positions, including approximately 200 manufacturing/ service positions, 50 research and development positions and 150 administrative positions. The geographic composition of these positions includes approximately 125 in the United States and Canada and 275 throughout the rest of the world.

As a result of these initiatives, the majority of the severance will be paid during periods through the end of 2015. 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 2015 and beyond.

NOTE 9: 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 June 30,				Six Months Ended June 30,			
	2015		2014		2015		2014	
	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	$4	$1	$5	$1	$8	$2	$9	$3
Interest cost	37	5	47	8	74	9	94	16
Expected return on plan assets	(68)	(8)	(77)	(10)	(136)	(16)	(154)	(20)
Amortization of:								
Prior service credit	(2)	-	-	-	(4)	-	-	-
Actuarial gain	-	-	-	-	-	(1)	-	-
Net pension income before special termination benefits	(29)	(2)	(25)	(1)	(58)	(6)	(51)	(1)
Special termination benefits	1	-	-	-				