

EASTMAN KODAK CO
Form 10-Q
October 30, 2008

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

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

For the quarterly period ended September 30, 2008
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

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 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 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

Edgar Filing: EASTMAN KODAK CO - Form 10-Q

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 October 24, 2008 |
|--------------------------------|---|
| Common Stock, \$2.50 par value | 268,460,335 |

Eastman Kodak Company
Form 10-Q
September 30, 2008

Table of Contents

| | Page |
|--|---|
| <u>Part I. - Financial Information</u> | |
| <u>Item 1.</u> | <u>Financial Statements</u> 3 |
| | <u>Consolidated Statement of Operations (Unaudited)</u> 3 |
| | <u>Consolidated Statement of Retained Earnings (Unaudited)</u> 4 |
| | <u>Consolidated Statement of Financial Position (Unaudited)</u> 5 |
| | <u>Consolidated Statement of Cash Flows (Unaudited)</u> 6 |
| | <u>Notes to Financial Statements (Unaudited)</u> 7 |
| <u>Item 2.</u> | <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u> 25 |
| | <u>Liquidity and Capital Resources</u> 42 |
| <u>Item 3.</u> | <u>Quantitative and Qualitative Disclosures About Market Risk</u> 47 |
| <u>Item 4.</u> | <u>Controls and Procedures</u> 48 |
| <u>Part II. - Other Information</u> | |
| <u>Item 1.</u> | <u>Legal Proceedings</u> 48 |
| <u>Item 1A.</u> | <u>Risk Factors</u> 49 |
| <u>Item 2.</u> | <u>Unregistered Sales of Equity Securities and Use of Proceeds</u> 54 |
| <u>Item 6.</u> | <u>Exhibits</u> 54 |
| | <u>Signatures</u> 55 |
| | <u>Index to Exhibits</u> 56 |

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 September 30, | | Nine Months Ended September 30, | |
|--|-------------------------------------|--------------|------------------------------------|---------------|
| | 2008 | 2007 | 2008 | 2007 |
| Net sales | \$ 2,405 | \$ 2,533 | \$ 6,983 | \$ 7,081 |
| Cost of goods sold | 1,744 | 1,856 | 5,312 | 5,332 |
| Gross profit | 661 | 677 | 1,671 | 1,749 |
| Selling, general and administrative expenses | 363 | 424 | 1,180 | 1,253 |
| Research and development costs | 100 | 132 | 381 | 409 |
| Restructuring costs, rationalization and other | 48 | 100 | 40 | 480 |
| Other operating expenses (income), net | 3 | 6 | (14) | (33) |
| Earnings (loss) from continuing operations before interest expense, other income (charges), net and income taxes | 147 | 15 | 84 | (360) |
| Interest expense | 26 | 28 | 80 | 84 |
| Other income (charges), net | 8 | 38 | 38 | 79 |
| Earnings (loss) from continuing operations before income taxes | 129 | 25 | 42 | (365) |
| Provision (benefit) for income taxes | 28 | (7) | (145) | (68) |
| Earnings (loss) from continuing operations | 101 | 32 | 187 | (297) |
| (Loss) earnings from discontinued operations, net of income taxes | (5) | 5 | 289 | 758 |
| NET EARNINGS | \$ 96 | \$ 37 | \$ 476 | \$ 461 |
| Basic net earnings (loss) per share: | | | | |
| Continuing operations | \$ 0.36 | \$ 0.11 | \$ 0.65 | \$ (1.03) |
| Discontinued operations | (0.02) | 0.02 | 1.01 | 2.63 |
| Total | \$ 0.34 | \$ 0.13 | \$ 1.66 | \$ 1.60 |
| Diluted net earnings (loss) per share: | | | | |
| Continuing operations | \$ 0.35 | \$ 0.11 | \$ 0.65 | \$ (1.03) |
| Discontinued operations | (0.02) | 0.02 | 1.01 | 2.63 |
| Total | \$ 0.33 | \$ 0.13 | \$ 1.66 | \$ 1.60 |
| Number of common shares used in basic net earnings (loss) per share | | | | |
| | 283.1 | 287.8 | 286.2 | 287.6 |
| Incremental shares from assumed issuance of unvested share-based awards | | | | |
| | 0.3 | 0.8 | 0.2 | - |
| Convertible securities | | | | |
| | 18.5 | - | - | - |
| Number of common shares used in diluted net earnings (loss) per share | | | | |
| | 301.9 | 288.6 | 286.4 | 287.6 |

Edgar Filing: EASTMAN KODAK CO - Form 10-Q

| | | | | | | | | |
|-------------------------------|----|---|----|---|----|------|----|------|
| Cash dividends paid per share | \$ | - | \$ | - | \$ | 0.25 | \$ | 0.25 |
|-------------------------------|----|---|----|---|----|------|----|------|

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

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

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|--|-------------------------------------|----------|------------------------------------|----------|
| | 2008 | 2007 | 2008 | 2007 |
| Retained earnings at beginning of period | \$ 6,772 | \$ 6,305 | \$ 6,474 | \$ 5,967 |
| Net earnings | 96 | 37 | 476 | 461 |
| Cash dividends | - | - | (72) | (72) |
| Loss from issuance of treasury stock | (3) | (9) | (13) | (23) |
| Retained earnings at end of period | \$ 6,865 | \$ 6,333 | \$ 6,865 | \$ 6,333 |

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

EASTMAN KODAK COMPANY
CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Unaudited)

| (in millions) | September 30, 2008 | December 31, 2007 |
|---|-----------------------|----------------------|
| ASSETS | | |
| Current Assets | | |
| Cash and cash equivalents | \$ 1,842 | \$ 2,947 |
| Receivables, net | 1,833 | 1,939 |
| Inventories, net | 1,136 | 943 |
| Other current assets | 172 | 224 |
| Total current assets | 4,983 | 6,053 |
| Property, plant and equipment, net of accumulated depreciation of \$5,482 and \$5,516, respectively | 1,629 | 1,811 |
| Goodwill | 1,700 | 1,657 |
| Other long-term assets | 3,601 | 4,138 |
| TOTAL ASSETS | \$ 11,913 | \$ 13,659 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Current Liabilities | | |
| Accounts payable and other current liabilities | \$ 3,006 | \$ 3,794 |
| Short-term borrowings | 54 | 308 |
| Accrued income and other taxes | 249 | 344 |
| Total current liabilities | 3,309 | 4,446 |
| Long-term debt, net of current portion | 1,249 | 1,289 |
| Pension and other postretirement liabilities | 1,889 | 3,444 |
| Other long-term liabilities | 1,089 | 1,451 |
| Total liabilities | 7,536 | 10,630 |
| Commitments and Contingencies (Note 7) | | |
| Shareholders' Equity | | |
| Common stock, \$2.50 par value | 978 | 978 |
| Additional paid in capital | 896 | 889 |
| Retained earnings | 6,865 | 6,474 |
| Accumulated other comprehensive income | 1,604 | 452 |
| | 10,343 | 8,793 |
| Less: Treasury stock, at cost | 5,966 | 5,764 |
| Total shareholders' equity | 4,377 | 3,029 |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | \$ 11,913 | \$ 13,659 |

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

EASTMAN KODAK COMPANY
CONSOLIDATED STATEMENT OF CASH FLOWS (Unaudited)

| (in millions) | Nine Months Ended | |
|---|-----------------------|----------|
| | September 30, 2008 | 2007 |
| Cash flows from operating activities: | | |
| Net earnings | \$ 476 | \$ 461 |
| Adjustments to reconcile to net cash used in operating activities: | | |
| Earnings from discontinued operations, net of income taxes | (289) | (758) |
| Depreciation and amortization | 380 | 609 |
| Gain on sales of businesses/assets | (2) | (39) |
| Non-cash restructuring and rationalization costs, asset impairments and other charges | (3) | 286 |
| Provision for deferred income taxes | 179 | 146 |
| Decrease (increase) in receivables | 76 | (30) |
| Increase in inventories | (204) | (183) |
| Decrease in liabilities excluding borrowings | (1,226) | (1,070) |
| Other items, net | (46) | (116) |
| Total adjustments | (1,135) | (1,155) |
| Net cash used in continuing operations | (659) | (694) |
| Net cash provided by (used in) discontinued operations | 300 | (30) |
| Net cash used in operating activities | (359) | (724) |
| Cash flows from investing activities: | | |
| Additions to properties | (178) | (179) |
| Net proceeds from sales of businesses/assets | 60 | 146 |
| Acquisitions, net of cash acquired | (35) | (2) |
| Marketable securities - sales | 143 | 123 |
| Marketable securities - purchases | (139) | (131) |
| Net cash used in continuing operations | (149) | (43) |
| Net cash provided by discontinued operations | - | 2,335 |
| Net cash (used in) provided by investing activities | (149) | 2,292 |
| Cash flows from financing activities: | | |
| Stock repurchases | (219) | - |
| Proceeds from borrowings | 159 | 65 |
| Repayment of borrowings | (450) | (1,213) |
| Dividends to shareholders | (72) | (72) |
| Exercise of employee stock options | - | 5 |
| Net cash used in financing activities | (582) | (1,215) |
| Effect of exchange rate changes on cash | (15) | 25 |
| Net (decrease) increase in cash and cash equivalents | (1,105) | 378 |
| Cash and cash equivalents, beginning of period | 2,947 | 1,469 |
| Cash and cash equivalents, end of period | \$ 1,842 | \$ 1,847 |

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, 2007.

