EASTMAN KODAK CO
Form 10-Q
April 30, 2009

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 March 31, 2009
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	16-0417150
(State of incorporation)	(IRS Employer Identification No.)
343 STATE STREET, ROCHESTER, NEW YORK	14650
(Address of principal executive offices)	(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 [ ] No [ ]

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

Large accelerated filer [X] Accelerated filer [ ] 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 April 24, 2009
Common Stock, $2.50 par value	268,191,529

Eastman Kodak Company
Form 10-Q
March 31, 2009

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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 March 31, 2009	Three Months Ended March 31, 2008
Net sales	$ 1,477	$ 2,093
Cost of goods sold	1,283	1,669
Gross profit	194	424
Selling, general and administrative expenses	308	385
Research and development costs	110	140
Restructuring costs, rationalization and other	109	(10)
Other operating expenses (income), net	3	(10)
Loss from continuing operations before interest expense, other (charges) income, net and income taxes	(336)	(81)
Interest expense	25	28
Other (charges) income, net	(15)	35
Loss from continuing operations before income taxes	(376)	(74)
(Benefit) provision for income taxes	(16)	40
Loss from continuing operations	(360)	(114)
Earnings (loss) from discontinued operations, net of income taxes	7	(1)
Net loss	(353)	(115)
Less: Net earnings attributable to noncontrolling interests	-	-
NET LOSS ATTRIBUTABLE TO EASTMAN KODAK COMPANY	$ (353)	$ (115)
Basic and diluted net (loss) earnings per share attributable to Eastman Kodak Company common shareholders:		
Continuing operations	$ (1.34)	$ (0.40)
Discontinued operations	0.02	-
Total	$ (1.32)	$ (0.40)
Amounts attributable to Eastman Kodak Company common shareholders:		
Continuing operations	$ (360)	$ (114)
Discontinued operations	7	(1)
Total	$ (353)	$ (115)
Number of common shares used in basic and diluted net (loss) earnings per share	268.2	288.1

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

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EASTMAN KODAK COMPANY
CONSOLIDATED STATEMENT OF RETAINED EARNINGS (Unaudited)
(in millions)

	Three Months Ended March 31,	
	2009	2008
Retained earnings at beginning of period	$ 5,879	$ 6,474
Net loss	(353)	(115)
Loss from issuance of treasury stock	(1)	(11)
Retained earnings at end of period	$ 5,525	$ 6,348

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

EASTMAN KODAK COMPANY
CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Unaudited)

(in millions)	March 31, 2009	December 31, 2008
ASSETS		
Current Assets		
Cash and cash equivalents	$ 1,309	$ 2,145
Receivables, net	1,289	1,716
Inventories, net	1,038	948
Other current assets	219	195
Total current assets	3,855	5,004
Property, plant and equipment, net of accumulated depreciation of $5,254 and $5,254, respectively	1,458	1,551
Goodwill	886	896
Other long-term assets	1,730	1,728
TOTAL ASSETS	$ 7,929	$ 9,179
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Accounts payable and other current liabilities	$ 2,478	$ 3,267
Short-term borrowings and current portion of long-term debt	51	51
Accrued income and other taxes	108	144
Total current liabilities	2,637	3,462
Long-term debt, net of current portion	1,255	1,252
Pension and other postretirement liabilities	2,301	2,382
Other long-term liabilities	1,094	1,119
Total liabilities	7,287	8,215
Commitments and Contingencies (Note 8)		
Shareholders' Equity		
Common stock, $2.50 par value	978	978
Additional paid in capital	905	901
Retained earnings	5,525	5,879
Accumulated other comprehensive loss	(725)	(749)
	6,683	7,009
Less: Treasury stock, at cost	(6,044)	(6,048)
Total Eastman Kodak Company shareholders' equity	639	961
Noncontrolling interests	3	3
Total equity	642	964
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 7,929	$ 9,179

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

EASTMAN KODAK COMPANY
CONSOLIDATED STATEMENT OF CASH FLOWS (Unaudited)

(in millions)	Three Months Ended March 31, 2009	2008
Cash flows from operating activities:		
Net loss	$ (353)	$ (115)
Adjustments to reconcile to net cash used in operating activities:		
(Earnings) loss from discontinued operations, net of income taxes	(7)	1
Depreciation and amortization	113	126
Gain on sales of businesses/assets	(1)	(3)
Non-cash restructuring and rationalization costs, asset impairments and other charges	7	1
Provision for deferred income taxes	13	33
Decrease in receivables	413	198
Increase in inventories	(107)	(177)
Decrease in liabilities excluding borrowings	(883)	(858)
Other items, net	21	27
Total adjustments	(431)	(652)
Net cash used in continuing operations	(784)	(767)
Net cash used in discontinued operations	-	(1)
Net cash used in operating activities	(784)	(768)
Cash flows from investing activities:		
Additions to properties	(26)	(52)
Proceeds from sales of businesses/assets	2	55
Marketable securities - sales	7	40
Marketable securities - purchases	(8)	(43)
Net cash used in investing activities	(25)	-
Cash flows from financing activities:		
Proceeds from borrowings	3	26
Repayment of borrowings	-	(15)
Debt issuance costs	(13)	-
Net cash (used in) provided by financing activities	(10)	11
Effect of exchange rate changes on cash	(17)	13
Net decrease in cash and cash equivalents	(836)	(744)
Cash and cash equivalents, beginning of period	2,145	2,947
Cash and cash equivalents, end of period	$ 1,309	$ 2,203

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

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 have been omitted in accordance with Rule 10-01 of Regulation S-X. In the opinion of management, the accompanying unaudited consolidated financial statements were prepared following the same policies and procedures used in the preparation of the audited financial statements and reflect all adjustments (consisting of normal recurring adjustments) necessary to present fairly the results of operations, financial position and cash flows of Eastman Kodak Company and its subsidiaries (the Company). The results of operations for the interim periods are not necessarily indicative of the results for the entire fiscal year. These consolidated financial statements should be read in conjunction with the Company's Annual Report on Form 10-K for the year ended December 31, 2008.