Certain amounts for prior periods have been reclassified to conform to the current period presentation. Prior period reclassifications relate to changes in the Company's segment reporting structure and cost allocation methodologies related to employee benefits and corporate expenses. Refer to Note 13, "Segment Information."

CHANGE IN ESTIMATE

During 2005, the Company performed an assessment of the expected industry-wide declines in its traditional film and paper businesses. Based on this assessment, the Company revised the useful lives in 2005 of its existing production machinery and equipment from 3-20 years to 3-5 years and manufacturing-related buildings from 10-40 years to 5-20 years.

In the first quarter of 2008, the Company performed an updated analysis of expected industry-wide declines in the traditional film and paper businesses and its useful lives on related assets. This analysis indicated that the assets will continue to be used in these businesses for a longer period than previously anticipated. As a result, the Company revised the useful lives of certain existing production machinery and equipment, and manufacturing-related buildings effective January 1, 2008. These assets, which were previously set to fully depreciate by mid-2010, are now being depreciated with estimated useful lives ending from 2011 to 2015. The change in useful lives reflects the Company's estimate of future periods to be benefited from the use of the property, plant, and equipment.

The effect of this change in estimate for the three months ended September 30, 2008 was a reduction in depreciation expense of \$26 million, \$14 million of which has been recognized in cost of goods sold and is a benefit to earnings from continuing operations. In addition, \$12 million of the reduction in depreciation is capitalized as a reduction in inventories at September 30, 2008. The net impact of the change to earnings from continuing operations for the three months ended September 30, 2008 is an increase of \$26 million, or \$.09 on a fully-diluted earnings per share basis. This includes the \$14 million of current quarter depreciation recognized in cost of goods sold, plus \$12 million of depreciation from the previous quarter-to-date which was capitalized as a reduction in inventories at June 30, 2008, but was recognized in cost of goods sold in the current quarter.

The effect of this change in estimate for the nine months ended September 30, 2008 was a reduction in depreciation expense of \$81 million, \$69 million of which has been recognized in cost of goods sold, and \$12 million of which is capitalized as a reduction in inventories at September 30, 2008. The net impact of this change is an increase in earnings from continuing operations for the nine months ended September 30, 2008 of \$69 million, or \$.24 on a

fully-diluted earnings per share basis.

RECENT ACCOUNTING PRONOUNCEMENTS

FASB Statement No. 157

In September 2006, the Financial Accounting Standards Board (FASB) issued the Statement of Financial Accounting Standard (SFAS) No. 157, "Fair Value Measurements," which establishes a comprehensive framework for measuring fair value and expands disclosures about fair value measurements. Specifically, this Statement sets forth a definition of fair value, and establishes a hierarchy prioritizing the inputs to valuation techniques, giving the highest priority to quoted prices in active markets for identical assets and liabilities and the lowest priority to unobservable inputs. The Statement defines levels within the hierarchy as follows:

7

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.
- Level 2 inputs are inputs, other than quoted prices included within Level 1, which are observable for the asset or liability, either directly or indirectly.
- Level 3 inputs are unobservable inputs.

In February 2008, the FASB issued FSP 157-2, which delays the effective date of SFAS No. 157 for all nonfinancial assets and liabilities that are not recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually) until fiscal years beginning after November 15, 2008, and interim periods within those fiscal years. The Company is currently evaluating the potential impact that the application of SFAS No. 157 to its nonfinancial assets and liabilities will have on its Consolidated Financial Statements.

The Company adopted the provisions of SFAS No. 157 for financial assets and liabilities as of January 1, 2008. There was no significant impact to the Company's Consolidated Financial Statements as a result of this adoption.

The following table sets forth financial assets and liabilities measured at fair value in the Consolidated Statement of Financial Position and the respective levels to which the fair value measurements are classified within the fair value hierarchy as of September 30, 2008:

| (in millions) | Fair Value Measurements at Reporting Date Using | |
|------------------------------------|---|---|
| | Total Financial Assets & Liabilities As of September 30, 2008 | Significant Other Observable Inputs (Level 2) |
| Financial Assets | | |
| Foreign currency forward contracts | \$ 14 | \$ 14 |
| Silver forward contracts | 1 | 1 |
| Total | \$ 15 | \$ 15 |
| Financial Liabilities | | |
| Foreign currency forward contracts | \$ (26) | \$ (26) |
| Silver forward contracts | (2) | (2) |
| Total | \$ (28) | \$ (28) |

Values for the Company's forward contracts are determined based on the present value of expected future cash flows considering the risks involved and using discount rates appropriate for the duration of the contracts.

FASB Statement No. 159

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities," which permits entities to choose to measure, on an item-by-item basis, specified financial instruments and certain other items at fair value. Unrealized gains and losses on items for which the fair value option has been elected are required to be reported in earnings at each reporting date. SFAS No. 159 is effective for fiscal years beginning

after November 15, 2007. The provisions of this statement are required to be applied prospectively. The Company adopted SFAS No. 159 in the first quarter of 2008. There was no significant impact to the Company's Consolidated Financial Statements from the adoption of SFAS No. 159.

FASB Statement No. 141R

In December 2007, the FASB issued SFAS No. 141R, “Business Combinations,” a revision to SFAS No. 141, “Business Combinations.” SFAS No. 141R 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. SFAS No. 141R 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 (January 1, 2009 for the Company). The Company is currently evaluating the potential impact, if any, of the adoption of SFAS No. 141R on its 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. It also establishes accounting and reporting standards regarding deconsolidation and changes in a parent’s ownership interest. SFAS No. 160 is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008 (January 1, 2009 for the Company). The provisions of SFAS No. 160 are generally required to be applied prospectively, except for the presentation and disclosure requirements, which must be applied retrospectively. The Company is currently evaluating the potential impact, if any, of the adoption of SFAS No. 160 on its 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. SFAS No. 161 is effective for fiscal years and interim periods beginning after November 15, 2008. The Company will comply with the disclosure requirements of SFAS No. 161 beginning in the first quarter of 2009.

NOTE 2: RECEIVABLES, NET

| (in millions) | September 30, 2008 | As of December 31, 2007 |
|--|-----------------------|-------------------------------|
| Trade receivables | \$ 1,438 | \$ 1,697 |
| Miscellaneous receivables | 395 | 242 |
| Total (net of allowances of \$95 and \$114 as of September 30, 2008 and December 31, 2007, respectively) | \$ 1,833 | \$ 1,939 |

Of the total trade receivable amounts of \$1,438 million and \$1,697 million as of September 30, 2008 and December 31, 2007, respectively, approximately \$171 million and \$266 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 increase in miscellaneous receivables is primarily the result of the execution of an amendment to an intellectual property licensing agreement during the current quarter. Under the terms of this amendment, cash consideration is to be received in 2009. Refer to Note 6, "Other Long-Term Liabilities."

NOTE 3: INVENTORIES, NET

| (in millions) | September 30, 2008 | As of December 31, 2007 |
|-----------------|-----------------------|-------------------------------|
| Finished goods | \$ 732 | \$ 537 |
| Work in process | 221 | 235 |
| Raw materials | 183 | 171 |
| Total | \$ 1,136 | \$ 943 |

NOTE 4: GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill was \$1,700 million and \$1,657 million at September 30, 2008 and December 31, 2007, respectively. The changes in the carrying amount of goodwill by reportable segment for the nine months ended September 30, 2008 were as follows:

| (in millions) | As of September 30, 2008 | | | |
|----------------------------------|---|--|------------------------------------|-----------------------|
| | Consumer Digital Imaging Group | Film, Photofinishing and Entertainment Group | Graphic Communications Group | Consolidated Total |
| Balance as of December 31, 2007 | \$ 204 | \$ 601 | \$ 852 | \$ 1,657 |
| Additions | - | - | 24 | 24 |
| Purchase accounting adjustments | - | - | 10 | 10 |
| Currency translation adjustments | (3) | 17 | (5) | 9 |
| Balance as of September 30, 2008 | \$ 201 | \$ 618 | \$ 881 | \$ 1,700 |

The aggregate amount of goodwill additions of \$24 million was attributable to \$14 million for the purchase of Intermate A/S and \$10 million for the purchase of Design2Launch in the second quarter of 2008, both in the Graphic Communications Group segment. Refer to Note 14: "Acquisitions."

Due to the realignment of the Kodak operating model and change in reporting structure, as described in Note 13, "Segment Information," effective January 1, 2008, the Company reassigned goodwill to its reportable segments using a relative fair value approach as required under SFAS No. 142, "Goodwill and Other Intangible Assets." Prior period amounts have been restated to reflect this reassignment.

The gross carrying amount and accumulated amortization by major intangible asset category as of September 30, 2008 and December 31, 2007 were as follows:

Edgar Filing: EASTMAN KODAK CO - Form 10-Q

(in millions)

As of September 30, 2008

| | Gross Carrying Amount | Accumulated Amortization | Net | Weighted-Average Amortization Period |
|------------------|-----------------------------|-----------------------------|--------|---|
| Technology-based | \$ 337 | \$ 200 | \$ 137 | 7 years |
| Customer-related | 280 | 150 | 130 | 10 years |
| Other | 58 | 40 | 18 | 9 years |
| Total | \$ 675 | \$ 390 | \$ 285 | 8 years |

(in millions)

As of December 31, 2007

| | Gross Carrying Amount | Accumulated Amortization | Net | Weighted-Average Amortization Period |
|------------------|-----------------------------|-----------------------------|--------|---|
| Technology-based | \$ 326 | \$ 166 | \$ 160 | 7 years |
| Customer-related | 281 | 125 | 156 | 10 years |
| Other | 82 | 36 | 46 | 8 years |
| Total | \$ 689 | \$ 327 | \$ 362 | 8 years |

During the second quarter of 2008, the Company acquired Design2Launch and Intermate A/S. The intangible assets of \$4 million and \$7 million, respectively, related to these two acquisitions are included in the balances as of September 30, 2008 above.

During the first quarter of 2008, the Company sold its stake in Lucky Film Co., Ltd. including its rights under a manufacturing exclusivity agreement, which resulted in a decrease in the net intangible asset amount of approximately \$25 million.

Amortization expense related to purchased intangible assets for the three months ended September 30, 2008 and 2007 was \$21 million and \$27 million, respectively. Amortization expense related to purchased intangible assets for the nine months ended September 30, 2008 and 2007 was \$61 million and \$83 million, respectively.

Estimated future amortization expense related to purchased intangible assets as of September 30, 2008 is as follows (in millions):

| | |
|---------------------|--------|
| 2008 | \$ 20 |
| 2009 | 76 |
| 2010 | 65 |
| 2011 | 41 |
| 2012 | 26 |
| 2013 and thereafter | 57 |
| Total | \$ 285 |

NOTE 5: INCOME TAXES

In June of 2008, the Company received a tax refund from the U.S. Internal Revenue Service (IRS) of \$581 million. The refund is related to the audit of certain claims filed for tax years 1993-1998, and is composed of a refund of past federal income taxes paid of \$306 million and \$275 million of interest earned on the refund.

The federal tax refund claim related primarily to a 1994 loss recognized on the Company's sale of stock of a subsidiary, Sterling Winthrop Inc., which was originally disallowed under IRS regulations in effect at that time. The IRS subsequently issued revised regulations that served as the basis for this refund.

The refund had a positive impact of \$565 million on the Company's net earnings for the nine months ended September 30, 2008. Of the \$565 million increase in net earnings, \$295 million relates to the 1994 sale of Sterling Winthrop Inc., which is reflected in earnings from discontinued operations, net of income taxes. The balance of \$270 million, which represents interest, is reflected in earnings from continuing operations. The difference between the cash refund received of \$581 million and positive net earnings impact of \$565 million represents incremental state tax expense incurred and the release of an existing income tax receivable related to the refund.

Edgar Filing: EASTMAN KODAK CO - Form 10-Q

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

| (dollars in millions) | Three Months Ended | | Nine Months Ended | |
|--|-----------------------|-----------------------|-----------------------|-----------------------|
| | September 30, 2008 | September 30, 2007 | September 30, 2008 | September 30, 2007 |
| Earnings (loss) from continuing operations before income taxes | \$ 129 | \$ 25 | \$ 42 | \$ (365) |
| Provision (benefit) for income taxes | \$ 28 | \$ (7) | \$ (145) | \$ (68) |
| Effective tax rate | 21.7% | (28.0)% | (345.2)% | 18.6% |
| Provision (benefit) for income taxes @ 35% | \$ 45 | \$ 9 | \$ 15 | \$ (128) |
| Difference between tax at effective vs. statutory rate | \$ (17) | \$ (16) | \$ (160) | \$ 60 |

For the three months ended September 30, 2008, the difference between the Company's recorded provision and the provision that would result from applying the U.S. statutory rate of 35.0% is primarily attributable to: (1) earnings generated within the U.S. that were not taxed due to the impact of valuation allowances, (2) losses generated in certain jurisdictions outside the U.S. that were not benefited due to the impact of valuation allowances, (3) the mix of earnings from operations in certain lower-taxed jurisdictions outside the U.S., and (4) adjustments for uncertain tax positions and tax audits.

For the nine months ended September 30, 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) interest of \$270 million earned on the IRS tax refund, (2) losses generated within the U.S. and in certain jurisdictions outside the U.S. that were not benefited due to the impact of valuation allowances, (3) the mix of earnings from operations in certain lower-taxed jurisdictions outside the U.S., and (4) adjustments for uncertain tax positions and tax audits.

For the three months ended September 30, 2007, 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 in certain jurisdictions outside the U.S. that were not benefited due to valuation allowances, (2) the mix of earnings from operations in certain lower-taxed jurisdictions outside the U.S., (3) adjustments for uncertain tax positions, and (4) the impact of foreign legislative tax rate changes.

For the nine months ended September 30, 2007, 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 in certain jurisdictions outside the U.S. that were not benefited due to valuation allowances, (2) the mix of earnings from operations in certain lower-taxed jurisdictions outside the U.S., (3) adjustments for uncertain tax positions and tax audits, and (4) the impact of foreign legislative rate changes.

For the three and nine months ended September 30, 2007, the Company recorded a tax benefit in continuing operations associated with the realization of current year losses in certain jurisdictions where it has historically had a valuation allowance due to the recognition of the pre-tax gain in discontinued operations.

NOTE 6: OTHER LONG-TERM LIABILITIES

| (in millions) | September 30, 2008 | As of December 31, 2007 |
|---|-----------------------|-------------------------------|
| Deferred royalty revenue from licensees | \$ 15 | \$ 350 |
| Non-current tax-related liabilities | 492 | 445 |
| Environmental liabilities | 116 | 125 |
| Deferred compensation | 70 | 102 |
| Asset retirement obligations | 66 | 64 |
| Other | 330 | 365 |
| Total | \$ 1,089 | \$ 1,451 |

The reduction in deferred royalty revenue from licensees is primarily due to an amendment of an intellectual property licensing agreement with an existing licensee. Revenue related to this arrangement was previously being recognized over the term of the original agreement. The amendment relieved the Company of its continuing obligations that were to be performed over the term of the previous agreement. This amendment also resulted in the recognition of previously deferred royalty revenue offset by the elimination of a long-term note receivable of approximately the same amount. The terms of the amendment result in immediate recognition of royalty revenue in addition to previously recognized revenue under the original agreement. Revenue for the three months ended September 30, 2008 related to the amended agreement is \$112 million net of fees and revenue deferred under the amended agreement, the proceeds for which will be received in 2009.

The Other component consists of other miscellaneous long-term liabilities that, individually, are less than 5% of the total liabilities component in the accompanying Consolidated Statement of Financial Position, and therefore, have been aggregated in accordance with Regulation S-X.

NOTE 7: COMMITMENTS AND CONTINGENCIES

Environmental

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

| (in millions) | September 30, 2008 | As of December 31, 2007 |
|--|-----------------------|-------------------------------|
| Kodak Park site, Rochester, NY | \$ 63 | \$ 63 |
| Other operating sites | 12 | 19 |
| Sites associated with former operations | 22 | 23 |
| Sites associated with the non-imaging health business sold in 1994 | 19 | 20 |
| Total | \$ 116 | \$ 125 |

These amounts are reported in other long-term liabilities in the accompanying Statement of Financial Position, as indicated in Note 6, "Other Long-Term Liabilities."

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.

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.

Asset Retirement Obligations

The Company has asset retirement obligations which primarily relate to asbestos contained in buildings owned by the Company. In many of the countries in which the Company operates, environmental regulations exist that require the Company to handle and dispose of asbestos in a special manner if a building undergoes major renovations or is demolished. Otherwise, the Company is not required to remove the asbestos from its buildings. The Company records a liability equal to the estimated fair value of its obligation to perform asset retirement activities related to the asbestos, computed using an expected present value technique, when sufficient information exists to calculate the fair value. The Company does not have a liability recorded related to each building that contains asbestos because the Company cannot estimate the fair value of its obligation for certain buildings due to a lack of sufficient information about the range of time over which the obligation may be settled through demolition, renovation or sale of the building. The Company's asset retirement obligations are included within other long-term liabilities in the accompanying Consolidated Statement of Financial Position, as indicated in Note 6, "Other Long-Term Liabilities."