The Company retrospectively applied Financial Accounting Standards Board (FASB) Statement No. 160, which is described in more detail below.

RECENT ACCOUNTING PRONOUNCEMENTS

FASB Staff Position FSP FAS 157-4
In April 2009, the FASB issued FASB Staff Position FAS 157-4, "Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly." This FSP provides guidance regarding how to determine whether there has been a significant decrease in the volume and level of activity for the asset or liability when compared with normal market activity for the asset or liability. In such situations, an entity may conclude that transactions or quoted prices may not be determinative of fair value, and may adjust the transactions or quoted prices to arrive at the fair value of the asset or liability. This FSP is effective for interim and annual reporting periods ending after June 15, 2009, and shall be applied prospectively. The Company does not believe that the adoption of this Staff Position will have a material impact on its Consolidated Financial Statements.

FASB Statement No. 141(R)
In December 2007, the FASB issued SFAS No. 141(R), "Business Combinations," a revision to SFAS No. 141, "Business Combinations." SFAS No. 141(R) provides revised guidance for recognition and measurement of identifiable assets and goodwill acquired, liabilities assumed, and any noncontrolling interest in the acquiree at fair value. The Statement also establishes disclosure requirements to enable the evaluation of the nature and financial effects of a business combination. Additionally, the FASB also issued FSP 141(R)-1 in April 2009, which modified the guidance in SFAS No. 141(R) related to contingent assets and contingent liabilities. SFAS No. 141(R), as modified by FSP 141(R)-1, is required to be applied prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. The adoption of SFAS No. 141(R), as modified by FSP 141(R)-1, as of January 1, 2009 did not have a material impact on the Company's Consolidated Financial Statements.

FASB Statement No. 160
In December 2007, the FASB issued SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements – an amendment of ARB No. 51." This Statement establishes accounting and reporting standards for ownership interests in subsidiaries held by parties other than the parent. Specifically, SFAS No. 160 requires the presentation of

noncontrolling interests as equity in the Consolidated Statement of Financial Position, and separate identification and presentation in the Consolidated Statement of Operations of net income attributable to the entity and the noncontrolling interest. The Company adopted SFAS No. 160 as of January 1, 2009, and, as required, applied this standard to the prior period's financial statements. SFAS No. 160 also establishes accounting and reporting standards regarding deconsolidation and changes in a parent's ownership interest, and these standards will be applied prospectively to any such transactions in 2009 onward. The adoption of SFAS No. 160 did not have a material impact on the Company's Consolidated Financial Statements.

FASB Statement No. 161
In March 2008, the FASB issued SFAS No. 161, "Disclosures about Derivative Instruments and Hedging Activities – an amendment of FASB Statement No. 133." This Statement amends and expands the disclosure requirements for derivative instruments and hedging activities, with the intent to provide users of financial statements with an enhanced understanding of how and why an entity uses derivative instruments, how derivative instruments and related hedged items are accounted for, and how derivative instruments and related hedged items affect an entity's financial statements. The Company adopted SFAS No. 161 as of January 1, 2009; see Note 15, "Financial Instruments."

FSP EITF 03-6-1
In June 2008, the FASB released FSP EITF 03-6-1 on Emerging Issues Task Force Issue 03-6, "Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities." The Staff Position requires that unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents are participating securities as defined in EITF 03-6, "Participating Securities and the Two Class Method under FASB Statement No. 128," and therefore, should be included in computing earnings per share using the two-class method. The Staff Position was effective for the Company as of January 1, 2009, and did not have a material impact on the Company's earnings per share.

FSP FAS 132(R)-1
In December 2008, the FASB issued FSP FAS 132(R)-1, "Employers' Disclosures About Postretirement Benefit Plan Assets," which amends SFAS No. 132(R), "Employers' Disclosures About Pensions and Other Postretirement Benefits" to require more detailed disclosures about employers' postretirement benefit plan assets. New disclosures include information regarding investment strategies, major categories of plan assets, concentrations of risk within plan assets and valuation techniques used to measure the fair value of plan assets. This FSP requires new disclosures only, and will have no impact on the Company's Consolidated Financial Statements. These new disclosures will be required for the Company beginning with its 2009 Annual Report on Form 10-K.

FSP FAS 107-1 and APB 28-1
In April 2009, the FASB issued FSP FAS 107-1 and APB 28-1, "Interim Disclosures about Fair Value of Financial Instruments," which requires that publicly traded companies include the fair value disclosures required by SFAS No. 107 in their interim financial statements. This FSP is effective for interim reporting periods ending after June 15, 2009, and the Company will include the required disclosures in its Form 10-Q filings starting in the second quarter of 2009.