The change in the Company's asset retirement obligations from December 31, 2007 to September 30, 2008 was as follows:

(in millions)

| | | |
|---|----|-----|
| Asset retirement obligations as of December 31, 2007 | \$ | 64 |
| Liabilities incurred in the current period | | 7 |
| Liabilities settled in the current period | | (8) |
| Accretion expense | | 2 |
| Other | | 1 |
| Asset retirement obligations as of September 30, 2008 | \$ | 66 |

Other Commitments and Contingencies

As of September 30, 2008, the Company had outstanding letters of credit totaling \$134 million and surety bonds in the amount of \$66 million primarily to ensure the payment of possible casualty and workers' compensation claims, environmental liabilities, and to support various customs, tax and trade activities.

The Company's Brazilian operations are involved in labor claims and governmental assessments of indirect and other taxes in various stages of litigation. 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 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 8: 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 product and equipment from the Company. As of September 30, 2008, the following customer guarantees were in place:

| (in millions) | As of September 30, 2008 | |
|---|--------------------------|--------------------|
| | Maximum Amount | Amount Outstanding |
| Customer amounts due to banks and leasing companies | \$ 138 | \$ 80 |
| Other third-parties | 2 | - |
| Total guarantees of customer debt and other obligations | \$ 140 | \$ 80 |

The guarantees for the third party debt, presented in the table above, mature between 2008 and 2013. The customer financing agreements and related guarantees 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.

Eastman Kodak Company ("EKC") also guarantees debt owed to banks and other third parties for some of its consolidated subsidiaries. The maximum amount guaranteed is \$517 million, and the outstanding debt under those guarantees, which is recorded within the short-term borrowings and long-term debt, net of current portion components in the accompanying Consolidated Statement of Financial Position, is \$187 million. These guarantees expire in 2009 through 2013. Pursuant to the terms of the Company's \$2.7 billion Senior Secured Credit Agreement dated October 18, 2005, obligations under the \$2.7 billion Secured Credit Facilities (the "Credit Facilities") and other obligations of the Company and its subsidiaries to the Credit Facilities' lenders are guaranteed.

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. Currently, the Plan's local funding valuation is in process and expected to be completed by March 2009. As of September 30, 2008, management believes that performance under this guarantee by EKC is unlikely given expected investment performance and cash available at the Plan's sponsoring company, the Subsidiary, should future cash contributions be needed. The funding status of the Plan 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 September 30, 2008 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, 2007 | \$ | 44 |
| Actual warranty experience during 2008 | | (97) |
| 2008 warranty provisions | | 100 |
| Accrued warranty obligations as of September 30, 2008 | \$ | 47 |

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 nine months ended September 30, 2008 amounted to \$133 million. The change in the Company's deferred revenue balance in relation to these extended warranty and maintenance arrangements from December 31, 2007 to September 30, 2008, 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, 2007 | \$ | 148 |
| New extended warranty and maintenance arrangements in 2008 | | 282 |
| Recognition of extended warranty and maintenance arrangement revenue in 2008 | | (283) |
| Deferred revenue as of September 30, 2008 | \$ | 147 |

NOTE 9: RESTRUCTURING AND RATIONALIZATION LIABILITIES

The Company has completed the cost reduction program that was initially announced in January 2004, which was referred to as the "2004-2007 Restructuring Program." With the completion of the 2004-2007 Restructuring Program, the Company has drastically reduced the amount and scope of workforce reduction plans and exit and disposal activities. However, the Company recognizes the need to continually rationalize its workforce and streamline its

operations to remain competitive in the face of an ever-changing business and economic climate. These initiatives, referred to as ongoing rationalization activities, began in the first quarter of 2008.

Edgar Filing: EASTMAN KODAK CO - Form 10-Q

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 programs and ongoing rationalization activities for the three and nine months ended September 30, 2008 were as follows:

| (in millions) | Severance Reserve | Exit Costs Reserve | Long-lived Asset Impairments and Inventory Write-downs | Accelerated Depreciation | Total |
|---|-------------------|--------------------|--|--------------------------|--------|
| Balance as of 12/31/07 | \$ 129 | \$ 35 | \$ - | \$ - | \$ 164 |
| Q1 2008 charges | (11) | 2 | - | - | (9) |
| Q1 2008 utilization/cash payments | (44) | (6) | - | - | (50) |
| Q1 2008 other adjustments & reclasses | 6 | (1) | - | - | 5 |
| Balance as of 3/31/08 | 80 | 30 | - | - | 110 |
| Q2 2008 charges | - | 2 | 2 | 2 | 6 |
| Q2 2008 reversals | - | (3) | - | - | (3) |
| Q2 2008 utilization/cash payments | (24) | (6) | (2) | (2) | (34) |
| Q2 2008 other adjustments & reclasses | - | 2 | - | - | 2 |
| Balance as of 6/30/08 | 56 | 25 | - | - | 81 |
| Q3 2008 charges (1) | 45 | 3 | 5 | 2 | 55 |
| Q3 2008 reversals | (3) | - | - | - | (3) |
| Q3 2008 utilization/cash payments | (16) | (5) | (5) | (2) | (28) |
| Q3 2008 other adjustments & reclasses (2) | (3) | (1) | - | - | (4) |
| Balance as of 9/30/08 | \$ 79 | \$ 22 | \$ - | \$ - | \$ 101 |

(1) Includes severance charges of \$51 million, offset by net curtailment gains related to these actions of \$6 million.

(2) Primarily related to foreign currency translation adjustments.

The \$52 million of charges, net of reversals, for the third quarter of 2008 includes \$2 million of charges for accelerated depreciation and \$2 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 September 30, 2008. The remaining costs incurred, net of reversals, of \$48 million were reported as restructuring costs, rationalization and other in the accompanying Consolidated Statement of Operations for the three months ended September 30, 2008. 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 charges, net of reversals, of \$52 million recorded in the third quarter of 2008 included \$6 million applicable to FPEG, \$23 million applicable to CDG, \$17 million applicable to GCG, and \$6 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 2008 and beyond.

NOTE 10: 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 and nine months ended September 30, are as follows:

| (in millions) | Three Months Ended September 30, | | | | Nine Months Ended September 30, | | | |
|---|----------------------------------|----------|---------|----------|---------------------------------|----------|----------|----------|
| | 2008 | | 2007 | | 2008 | | 2007 | |
| | 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 | \$ 13 | \$ 6 | \$ 16 | \$ 6 | \$ 40 | \$ 18 | \$ 55 | \$ 20 |
| Interest cost | 77 | 55 | 74 | 52 | 231 | 169 | 232 | 150 |
| Expected return on plan assets | (136) | (66) | (133) | (65) | (408) | (203) | (405) | (187) |
| Amortization of: | | | | | | | | |
| Recognized net actuarial loss | 1 | 15 | 2 | 14 | 3 | 47 | 5 | 48 |
| Pension (income) expense before special termination benefits, curtailments, and settlements | (45) | 10 | (41) | 7 | (134) | 31 | (113) | 31 |
| Special termination benefits | 7 | - | 17 | - | 13 | 1 | 45 | 7 |
| Curtailment gains | - | (6) | - | - | (12) | (6) | (15) | (3) |
| Settlement gains | - | - | (7) | - | - | - | (45) | (4) |
| Net pension (income) expense | (38) | 4 | (31) | 7 | (133) | 26 | (128) | 31 |
| Other plans including unfunded plans | - | 1 | - | 5 | - | 6 | - | 8 |
| Total net pension (income) expense from continuing operations | \$ (38) | \$ 5 | \$ (31) | \$ 12 | \$ (133) | \$ 32 | \$ (128) | \$ 39 |

For the three months ended September 30, 2008 and 2007, \$7 million and \$17 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 and other in the Consolidated Statement of Operations.

The Company made contributions (funded plans) or paid benefits (unfunded plans) totaling approximately \$30 million relating to its major U.S. and non-U.S. defined benefit pension plans in the third quarter of 2008. 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 2008 to be approximately \$29 million.

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

18

| (in millions) | Three Months Ended | | Nine Months Ended | |
|---|--------------------|-------|-------------------|--------|
| | September 30, | | September 30, | |
| | 2008 | 2007 | 2008 | 2007 |
| Service cost | \$ 1 | \$ 2 | \$ 5 | \$ 6 |
| Interest cost | 30 | 41 | 108 | 123 |
| Amortization of: | | | | |
| Prior service credit | (15) | (8) | (35) | (28) |
| Actuarial loss | 4 | 11 | 15 | 38 |
| Other postretirement benefit cost before curtailments and settlements | 20 | 46 | 93 | 139 |
| Curtailment gain | (79) | - | (86) | (5) |
| Settlement gain | - | - | (2) | - |
| Total net postretirement benefit (income) expense | \$ (59) | \$ 46 | \$ 5 | \$ 134 |

The Company paid benefits totaling approximately \$52 million relating to its U.S., United Kingdom and Canada postretirement benefit plans in the third quarter of 2008. The Company expects to pay benefits of \$51 million for these postretirement plans for the balance of 2008.