NOTE 2: RECEIVABLES, NET

(in millions)		March 31, 2009		As of December 31, 2008
Trade receivables	$	1,020	$	1,330
Miscellaneous receivables		269		386
Total (net of allowances of $99 and $113 as of March 31, 2009 and December 31, 2008, respectively)	$	1,289	$	1,716

Of the total trade receivable amounts of $1,020 million and $1,330 million as of March 31, 2009 and December 31, 2008, respectively, approximately $125 million and $218 million, respectively, are expected to be settled through

customer deductions in lieu of cash payments. Such deductions represent rebates owed to the customer and are included in Accounts payable and other current liabilities in the accompanying Consolidated Statement of Financial Position at each respective balance sheet date. The decrease in Trade receivables was primarily due to collection of high year-end trade receivable balances combined with decreased sales in the first quarter of 2009. The majority of the decrease in Miscellaneous receivables was the result of a payment received in the first quarter of 2009 of an intellectual property licensing agreement for which the associated revenue was recognized in 2008.

NOTE 3: INVENTORIES, NET

(in millions)	March 31, 2009	As of December 31, 2008
Finished goods	$ 678	$ 610
Work in process	206	193
Raw materials	154	145
Total	$ 1,038	$ 948

NOTE 4: GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill was $886 million and $896 million at March 31, 2009 and December 31, 2008, respectively. The changes in the carrying amount of goodwill by reportable segment for the three months ended March 31, 2009 were as follows:

(in millions)	As of March 31, 2009			
	Consumer Digital Imaging Group	Film, Photofinishing and Entertainment Group	Graphic Communications Group	Consolidated Total
Balance as of December 31, 2008	$ 195	$ 613	$ 88	$ 896
Currency translation adjustments	(3)	(7)	-	(10)
Balance as of March 31, 2009	$ 192	$ 606	$ 88	$ 886

The gross carrying amount and accumulated amortization by major intangible asset category as of March 31, 2009 and December 31, 2008 were as follows:

(in millions)	As of March 31, 2009			
	Gross Carrying Amount	Accumulated Amortization	Net	Weighted-Average Amortization Period
Technology-based	$ 295	$ 199	$ 96	7 years
Customer-related	271	160	111	10 years
Other	57	38	19	9 years
Total	$ 623	$ 397	$ 226	8 years

(in millions)	As of December 31, 2008		
	Gross Carrying	Accumulated	Weighted-Average

	Amount	Amortization	Net	Amortization Period
Technology-based	$ 300	$ 190	$ 110	7 years
Customer-related	276	156	120	10 years
Other	57	40	17	9 years
Total	$ 633	$ 386	$ 247	8 years

Amortization expense related to purchased intangible assets for the three months ended March 31, 2009 and 2008 was $17 million and $19 million, respectively.

Estimated future amortization expense related to purchased intangible assets as of March 31, 2009 is as follows (in millions):

2009	$	52
2010		59
2011		39
2012		25
2013		12
2014 and thereafter		39
Total	$	226

NOTE 5: ACCOUNTS PAYABLE AND OTHER CURRENT LIABILITIES

(in millions)		March 31, 2009		As of December 31, 2008
Accounts payable, trade	$	791	$	1,288
Other current liabilities		1,687		1,979
Total	$	2,478	$	3,267

NOTE 6: SHORT-TERM BORROWINGS AND LONG-TERM DEBT

On March 31, 2009, the Company and its subsidiary, Kodak Canada Inc. (together, the "Borrowers"), together with the Company's U.S. subsidiaries as guarantors (the "Guarantors"), entered into an Amended and Restated Credit Agreement (the "Amended Credit Agreement"), with the named lenders (the "Lenders") and Citicorp USA, Inc. as agent, in order to amend and extend its Credit Agreement dated as of October 18, 2005 (the "Secured Credit Agreement").

The Amended Credit Agreement provides for an asset-based revolving credit facility of up to $500 million, as further described below. The $132 million in letters of credit previously issued under the former Secured Credit Agreement continue under the Amended Credit Agreement. Additionally, up to $100 million of the Company's and its subsidiaries' obligations to various Lenders under treasury management services, hedge or other agreements or arrangements are secured by the asset based collateral under the Amended Credit Agreement. The Amended Credit Agreement can be used for general corporate purposes, other than prepaying or redeeming the Company's outstanding 3.375% Senior Convertible Notes due 2033. The termination date of the Amended Credit Agreement with respect to the Lenders who agreed to the extension, and any future lenders, is March 31, 2012, and with respect to the other Lenders continues to be October 18, 2010. As of March 31, 2009, approximately 75% of the facility amount has been extended to the 2012 termination date, and additional lenders may be added to increase this amount.

Advances under the Amended Credit Agreement will be available based on the Borrowers' respective borrowing base from time to time. The borrowing base is calculated based on designated percentages of eligible accounts receivable,

inventory, machinery and equipment and, once mortgages are recorded, certain real property, subject to applicable reserves. The Amended Credit Agreement provides that advances made from time to time will bear interest at applicable margins over the Base Rate, as defined, or the Eurodollar Rate. The Company pays, on a quarterly basis, an annual fee ranging from 0.50% to 1.00% to the Lenders based on the unused commitments.

The obligations of the Borrowers are secured by liens on substantially all of their non-real estate assets and by a pledge of 65% of the stock of certain of the Company's material non-U.S. subsidiaries, pursuant to Amended and Restated U.S. and Canadian Security Agreements. In addition, the Company expects to mortgage certain U.S. real property for inclusion in the borrowing base for advances under the Amended Credit Agreement. The security interests are limited to the extent necessary so that they do not trigger the cross-collateralization

requirements under the Company's indenture with Bank of New York as trustee, dated as of January 1, 1988, as amended by various supplemental indentures.

Under the terms of the Amended Credit Agreement, the Company has agreed to certain affirmative and negative covenants customary in similar asset-based lending facilities. In the event the Company's excess availability under the borrowing base formula under the Amended Credit Agreement falls below $100 million for three consecutive business days, among other things, the Company must maintain a fixed charge coverage ratio of not less than 1.1 to 1.0 until the excess availability is greater than $100 million for 30 consecutive days. As of March 31, 2009, excess availability was greater than $100 million. The Company is also required to maintain cash and cash equivalents in the U.S. of at least $250 million. The negative covenants limit, under certain circumstances, among other things, the Company's ability to incur additional debt or liens, make certain investments, make shareholder distributions or prepay debt, except as permitted under the terms of the Amended Credit Agreement. The Company was in compliance with all covenants under the Amended Credit Agreement as of March 31, 2009.

The Amended Credit Agreement continues to contain customary events of default, including without limitation, payment defaults (subject to grace and cure periods in certain circumstances), breach of representations and warranties, breach of covenants (subject to grace and cure periods in certain circumstances), bankruptcy events, ERISA events, cross defaults to certain other indebtedness, certain judgment defaults and change of control. If an event of default occurs and is continuing, the Lenders may decline to provide additional advances, impose a default rate of interest, declare all amounts outstanding under the Amended Credit Agreement immediately due and payable, and require cash collateralization or similar arrangements for outstanding letters of credit.

As of March 31, 2009, the Company had no debt for borrowed money outstanding under the Amended Credit Agreement, but as noted above had outstanding letters of credit of $132 million. In addition to the amounts outstanding under the Amended Credit Agreement, there were bank guarantees of $31 million and surety bonds of $30 million outstanding primarily to ensure the payment of possible casualty and workers' compensation claims, environmental liabilities, legal contingencies, rental payments, and to support various customs and trade activities.

In addition to the Amended Credit Agreement, the Company has other committed and uncommitted lines of credit as of March 31, 2009 totaling $33 million and $388 million, respectively. These lines primarily support operational and borrowing needs of the Company's subsidiaries, which include term loans, overdraft coverage, revolving credit lines, letters of credit, bank guarantees and vendor programs. Interest rates and other terms of borrowing under these lines of credit vary from country to country, depending on local market conditions. As of March 31, 2009, usage under these lines was approximately $64 million, with $2 million reflected in Short-term borrowings and current portion of long-term debt on the accompanying Consolidated Statement of Financial Position, and the balance supporting non-debt related obligations.

NOTE 7: INCOME TAXES

The Company's income tax provision (benefit) and effective tax rate were as follows:

(dollars in millions)	Three Months Ended March 31,	
	2009	2008
Loss from continuing operations before income taxes	$ (376)	$ (74)
(Benefit) provision for income taxes	$ (16)	$ 40
Effective tax rate	4.3%	(54.1)%
Benefit for income taxes @ 35%	$ (132)	$ (26)
Difference between tax at effective vs. statutory rate	$ 116	$ 66

For the three months ended March 31, 2009, the difference between the Company’s recorded benefit 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. and certain jurisdictions outside the U.S. that were not benefited due to management’s conclusion that it was not more likely than not that the tax benefits would be realized, (2) additional valuation allowances recorded during the period, and (3) the mix of earnings from operations in certain lower-taxed jurisdictions outside the U.S.

For the three months ended March 31, 2008, the difference between the Company's recorded benefit and the provision that would result from applying the U.S. statutory rate of 35.0% is primarily attributable to: (1) losses generated within the U.S. and certain jurisdictions outside the U.S. that were not benefited due to management's conclusion that it was not more likely than not that the tax benefits would be realized, (2) the mix of earnings from operations in certain lower-taxed jurisdictions outside the U.S., and (3) adjustments for uncertain tax positions and tax audits.

NOTE 8: COMMITMENTS AND CONTINGENCIES

Environmental

The Company's undiscounted accrued liabilities for future environmental investigation, remediation, and monitoring costs are composed of the following items:

	As of			
(in millions)		March 31, 2009		December 31, 2008
Eastman Business Park site, Rochester, NY	$	62	$	63
Other operating sites		11		12
Sites associated with former operations		21		21
Sites associated with the non-imaging health business sold in 1994		18		19
Total	$	112	$	115

These amounts are reported in Other long-term liabilities in the accompanying Statement of Financial Position.

Cash expenditures for the aforementioned investigation, remediation and monitoring activities are expected to be incurred over the next twenty-seven years for several of the sites. For these known environmental liabilities, the accrual reflects the Company's best estimate of the amount it will incur under the agreed-upon or proposed work plans. The Company's cost estimates were determined using the ASTM Standard E 2137-06, "Standard Guide for Estimating Monetary Costs and Liabilities for Environmental Matters," and have not been reduced by possible recoveries from third parties. The overall method includes the use of a probabilistic model which forecasts a range of cost estimates for the remediation required at individual sites. The projects are closely monitored and the models are reviewed as significant events occur, or at least once per year. The Company's estimate includes investigations, equipment and operating costs for remediation and long-term monitoring of the sites. The Company does not believe it is reasonably possible that the losses for the known exposures could exceed the current accruals by material amounts.