On August 1, 2008, the Company adopted and announced certain changes to its U.S. postretirement benefit plan affecting its post-September 1991 retirees beginning January 1, 2009. For affected participants, the terms of the amendment reduce the Company's contribution toward retiree medical coverage from its 2008 level by one percentage point per year for a 10-year period, phase-out Company contributions for dependent medical coverage over the same 10-year period with access only coverage beginning in 2018, and discontinue retiree dental coverage and Company paid life insurance.

The changes made to the plan resulted in the remeasurement of the plan's obligations as of August 1, 2008, the date the changes were adopted and announced by the Company. This remeasurement reduced the Company's other postretirement benefit obligation by \$919 million of which \$772 million is attributable to the plan changes. In addition, the Company recognized a curtailment gain of \$79 million as a result of the amendment. The curtailment gain is included in cost of goods sold, selling, general and administrative expenses, and research and development costs in the Consolidated Statement of Operations for the three and nine months ended September 30, 2008.

The Company's benefits to U.S. long-term disability recipients were also amended as described above. These changes resulted in a reduction in Pension and other postretirement liabilities, and a corresponding gain of \$15 million has been included in the cost of goods sold, selling, general and administrative expenses, and research and development costs in the Consolidated Statement of Operations for the three and nine months ended September 30, 2008.

In addition to the curtailment and other gain noted above, and as a result of the Company's restructuring actions, the Company recognized net curtailment gains of \$6 million in certain of its defined benefit and other postretirement benefit obligation plans that have been included in restructuring costs, rationalization and other in the Consolidated Statement of Operations for the three months ended September 30, 2008.

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 September 30, 2008 and December 31, 2007 the funded status of all overfunded plans was approximately \$2.6 billion and \$2.5 billion, respectively, which is reflected in Other long-term assets in the Company's Consolidated Statement of Financial Position. As of September 30, 2008 and December 31, 2007, the funded status of all underfunded plans was approximately \$1.9 billion and \$3.4 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 unless certain remeasurement events occur. The Company's most significant overfunded pension plan has not been remeasured since December 31, 2007 and plan assets are therefore reflected as of that date.

Certain of the Company's retirement plans were remeasured during the third quarter of 2008. 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 \$1,244 million, inclusive of the \$919 million benefit obligation reduction noted above.

NOTE 11: EARNINGS PER SHARE

For the three and nine months ended September 30, 2008, the Company calculated diluted net earnings per share excluding the assumed conversion of outstanding options to purchase 22.9 million and 25.3 million shares, respectively, of the Company's common stock. For the three months ended September 30, 2007, the Company calculated diluted net earnings per share excluding the assumed conversion of outstanding options to purchase 25.7 million shares of the Company's common stock. These options were excluded in the computation of diluted net earnings per share because the options' exercise prices were greater than the average market price of the common shares for each of these periods.

As a result of the net loss from continuing operations presented for the nine months ended September 30, 2007, the Company calculated the diluted net earnings per share using weighted average basic shares outstanding for the respective periods, as utilizing diluted shares would be anti-dilutive. Therefore, outstanding options to purchase 29.8 million shares of the Company's common stock were not included in the computation of diluted net earnings per share for the nine months ended September 30, 2007.

The Company currently has \$575 million in contingent convertible notes (the Convertible Securities) outstanding that were issued in October 2003. Interest on the Convertible Securities accrues at a rate of 3.375% and is payable semi-annually. Under certain conditions, the Convertible Securities are convertible at an initial conversion rate of 32.2373 shares of the Company's common stock for each \$1,000 principal of the Convertible Securities. The Company's diluted net earnings per share for the three and nine months ended September 30, 2007 and the nine months ended September 30, 2008 excludes the effect of the Convertible Securities, as they were anti-dilutive for each of these periods. Diluted net earnings per share for the three months ended September 30, 2008 includes the effect of the convertible securities, as they were dilutive to earnings per share.

The following tables set forth the computations of basic and diluted earnings (loss) from continuing operations per share of common stock for the three and nine months ended September 30, 2008:

| (in millions, except per share amounts) | For the Three Months Ended September 30, 2008 | | |
|---|--|-------------------------|---------------------|
| | Earnings (Numerator) | Shares (Denominator) | Per Share Amount |
| Basic EPS: | | | |
| Earnings from continuing operations available to common stockholders | \$ 101 | 283.1 | \$ 0.36 |
| Effect of dilutive securities: | | | |
| Unvested share-based awards | \$ - | 0.3 | |
| Convertible securities | \$ 5 | 18.5 | |
| Diluted EPS: | | | |
| Adjusted earnings from continuing operations available to common stockholders and assumed issuances and conversions | \$ 106 | 301.9 | \$ 0.35 |

For the Nine Months Ended
September 30, 2008

| (in millions, except per share amounts) | Earnings (Numerator) | Shares (Denominator) | Per Share Amount |
|---|-------------------------|-------------------------|---------------------|
| Basic EPS: | | | |
| Earnings from continuing operations available to common stockholders | \$ 187 | 286.2 | \$ 0.65 |
| Effect of dilutive securities: | | | |
| Unvested share-based awards | \$ - | 0.2 | |
| Diluted EPS: | | | |
| Adjusted earnings from continuing operations available to common stockholders and assumed issuances and conversions | \$ 187 | 286.4 | \$ 0.65 |

NOTE 12: 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 September 30, 2008 and December 31, 2007. Treasury stock at cost consists of approximately 117 million and 103 million shares as of September 30, 2008 and December 31, 2007, respectively.

Share Repurchase Program

On June 24, 2008, the Company announced that its Board of Directors authorized a new share repurchase program allowing the Company, at management's determination, to purchase up to \$1.0 billion of its common stock. The program will expire at the earlier of December 31, 2009 or when the Company has used all authorized funds for repurchase. The share repurchase program does not obligate the Company to repurchase any dollar amount or number of shares of its common stock, and the program may be extended, modified, suspended, or discontinued at any time. As of September 30, 2008, the Company has repurchased approximately 14 million shares under the program with an aggregate purchase price of approximately \$219 million, representing an average price paid per share of \$15.53.

Comprehensive Income

| (in millions) | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|-------------------------------------|--------|------------------------------------|----------|
| | 2008 | 2007 | 2008 | 2007 |
| Net earnings | \$ 96 | \$ 37 | \$ 476 | \$ 461 |
| Realized and unrealized (loss) gain from hedging activity, net of tax | (5) | 7 | (16) | 7 |
| Currency translation adjustments | (93) | 53 | (2) | 87 |
| Pension and other postretirement benefit plan obligation activity, net of tax | 1,075 | 81 | 1,170 | 770 |
| Total comprehensive income, net of tax | \$ 1,073 | \$ 178 | \$ 1,628 | \$ 1,325 |

The pension and other postretirement benefit plan obligation activity is primarily the result of a benefit plan amendment and remeasurement of certain benefit plan obligations. Refer to Note 10, "Retirement Plans and Other Postretirement Benefits" for more information.

NOTE 13: SEGMENT INFORMATION

Kodak Operating Model and 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 which were introduced in the second quarter of 2008, consumer inkjet printing, Kodak Gallery, and imaging sensors. The APEX drylab system provides an alternative to traditional photofinishing processing at retail locations. 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 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.

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, digital and traditional printing, document scanning and multi-vendor services. Products and related services include workflow software and digital controller development; digital printing, which includes continuous inkjet and electrophotographic products, including equipment, consumables and service; prepress consumables; output devices; proofing hardware, media and software; and document scanners.

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

Effective January 1, 2008, the Company changed its cost allocation methodologies related to employee benefits and corporate expenses. For the three months ended September 30, 2007, this change decreased cost of goods sold by \$6 million, increased selling, general, and administrative costs by \$3 million, and increased research and development costs by \$3 million. For the nine months ended September 30, 2007, this change decreased cost of goods sold by \$21 million, increased selling, general, and administrative costs by \$11 million, and increased research and development costs by \$10 million.

Prior period segment results have been revised to reflect the changes in segment reporting structure and cost allocation methodologies outlined above.