A Consent Decree was signed in 1994 in settlement of a civil complaint brought by the U.S. Environmental Protection Agency ("EPA") and the U.S. Department of Justice. In connection with the Consent Decree, the Company is subject to a Compliance Schedule, under which the Company has improved its waste characterization procedures, upgraded one of its incinerators, and has upgraded its industrial sewer system. The Company submitted a certification stating that it has completed the requirements of the Consent Decree in the fourth quarter of 2008, and expects to receive an acknowledgement of completion from the EPA in the third quarter of 2009. No further capital expenditures are expected under this program, but Kodak is required to continue the sewer inspection program until the Decree is closed by the Court. Costs associated with the sewer inspection program are not material.

The Company is presently designated as a potentially responsible party (PRP) under the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended (the Superfund Law), or under similar state laws, for environmental assessment and cleanup costs as the result of the Company's alleged arrangements for disposal of hazardous substances at eight Superfund sites. With respect to each of these sites, the Company's liability is minimal. In addition, the Company has been identified as a PRP in connection with the non-imaging health businesses in two active Superfund sites. Numerous other PRPs have also been designated at these sites. Although the law imposes joint and several liability on PRPs, the Company's historical experience demonstrates that these costs are shared with other PRPs. Settlements and costs paid by the Company in Superfund matters to date have not been material. Future costs are also not expected to be material to the Company's financial position, results of operations or cash flows.

Estimates of the amount and timing of future costs of environmental remediation requirements are by their nature imprecise because of the continuing evolution of environmental laws and regulatory requirements, the availability and application of technology, the identification of presently unknown remediation sites and the allocation of costs among the potentially responsible parties. Based upon information presently available, such future costs are not expected to have a material effect on the Company’s competitive or financial position. However, such costs could be material to results of operations in a particular future quarter or year.

Other Commitments and Contingencies

As of March 31, 2009, the Company had outstanding letters of credit of $132 million issued under the Amended Credit Agreement, as well as bank guarantees of $31 million and surety bonds in the amount of $30 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 Company’s Brazilian operations are involved in governmental assessments of indirect and other taxes in various stages of litigation, primarily related to federal and state value-added taxes. The Company is disputing these matters and intends to vigorously defend its position. Based on the opinion of legal counsel, management does not believe that the ultimate resolution of these matters will materially impact the Company’s results of operations, financial position or cash flows. The Company 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.

The Company recorded a contingency accrual of approximately $20 million in the fourth quarter of 2008 related to employment litigation matters. The employment litigation matters related to a number of cases, which had similar fact patterns related to legacy equal employment opportunity issues. On April 27, 2009, the plaintiffs filed an unopposed motion for preliminary approval of a settlement in this action. The motion is pending before the court.

The Company is being sued for infringement of patents alleged to be related to products in the Company’s Graphic Communications Group. The plaintiff is seeking unspecified damages and other relief. The parties are presently in productive settlement discussions including cross-license negotiations that could result in balancing payments by the Company of at least $30 million.

The Company and its subsidiaries are involved in various lawsuits, claims, investigations and proceedings, including commercial, customs, employment, environmental, and health and safety matters, which are being handled and defended in the ordinary course of business. In addition, the Company is subject 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 the Company’s products. These matters are in various stages of investigation and litigation and are being vigorously defended. Although the Company does not expect that the outcome in any of these matters, individually or collectively, will have a material adverse effect on its financial condition or results of operations, litigation is inherently unpredictable. Therefore, judgments could be rendered or settlements entered, that could adversely affect the Company’s operating results or cash flow in a particular period. The Company routinely assesses all 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 9: GUARANTEES

The Company guarantees debt and other obligations of certain customers. The debt and other obligations are primarily due to banks and leasing companies in connection with financing of customers' purchases of equipment and

product from the Company. At March 31, 2009, the maximum potential amount of future payments (undiscounted) that the Company could be required to make under these customer-related guarantees was $66 million. At March 31, 2009, the carrying amount of any liability related to these customer guarantees was not material.

The customer financing agreements and related guarantees, which mature between 2009 and 2014, typically have a term of 90 days for product and short-term equipment financing arrangements, and up to five years for long-term equipment financing arrangements. These guarantees would require payment from the Company only in the event of default on payment by the respective debtor. In some cases, particularly for guarantees related to equipment financing, the Company has collateral or recourse provisions to recover and sell the

equipment to reduce any losses that might be incurred in connection with the guarantees. However, any proceeds received from the liquidation of these assets may not cover the maximum potential loss under these guarantees.

Despite the current economic environment, the Company believes that the guarantees disclosed above will not have a material impact on the results of operations or financial position of the Company. With respect to the guarantees that the Company issued in the quarter ended March 31, 2009, the Company assessed the fair value of its obligation to stand ready to perform under these guarantees by considering the likelihood of occurrence of the specified triggering events or conditions requiring performance as well as other assumptions and factors.

Eastman Kodak Company ("EKC") also guarantees amounts owed to banks and other third parties for some of its consolidated subsidiaries. The maximum amount guaranteed is $285 million, and the outstanding amount for those guarantees is $189 million with $174 million recorded within the Short-term borrowings and current portion of long-term debt, and Long-term debt, net of current portion components in the accompanying Consolidated Statement of Financial Position. These guarantees expire in 2009 through 2013. Pursuant to the terms of the Company's Amended Credit Agreement, obligations of the Borrowers to the Lenders under the Amended Credit Agreement, as well as secured agreements in an amount not to exceed $100 million, are guaranteed by the Company and the Company's U.S. subsidiaries.

During the fourth quarter of 2007, EKC issued a guarantee to Kodak Limited (the "Subsidiary") and the Trustees (the "Trustees") of the Kodak Pension Plan of the United Kingdom (the "Plan"). Under this arrangement, EKC guarantees to the Subsidiary and the Trustees the ability of the Subsidiary, only to the extent it becomes necessary to do so, to (1) make contributions to the Plan to ensure sufficient assets exist to make plan benefit payments, and (2) make contributions to the Plan such that it will achieve full funded status by the funding valuation for the period ending December 31, 2015. The guarantee expires upon the conclusion of the funding valuation for the period ending December 31, 2015 whereby the Plan achieves full funded status or earlier, in the event that the Plan achieves full funded status for two consecutive funding valuation cycles which are typically performed at least every three years. The limit of potential future payments is dependent on the funding status of the Plan as it fluctuates over the term of the guarantee. The Plan's local funding valuation was completed in March 2009. EKC and the Subsidiary are in discussions with the Trustees regarding the amount of future annual contributions and the date by which the Plan will achieve full funded status. These negotiations may require changes to the existing guarantee described above. The funded status of the Plan (calculated in accordance with U.S. GAAP) is included in Pension and other postretirement liabilities presented in the Consolidated Statement of Financial Position.

Indemnifications

The Company issues indemnifications in certain instances when it sells businesses and real estate, and in the ordinary course of business with its customers, suppliers, service providers and business partners. Further, the Company indemnifies its directors and officers who are, or were, serving at the Company's request in such capacities. Historically, costs incurred to settle claims related to these indemnifications have not been material to the Company's financial position, results of operations or cash flows. Additionally, the fair value of the indemnifications that the Company issued during the quarter ended March 31, 2009 was not material to the Company's financial position, results of operations or cash flows.

Warranty Costs

The Company has warranty obligations in connection with the sale of its products and equipment. The original warranty period is generally one year or less. The costs incurred to provide for these warranty obligations are estimated and recorded as an accrued liability at the time of sale. The Company 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 the

Company's accrued warranty obligations balance, which is reflected in Accounts payable and other current liabilities in the accompanying Consolidated Statement of Financial Position, was as follows:

(in millions)

Accrued warranty obligations as of December 31, 2008	$	65
Actual warranty experience during 2009		(20)
2009 warranty provisions		9
Accrued warranty obligations as of March 31, 2009	$	54

The Company also offers its customers extended warranty arrangements that are generally one year, but may range from three months to three years after the original warranty period. The Company provides repair services and routine maintenance under these arrangements. The Company 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. Costs incurred under these arrangements for the three months ended March 31, 2009 amounted to $40 million. The change in the Company's deferred revenue balance in relation to these extended warranty and maintenance arrangements from December 31, 2008 to March 31, 2009, which is reflected in Accounts payable and other current liabilities in the accompanying Consolidated Statement of Financial Position, was as follows:

(in millions)

Deferred revenue as of December 31, 2008	$	153
New extended warranty and maintenance arrangements in 2009		106
Recognition of extended warranty and maintenance arrangement revenue in 2009		(105)
Deferred revenue as of March 31, 2009	$	154

NOTE 10: RESTRUCTURING AND RATIONALIZATION LIABILITIES

2009 Program

On December 17, 2008, the Company committed to a plan to implement a targeted cost reduction program (the 2009 Program) to more appropriately size the organization as a result of the current economic environment. The program involves the rationalization of selling, marketing, administrative, research and development, supply chain and other business resources in certain areas and the consolidation of certain facilities.

In connection with the 2009 Program, the Company expects to incur total restructuring charges in the range of $250 million to $300 million, including $225 million to $265 million of cash related charges for termination benefits and other exit costs, and $25 million to $35 million of non-cash accelerated depreciation charges and asset write-offs. The 2009 Program will require expenditures from corporate cash in the range of $125 million to $175 million, as most of the termination benefits for U.S. employees will be provided in the form of special retirement benefits (Special Termination Program (STP) benefits) payable from the Company’s over-funded U.S. pension plan. The majority of the actions contemplated by the 2009 Program will be completed in the first half of 2009, with all actions under the program expected to be completed by the end of 2009. The 2009 Program is expected to result in employment reductions in the range of 2,000 to 3,000 positions when complete. When combined with rationalization actions taken in late 2008, the Company expects to reduce its worldwide employment by between 3,500 and 4,500 positions during 2009, approximately 14% to 18% of its total workforce. Including the impact of carryover actions from 2008, the Company expects to make payments from corporate cash in 2009 in the range of $225 million to $275 million.

The actual charges for restructuring and ongoing rationalization initiatives are recorded in the period in which the Company commits to formalized restructuring or ongoing rationalization plans, or executes the specific actions contemplated by the plans and all criteria for liability recognition under the applicable accounting guidance have been met.