The changes in cost allocation methodologies referred to above increased (decreased) segment operating results for the three and nine months ended September 30, 2007 as follows:

| (in millions) | Three Months Ended September 30, 2007 | Nine Months Ended September 30, 2007 |
|---------------|--|---|
| | | |

Edgar Filing: EASTMAN KODAK CO - Form 10-Q

| | | | | |
|--|----|------|----|------|
| Consumer Digital Imaging Group | \$ | (10) | \$ | (25) |
| Film, Photofinishing and Entertainment Group | | 10 | | 22 |
| Graphic Communications Group | | (4) | | (15) |
| All Other | | 4 | | 18 |
| Consolidated impact | \$ | - | \$ | - |

Edgar Filing: EASTMAN KODAK CO - Form 10-Q

Segment financial information is shown below:

| (in millions) | Three Months Ended | | Nine Months Ended | |
|--|--------------------|----------|-------------------|----------|
| | September 30, | | September 30, | |
| | 2008 | 2007 | 2008 | 2007 |
| Net sales from continuing operations: | | | | |
| Consumer Digital Imaging Group | \$ 820 | \$ 766 | \$ 2,130 | \$ 1,875 |
| Film, Photofinishing and Entertainment Group | 764 | 928 | 2,335 | 2,738 |
| Graphic Communications Group | 821 | 837 | 2,513 | 2,460 |
| All Other | - | 2 | 5 | 8 |
| Consolidated total | \$ 2,405 | \$ 2,533 | \$ 6,983 | \$ 7,081 |

| (in millions) | Three Months Ended | | Nine Months Ended | |
|---------------|--------------------|------|-------------------|------|
| | September 30, | | September 30, | |
| | 2008 | 2007 | 2008 | 2007 |

Earnings (loss) from continuing operations before interest expense, other income (charges), net and income taxes:

| | | | | |
|---|--------|-------|----------|----------|
| Consumer Digital Imaging Group | \$ 23 | \$ 18 | \$ (137) | \$ (108) |
| Film, Photofinishing and Entertainment Group | 77 | 113 | 157 | 264 |
| Graphic Communications Group | 23 | 36 | 35 | 74 |
| All Other | (5) | (7) | (13) | (17) |
| Total of segments | 118 | 160 | 42 | 213 |
| Restructuring costs, rationalization and other | (52) | (127) | (46) | (594) |
| Postemployment benefit changes | 94 | - | 94 | - |
| Other operating income (expenses), net | (3) | (6) | 14 | 33 |
| Legal contingency | (10) | - | (10) | - |
| Legal settlement | - | (12) | (10) | (12) |
| Interest expense | (26) | (28) | (80) | (84) |
| Other income (charges), net | 8 | 38 | 38 | 79 |
| Consolidated earnings (loss) from continuing operations before income taxes | \$ 129 | \$ 25 | \$ 42 | \$ (365) |

| (in millions) | As of | As of |
|---------------|--------------------|-------------------|
| | September 30, 2008 | December 31, 2007 |

Segment total assets:

| | | |
|--|----------|----------|
| Consumer Digital Imaging Group | \$ 2,325 | \$ 2,442 |
| Film, Photofinishing and Entertainment Group | 3,389 | 3,778 |
| Graphic Communications Group | 3,750 | 3,723 |

Edgar Filing: EASTMAN KODAK CO - Form 10-Q

| | | |
|---------------------------------|-----------|-----------|
| All Other | 12 | 17 |
| Total of segments | 9,476 | 9,960 |
| Cash and marketable securities | 1,861 | 2,976 |
| Deferred income tax assets | 572 | 757 |
| Other corporate assets/reserves | 4 | (34) |
| Consolidated total assets | \$ 11,913 | \$ 13,659 |

NOTE 14: ACQUISITIONS

On April 4, 2008, the Company announced that it had completed the acquisition of Design2Launch (D2L), a developer of collaborative end-to-end digital workflow solutions for marketers, brand owners and creative teams. D2L is part of the Company's Graphic Communications Group segment.

On April 10, 2008, the Company announced that it had completed the acquisition of Intermate A/S, a global supplier of remote monitoring and print connectivity solutions used extensively in transactional printing. Intermate A/S is part of the Company's Graphic Communications Group segment.

The two acquisitions had an aggregate purchase price of approximately \$37 million and were individually immaterial to the Company's financial position as of September 30, 2008, and its results of operations and cash flows for the three and nine months ended September 30, 2008.

NOTE 15: DISCONTINUED OPERATIONS

The significant components of earnings from discontinued operations, net of income taxes, are as follows:

| (in millions) | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|-------------------------------------|------|------------------------------------|--------|
| | 2008 | 2007 | 2008 | 2007 |
| Revenues from Health Group operations | \$ - | \$ - | \$ - | \$ 754 |
| Revenues from HPA operations | - | - | - | 82 |
| Total revenues from discontinued operations | \$ - | \$ - | \$ - | \$ 836 |
| Pre-tax income from Health Group operations | \$ - | \$ - | \$ - | \$ 34 |
| Pre-tax gain on sale of Health Group segment | - | 6 | - | 986 |
| Pre-tax income from HPA operations | - | - | - | 5 |
| (Provision) benefit for income taxes related to discontinued operations | (3) | (4) | 292 | (270) |
| All other items, net | (2) | 3 | (3) | 3 |
| (Loss) earnings from discontinued operations, net of income taxes | \$ (5) | \$ 5 | \$ 289 | \$ 758 |

Tax Refund

In the second quarter of 2008, the Company received a tax refund from the U.S. Internal Revenue Service. The refund was related to the audit of certain claims filed for tax years 1993-1998. A portion of the refund related to past federal income taxes paid in relation to the 1994 sale of a subsidiary, Sterling Winthrop Inc., which was reported in discontinued operations. The refund had a positive impact on the Company's earnings from discontinued operations,

net of income taxes, for the nine months ended September 30, 2008 of \$295 million. Refer to Note 5, "Income Taxes," for further discussion of the tax refund.

Health Group

On April 30, 2007, the Company sold all of the assets and business operations of its Health Group segment to Onex Healthcare Holdings, Inc. ("Onex") (now known as Carestream Health, Inc.), a subsidiary of Onex Corporation, for up to \$2.55 billion. The price was composed of \$2.35 billion in cash at closing and \$200 million in additional future payments if Onex achieves certain returns with respect to its investment.

The Company recognized a pre-tax gain of \$980 million on the sale of the Health Group segment in the second quarter of 2007, and recorded pre-tax true-up adjustments to the gain on sale totaling \$6 million in the third quarter of 2007, primarily related to gains from pension settlements. The pre-tax gain excluded the following: up to \$200 million of potential future payments related to Onex's return on its investment as noted above; potential charges or credits related to settling pension obligations with Onex in future periods; and any adjustments that may be made in the future that are currently under review.

The Company was required to use a portion of the initial \$2.35 billion cash proceeds to fully repay its approximately \$1.15 billion of Secured Term Debt. In accordance with EITF No 87-24, "Allocation of Interest to Discontinued Operations," the Company allocated to discontinued operations the interest expense related to the Secured Term Debt because it was required to be repaid as a result of the sale. Interest expense allocated to discontinued operations totaled \$30 million for the nine months ended September 30, 2007, respectively.

HPA

On October 17, 2007, the shareholders of Hermes Precisa Pty. Ltd. ("HPA"), a majority owned subsidiary of Kodak (Australasia) Pty. Ltd., a wholly owned subsidiary of the Company, approved an agreement to sell all of the shares of HPA to Salmat Limited. The sale was approved by the Federal Court of Australia on October 18, 2007, and closed on November 2, 2007. Kodak received \$139 million in cash at closing for its shares of HPA, and recognized a pre-tax gain on the sale of \$123 million during the fourth quarter of 2007. HPA, a publicly traded Australian company, is a provider of outsourced services in business communication and data processes and was formerly reported within the Company's Graphic Communications Group segment.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Due to recent disruptions in the broad financial markets and global economic weakness, management has placed increased emphasis on monitoring and managing the risks associated with the current economic environment, particularly the collectability of receivables, the fair value of assets, and the Company's liquidity. Management has assessed the implications of these recent events on the Company's current businesses and believes that there has not been a significant impact to the Company's financial position as of September 30, 2008 or liquidity during the first nine months of 2008. Management will continue to monitor and manage the risks associated with the current economic environment and their impact on the Company's financial position. Refer to Item 1A of Part II, "Risk Factors."

Kodak Operating Model and Reporting Structure

The Company has three reportable segments: Consumer Digital Imaging Group (CDG), Film, Photofinishing and Entertainment Group (FPEG), and Graphic Communications Group (GCG). Within each of the Company's reportable segments are various components, or Strategic Product Groups (SPGs). Throughout the remainder of this document, references to the segments' SPGs are indicated in italics. 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 which were introduced in the second quarter of 2008, consumer inkjet printing, Kodak Gallery, and imaging sensors. The APEX drylab system provides an alternative to traditional photofinishing processing at retail locations. 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.

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

Edgar Filing: EASTMAN KODAK CO - Form 10-Q

software, media and hardware products that provide customers with a variety of solutions for prepress equipment, workflow software, digital and traditional printing, document scanning, and multi-vendor services. Products and related services include workflow software and digital controller development; digital printing, which includes continuous inkjet and electrophotographic products, including equipment, consumables and service; prepress consumables; output devices; proofing hardware, media and software; and document scanners.

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

Effective January 1, 2008, the Company changed its cost allocation methodologies related to employee benefits and corporate expenses. For the three months ended September 30, 2007, this change decreased cost of goods sold by \$6 million, increased selling, general, and administrative costs by \$3 million, and increased research and development costs by \$3 million. For the nine months ended September 30, 2007, this change decreased cost of goods sold by \$21 million, increased selling, general, and administrative costs by \$11 million, and increased research and development costs by \$10 million.

Prior period segment results have been revised to reflect the changes in segment reporting structure and cost allocation methodologies outlined above.

The changes in cost allocation methodologies referred to above increased (decreased) segment operating results for the three and nine months ended September 30, 2007 as follows:

| (in millions) | Three Months Ended September 30, 2007 | Nine Months Ended September 30, 2007 |
|--|--|---|
| Consumer Digital Imaging Group | \$ (10) | \$ (25) |
| Film, Photofinishing and Entertainment Group | 10 | 22 |
| Graphic Communications Group | (4) | (15) |
| All Other | 4 | 18 |
| Consolidated impact | \$ - | \$ - |

Edgar Filing: EASTMAN KODAK CO - Form 10-Q

Net Sales from Continuing Operations by Reportable Segment and All Other

| (in millions) | Three Months Ended September 30, | | | | Nine Months Ended September 30, | | | |
|---|----------------------------------|-----------------|------------|--------------------------|---------------------------------|-----------------|------------|--------------------------|
| | 2008 | 2007 | Change | Foreign Currency Impact* | 2008 | 2007 | Change | Foreign Currency Impact* |
| Consumer Digital Imaging Group | | | | | | | | |
| Inside the U.S. | \$ 476 | \$ 467 | +2% | 0% | \$ 1,168 | \$ 1,122 | +4% | 0% |
| Outside the U.S. | 344 | 299 | +15 | +4 | 962 | 753 | +28 | +8 |
| Total Consumer Digital Imaging Group | 820 | 766 | +7 | +2 | 2,130 | 1,875 | +14 | +3 |
| Film, Photofinishing and Entertainment Group | | | | | | | | |
| Inside the U.S. | 211 | 277 | -24 | 0 | 647 | 803 | -19 | 0 |
| Outside the U.S. | 553 | 651 | -15 | +3 | 1,688 | 1,935 | -13 | +5 |
| Total Film, Photofinishing and Entertainment Group | 764 | 928 | -18 | +2 | 2,335 | 2,738 | -15 | +4 |
| Graphic Communications Group | | | | | | | | |
| Inside the U.S. | 243 | 297 | -18 | 0 | 783 | 876 | -11 | 0 |
| Outside the U.S. | 578 | 540 | +7 | +6 | 1,730 | 1,584 | +9 | +9 |
| Total Graphic Communications Group | 821 | 837 | -2 | +4 | 2,513 | 2,460 | +2 | +6 |
| All Other | | | | | | | | |
| Inside the U.S. | 1 | 2 | - | - | 6 | 8 | - | - |
| Outside the U.S. | (1) | - | - | - | (1) | - | - | - |
| Total All Other | - | 2 | - | - | 5 | 8 | - | - |
| Consolidated | | | | | | | | |
| Inside the U.S. | 931 | 1,043 | -11 | 0 | 2,604 | 2,809 | -7 | 0 |
| Outside the U.S. | 1,474 | 1,490 | -1 | +5 | 4,379 | 4,272 | +3 | +7 |
| Consolidated Total | \$ 2,405 | \$ 2,533 | -5% | +3% | \$ 6,983 | \$ 7,081 | -1% | +4% |

* Represents the percentage point change in segment net sales for the period that is attributable to foreign currency fluctuations

Earnings (Loss) from Continuing Operations Before Interest Expense, Other Income (Charges), Net and Income Taxes by Reportable Segment and All Other

| (in millions) | Three Months Ended September 30, | | | Nine Months Ended September 30, | | |
|---|-------------------------------------|--------|--------|------------------------------------|----------|--------|
| | 2008 | 2007 | Change | 2008 | 2007 | Change |
| Consumer Digital Imaging Group | \$ 23 | \$ 18 | +28% | \$ (137) | \$ (108) | -27% |
| Film, Photofinishing and Entertainment Group | 77 | 113 | -32% | 157 | 264 | -41% |
| Graphic Communications Group | 23 | 36 | -36% | 35 | 74 | -53% |
| All Other | (5) | (7) | +29% | (13) | (17) | +24% |
| Total of segments | \$ 118 | \$ 160 | -26% | \$ 42 | \$ 213 | -80% |
| Restructuring costs, rationalization and other | (52) | (127) | | (46) | (594) | |
| Postemployment benefit changes | 94 | - | | 94 | - | |
| Other operating income (expenses), net | (3) | (6) | | 14 | 33 | |
| Legal contingency | (10) | - | | (10) | - | |
| Legal settlement | - | (12) | | (10) | (12) | |
| Interest expense | (26) | (28) | | (80) | (84) | |
| Other income (charges), net | 8 | 38 | | 38 | 79 | |
| Consolidated earnings (loss) from continuing operations before income taxes | \$ 129 | \$ 25 | +416% | \$ 42 | \$ (365) | +112% |

2008 COMPARED WITH 2007

Third Quarter

RESULTS OF OPERATIONS – CONTINUING OPERATIONS

CONSOLIDATED

(in millions, except per share data)

| | Three Months Ended September 30, | | | | Increase / (Decrease) | % Change |
|--|-------------------------------------|------------|----------|------------|--------------------------|----------|
| | 2008 | % of Sales | 2007 | % of Sales | | |
| Net sales | \$ 2,405 | | \$ 2,533 | | \$ (128) | -5% |
| Cost of goods sold | 1,744 | | 1,856 | | (112) | -6% |
| Gross profit | 661 | 27.5% | 677 | 26.7% | (16) | -2% |
| Selling, general and administrative expenses | 363 | 15% | 424 | 17% | (61) | -14% |
| Research and development costs | 100 | 4% | 132 | 5% | (32) | -24% |
| Restructuring costs, rationalization and other | 48 | | 100 | | (52) | -52% |
| Other operating expenses (income), net | 3 | | 6 | | (3) | -50% |
| Earnings from continuing operations before interest expense, other income (charges), net and income taxes | 147 | 6% | 15 | 1% | 132 | 880% |
| Interest expense | 26 | | 28 | | (2) | -7% |
| Other income (charges), net | 8 | | 38 | | (30) | -79% |
| Earnings from continuing operations before income taxes | 129 | | 25 | | 104 | 416% |
| Provision (benefit) for income taxes | 28 | | (7) | | 35 | -500% |
| Earnings from continuing operations | 101 | 4% | 32 | 1% | 69 | 216% |
| (Loss) earnings from discontinued operations, net of income taxes | (5) | | 5 | | (10) | -200% |
| NET EARNINGS | \$ 96 | | \$ 37 | | \$ 59 | 159% |

| | Three Months Ended September 30, | | Percent Change vs. 2007 | | | |
|--|-------------------------------------|--------------------|-------------------------|-----------|---------------------|-------------------------------------|
| | 2008 Amount | Change vs. 2007 | Volume | Price/Mix | Foreign Exchange | Manufacturing and Other Costs |

Edgar Filing: EASTMAN KODAK CO - Form 10-Q

| | | | | | | |
|---------------------|----------|-------|-------|--------|-------|-------|
| Net sales | \$ 2,405 | -5.1% | -3.2% | -4.7% | 2.8% | n/a |
| Gross profit margin | 27.5% | 0.8pp | n/a | -5.1pp | 0.3pp | 5.6pp |

Worldwide Revenues

For the three months ended September 30, 2008, net sales decreased compared with the same period in 2007 due to unfavorable price/mix within all three segments and industry-related volume declines driven by Film Capture and Traditional Photofinishing within FPEG. These declines were partially offset by volume increases in CDG, Document Imaging within GCG, and favorable foreign exchange across all segments. Within CDG, Digital Capture and Devices and Consumer Inkjet Systems experienced significant increases in volume over the prior-year period. Unfavorable price/mix was primarily driven by Digital Capture and Devices within CDG.

Gross Profit

Gross profit declined in the third quarter of 2008 in dollars but increased as a percentage of sales, primarily due to reductions in manufacturing and other costs within CDG, partially offset by unfavorable price/mix across all segments. The improvements in manufacturing and other costs were driven by manufacturing efficiencies within CDG, the benefit of lower depreciation expense as a result of the change in useful lives executed during the first quarter of 2008, lower restructuring-related charges and curtailment and other gains caused by changes to certain of the Company's U.S. postemployment benefit plans (see below), partially offset by an increase in silver, paper and petroleum-based raw material and other costs.