Restructuring and Ongoing Rationalization Reserve Activity

The activity in the accrued balances and the non-cash charges and credits incurred in relation to restructuring initiatives and ongoing rationalization activities for the three months ended March 31, 2009 were as follows:

(in millions)	Severance Reserve	Exit Costs Reserve	Long-lived Asset Impairments and Inventory Write-downs	Accelerated Depreciation	Total
Balance as of 12/31/08	$ 109	$ 21	$ -	$ -	130
Q1 2009 charges	94	15	3	4	116
Q1 2009 utilization/cash payments	(43)	(5)	(3)	(4)	(55)
Q1 2009 other adjustments & reclasses (1)	(40)	-	-	-	(40)
Balance as of 3/31/09	$ 120	$ 31	$ -	$ -	$ 151

(1) Includes $37 million of severance-related charges for pension plan curtailments, settlements, and special termination benefits, which are reflected in Pension and other postretirement liabilities and Other long-term assets in the Consolidated Statement of Financial Position. The remaining $3 million reflects foreign currency translation adjustments.

The $116 million of charges for the first quarter of 2009 includes $4 million of charges for accelerated depreciation and $3 million of charges for inventory write-downs, which were reported in Cost of goods sold in the accompanying Consolidated Statement of Operations for the three months ended March 31, 2009. The remaining costs incurred, net of reversals, of $109 million were reported as Restructuring costs, rationalization and other in the accompanying Consolidated Statement of Operations for the three months ended March 31, 2009. 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.

The severance costs related to the elimination of approximately 1,600 positions, including approximately 850 manufacturing, 300 research and development, and 450 administrative positions. The geographic composition of the positions eliminated includes approximately 1,050 in the United States and Canada, and 550 throughout the rest of the world.

The charges of $116 million recorded in the first quarter of 2009 included $33 million applicable to FPEG, $14 million applicable to CDG, $52 million applicable to GCG, and $17 million that was applicable to manufacturing, research and development, and administrative functions, which are shared across all segments.

As a result of these initiatives, severance payments will be paid during periods through 2009 since, in many 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 2009 and beyond.

NOTE 11: RETIREMENT PLANS AND OTHER POSTRETIREMENT BENEFITS

Components of the net periodic benefit cost for all major funded and unfunded U.S. and Non-U.S. defined benefit plans for the three months ended March 31 are as follows:

	Three Months Ended March 31,			
(in millions)	2009		2008	
	U.S.	Non-U.S.	U.S.	Non-U.S.
Major defined benefit plans:				
Service cost	$ 13	$ 3	$ 14	$ 6
Interest cost	77	42	77	57
Expected return on plan assets	(118)	(47)	(136)	(68)
Amortization of:				
Recognized net actuarial loss	1	2	1	16
Pension (income) expense before special termination benefits, curtailments, and settlements	(27)	-	(44)	11
Special termination benefits	36	-	5	1
Curtailment losses (gains)	1	-	(9)	-
Net pension expense (income)	10	-	(48)	12
Other plans including unfunded plans	-	(2)	-	2
Total net pension expense (income) from continuing operations	$ 10	$ (2)	$ (48)	$ 14

For the three months ended March 31, 2009 and 2008, $36 million and $6 million, respectively, of special termination benefits charges were incurred as a result of the Company's restructuring actions and, therefore, have been included in Restructuring costs, rationalization and other in the Consolidated Statement of Operations. In addition, curtailment losses (gains) for the major funded and unfunded U.S. and Non-U.S. defined benefit plans totaling $1 million and ($7) million for the three months ended March 31, 2009 and 2008, respectively, were also incurred as a result of the Company’s restructuring actions and, therefore, have been included in Restructuring costs, rationalization and other in the Consolidated Statement of Operations for those respective periods.

The Company made contributions (funded plans) or paid benefits (unfunded plans) totaling approximately $23 million relating to its major U.S. and non-U.S. defined benefit pension plans in the first quarter of 2009. The Company expects its contribution (funded plans) and benefit payment (unfunded plans) requirements for its major U.S. and non-U.S. defined benefit pension plans for the balance of 2009 to be approximately $95 million.

Postretirement benefit costs for the Company's U.S., United Kingdom and Canada postretirement benefit plans, which represent the Company's major postretirement plans, includes:

(in millions)	Three Months Ended March 31, 2009	2008
Service cost	$ -	$ 2
Interest cost	24	39
Amortization of:		
Prior service credit	(17)	(10)
Recognized net actuarial loss	5	6
Other postretirement benefit cost before curtailments and settlements	12	37
Curtailment gain	-	(5)
Settlement gain	-	(2)
Total net postretirement benefit expense	$ 12	$ 30

As a result of the Company's restructuring actions, its U.S., United Kingdom and Canada postretirement benefit plans incurred curtailment gains of $0 and $3 million for the three months ended March 31, 2009 and 2008, respectively, and have been included in Restructuring costs, rationalization and other in the Consolidated Statement of Operations for those respective periods.

The Company paid benefits totaling approximately $41 million relating to its U.S., United Kingdom and Canada postretirement benefit plans in the first quarter of 2009. The Company expects to pay benefits of approximately $130 million for these postretirement plans for the balance of 2009.

The Company accounts for its defined benefit pension and other postretirement plans in accordance with SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans (an amendment of FASB Statements No. 87, 88, 106 and 132(R))." SFAS No. 158 requires that the funded status of all overfunded plans be aggregated and presented as an asset. The funded status of all underfunded plans must also be aggregated and presented as a liability. As of March 31, 2009 and December 31, 2008 the funded status of all overfunded plans was approximately $840 million and $765 million, respectively, which is reflected in Other long-term assets in the Company's Consolidated Statement of Financial Position. As of March 31, 2009 and December 31, 2008, the funded status of all underfunded plans was approximately $2.3 billion and $2.4 billion, respectively. In accordance with SFAS No. 158 the measurement date used to determine the funded status of each of the Company's pension and other postretirement benefits plan is December 31 of the prior year unless certain remeasurement events occur.

Certain of the Company's retirement plans were remeasured during the first quarter of 2009. The remeasurement of the funded status of those plans during the quarter decreased the Company's recognized defined benefit and other postretirement benefit plan obligation by $56 million.

The Kodak Retirement Income Plan ("KRIP") is the major U.S. defined benefit pension plan. During the fourth quarter of 2008, the Kodak Retirement Income Plan Committee ("KRIPCO," the committee that overseas KRIP) approved a change to KRIP's asset portfolio with the intention of re-assessing the asset allocation and completing a new asset and liability study in early 2009. During the first quarter of 2009, as intended, KRIPCO again approved a change in the asset allocation for the KRIP. A new asset and liability study was completed and resulted in an 8.75% expected long-term rate of return on plan asset assumption ("EROA"). As the KRIP was remeasured as of March 31, 2009, the Company's long-term assumption for EROA for the remainder of 2009 has been updated to reflect this change in asset allocation.

NOTE 12: EARNINGS PER SHARE

Basic earnings per share computations are based on the weighted-average number of shares of common stock outstanding during the year. As a result of the net loss from continuing operations presented for the three months ended March 31, 2009 and 2008, the Company calculated diluted earnings per share using weighted-average basic shares outstanding for each period, as utilizing diluted shares would be anti-dilutive to loss per share.

The following potential shares of the Company’s common stock were not included in the computation of diluted earnings per share for the three months ended March 31, 2009 and 2008 because the Company reported a net loss from continuing operations; therefore, the effects would be anti-dilutive:

(in millions of shares)	For the Three Months Ended March 31, 2009	2008
Total employee stock options outstanding	23.1	30.1
Total unvested share-based awards outstanding	3.0	1.6
Total anti-dilutive potential common shares outstanding	26.1	31.7

The majority of the Company’s outstanding stock options would not have been dilutive if the Company had reported earnings from continuing operations because their exercise prices exceeded the average market price of the Company’s stock for both periods presented.

Diluted earnings per share calculations could also reflect shares related to the assumed conversion of approximately $575 million in outstanding contingent convertible notes (the “Convertible Securities”), if dilutive. The Company’s diluted loss per share amounts exclude the effect of the Convertible Securities, as they were anti-dilutive for all periods presented.

NOTE 13: SHAREHOLDERS' EQUITY

The Company has 950 million shares of authorized common stock with a par value of $2.50 per share, of which 391 million shares had been issued as of March 31, 2009 and December 31, 2008. Treasury stock at cost consists of approximately 123 million shares as of March 31, 2009 and December 31, 2008.

Comprehensive Income

(in millions)	Three Months Ended March 31, 2009	2008
Net loss	$ (353)	$ (115)
Realized and unrealized gain (loss) from hedging activity, net of tax	8	(4)
Currency translation adjustments	(35)	120
Pension and other postretirement benefit plan obligation activity, net of tax	51	64
Total comprehensive (loss) income, net of tax	$ (329)	$ 65

NOTE 14: SEGMENT INFORMATION

Current Segment Reporting Structure

The Company has three reportable segments: Consumer Digital Imaging Group (“CDG”), Film, Photofinishing and Entertainment Group (“FPEG”), and Graphic Communications Group (“GCG”). The balance of the Company's

continuing operations, which individually and in the aggregate do not meet the criteria of a reportable segment, are reported in All Other. A description of the segments is as follows:

Consumer Digital Imaging Group Segment ("CDG"): CDG encompasses digital still and video cameras, digital devices such as picture frames, snapshot printers and related media, kiosks and related media, APEX drylab systems, consumer inkjet printing, Kodak Gallery,

and imaging sensors. CDG also includes the licensing activities related to the Company's intellectual property in digital imaging products.

Film, Photofinishing and Entertainment Group Segment (“FPEG”): FPEG encompasses consumer and professional film, one-time-use cameras, graphic arts film, aerial and industrial film, and entertainment imaging products and services.   In addition, this segment also includes paper and output systems, and photofinishing services. This segment provides consumers, professionals, cinematographers, and other entertainment imaging customers with film-related products and services and also provides graphic arts film to the graphics industry. As previously announced, Kodak closed its Qualex central lab operations in the U.S. and Canada at the end of March 2009.

Graphic Communications Group Segment (“GCG”): GCG serves a variety of customers in the creative, in-plant, data center, commercial printing, packaging, newspaper and digital service bureau market segments with a range of software, media and hardware products that provide customers with a variety of solutions for prepress equipment, workflow software, analog and digital printing, and document scanning. Products and related services include workflow software and digital controllers; digital printing, which includes commercial inkjet and electrophotographic products, including equipment, consumables and service; prepress consumables; prepress equipment; and document scanners.

All Other: All Other is composed of Kodak's display business and other small, miscellaneous businesses.

Segment financial information is shown below:

	Three Months Ended March 31,	
(in millions)	2009	2008
Net sales from continuing operations:		
Consumer Digital Imaging Group	$ 369	$ 554
Film, Photofinishing and Entertainment Group	503	724
Graphic Communications Group	603	812
All Other	2	3
Consolidated total	$ 1,477	$ 2,093

	Three Months Ended March 31,	
(in millions)	2009	2008
(Loss) earnings from continuing operations before interest expense, other (charges) income, net and income taxes:		
Consumer Digital Imaging Group	$ (157)	