Included in gross profit for the quarter is a non-recurring amendment of an intellectual property licensing agreement within Digital Capture and Devices. The amendment of this licensing agreement contributed approximately 4.7% of consolidated revenue to consolidated gross profit dollars in the current quarter, as compared with 2.7% of consolidated revenue to consolidated gross profit dollars for a non-recurring arrangement in the prior year quarter.

In the first quarter of 2008, the Company performed an updated analysis of expected industry-wide declines in the traditional film and paper businesses and its useful lives on related assets. This analysis indicated that the assets will continue to be used in these businesses for a longer period than previously anticipated. As a result, the Company revised the useful lives of certain existing production machinery and equipment, and manufacturing-related buildings effective January 1, 2008. These assets, which were previously set to fully depreciate by mid-2010, are now being depreciated with estimated useful lives ending from 2011 to 2015. The change in useful lives reflects the Company's estimate of future periods to be benefited from the use of the property, plant, and equipment. As a result of these changes, for 2008 the Company expects that depreciation expense will be reduced by approximately \$107 million, of which approximately \$95 million will benefit pretax earnings from continuing operations. The net impact of the change in estimate to earnings from continuing operations for the three months ended September 30, 2008 is an increase of \$26 million, or \$.09 on a fully-diluted earnings per share basis. Refer to Note 1, "Basis of Presentation."

Selling, General and Administrative Expenses

The decrease in consolidated selling, general and administrative expenses (SG&A) was a result of company-wide cost reduction actions and curtailment and other gains recognized due to changes to certain of the Company's U.S. postemployment benefit plans (see below), partially offset by unfavorable foreign exchange.

Research and Development Costs

The decrease in consolidated research and development costs (R&D) was a result of curtailment and other gains recognized due to changes to certain of the Company's U.S. postemployment benefit plans (see below), and reduced spending in 2008 in CDG related to the introduction of consumer inkjet printers in 2007.

Postemployment Benefit Plan Changes

In the third quarter of 2008, the Company amended certain of its U.S. postemployment benefits effective as of January 1, 2009. As a result of these plan changes, curtailment and other gains of \$94 million were recognized in the third quarter of 2008. The gains are reflected in the Consolidated Statement of Operations as follows: \$48 million in cost of goods sold, \$27 million in SG&A, and \$19 million in R&D. The impact of these gains is not reflected in segment results. Refer to Note 10, "Retirement Plans and Other Postretirement Benefits" and Note 13, "Segment Information."

Restructuring Costs, Rationalization and Other

These costs, as well as the restructuring and rationalization-related costs reported in cost of goods sold, are discussed under "RESTRUCTURING COSTS, RATIONALIZATION AND OTHER" section.

Other Income (Charges), Net

The other income (charges), net category primarily includes interest income, income and losses from equity investments, and foreign exchange gains and losses. The decrease in other income (charges), net was primarily attributable to a decrease in interest income due to lower interest rates and lower cash balances in the third quarter of 2008 as compared with 2007, and an increase in losses on foreign exchange transactions as compared with the prior year quarter.

Income Tax Provision (Benefit)

(dollars in millions)

| | Three Months Ended September 30, | |
|---|-------------------------------------|---------|
| | 2008 | 2007 |
| Earnings from continuing operations before income taxes | \$ 129 | \$ 25 |
| Provision (benefit) for income taxes | \$ 28 | \$ (7) |
| Effective tax rate | 21.7% | (28.0)% |

The change in the Company's effective tax rate from continuing operations is primarily attributable to: (1) earnings generated within the U.S. in the third quarter of 2008 that were not taxed due to the impact of valuation allowances, (2) a tax benefit recorded in continuing operations in 2007 for losses in certain jurisdictions where historically there have been valuation allowances due to the recognition of the pre-tax gain in discontinued operations, (3) losses generated in certain jurisdictions outside the U.S. that were not benefited due to the impact of valuation allowances, (4) the mix of earnings from operations in certain lower-taxed jurisdictions outside the U.S., and (5) adjustments for uncertain tax positions and audit settlements.

CONSUMER DIGITAL IMAGING GROUP

(dollars in millions)

| | Three Months Ended September 30, | | | | Increase / (Decrease) | % Change |
|--|-------------------------------------|------------|--------|------------|--------------------------|----------|
| | 2008 | % of Sales | 2007 | % of Sales | | |
| Net sales | \$ 820 | | \$ 766 | | \$ 54 | 7% |
| Cost of goods sold | 603 | | 538 | | 65 | 12% |
| Gross profit | 217 | 26.5% | 228 | 29.8% | (11) | -5% |
| Selling, general and administrative expenses | 140 | 17% | 148 | 19% | (8) | -5% |
| Research and development costs | 54 | 7% | 62 | 8% | (8) | -13% |
| Earnings from continuing operations before interest expense, other income (charges), net and income taxes | \$ 23 | 3% | \$ 18 | 2% | \$ 5 | 28% |

| | Three Months Ended September 30, | | Percent Change vs. 2007 | | | |
|---------------------|-------------------------------------|--------------------|-------------------------|-----------|---------------------|-------------------------------------|
| | 2008 Amount | Change vs. 2007 | Volume | Price/Mix | Foreign Exchange | Manufacturing and Other Costs |
| Net sales | \$ 820 | 7.0% | 15.4% | -10.0% | 1.6% | n/a |
| Gross profit margin | 26.5% | -3.3pp | n/a | -9.9pp | 0.8pp | 5.8pp |

Worldwide Revenues

Net sales for CDG increased 7% due to growth in Digital Capture and Devices and Consumer Inkjet Systems.

Net sales of Digital Capture and Devices, which includes consumer digital still and video cameras, digital picture frames, accessories, memory products, snapshot printers and related media, and intellectual property royalties, increased 7% in the third quarter of 2008 as compared with the prior year quarter, primarily reflecting higher volumes of digital cameras and digital picture frames, increased intellectual property royalties (see gross profit discussion below), and favorable foreign exchange, partially offset by unfavorable price/mix.

Net worldwide sales of Consumer Inkjet Systems, which includes inkjet printers and related consumables, increased significantly, reflecting volume improvements due to the launch of the product line at the end of the first quarter of 2007 and the introduction of the second generation of printers in the first quarter of 2008, and favorable foreign exchange, partially offset by unfavorable price/mix.

Net sales of Retail Systems Solutions, which includes kiosks and related media and APEX drylab systems, increased 2% in the third quarter of 2008, reflecting higher media volumes and favorable foreign exchange. These increases were partially offset by unfavorable price/mix.

Gross Profit

The decrease in gross profit margin for CDG was primarily attributable to unfavorable price/mix primarily within Digital Capture and Devices and Consumer Inkjet Systems, partially offset by reduced manufacturing and other costs and favorable foreign exchange within both of these SPGs. The reduction in manufacturing and other costs was due to manufacturing efficiencies driven by improved leverage of product platforms.

Included in gross profit for the quarter is a non-recurring amendment of an intellectual property licensing agreement with an existing licensee. The impact of this licensing arrangement contributed approximately 13.7% of segment revenue to segment gross profit dollars in the current quarter, as compared with 8.8% of segment revenue to segment gross profit dollars for a non-recurring arrangement in the prior year quarter.

The current quarter results also include approximately \$32 million related to intellectual property licensing arrangements under which the Company's continuing obligations are expected to be fulfilled by the end of 2008. The Company expects to secure other new licensing arrangements, the timing and amounts of which are difficult to predict. These types of arrangements provide the Company with a return on portions of historical R&D investments and new licensing opportunities are expected to have a continuing impact on the results of operations.

Selling, General and Administrative Expenses

The decrease in SG&A expenses for CDG was primarily driven by ongoing efforts to achieve target cost models, partially offset by unfavorable foreign exchange.

Research and Development Costs

The decrease in research and development (R&D) costs for CDG was primarily attributable to lower spending in 2008 as compared to the prior year due to the introduction of consumer inkjet printers in 2007, and decreased spending in the current quarter as a result of cost reduction actions taken throughout the segment. These decreases were partially offset by increased spending on CMOS sensor R&D activities.

FILM, PHOTOFINISHING AND ENTERTAINMENT GROUP

(dollars in millions)

Three Months Ended
September 30,

| | 2008 | % of Sales | 2007 | % of Sales | Increase / (Decrease) | % Change |
|--------------------|--------|------------|--------|------------|--------------------------|----------|
| Net sales | \$ 764 | | \$ 928 | | \$ (164) | -18% |
| Cost of goods sold | 583 | | 682 | | (99) | -15% |
| Gross profit | 181 | 23.7% | 246 | 26.5% | (65) | -26% |
| | 93 | 12% | 120 | 13% | (27) | -23% |

| | | | | | | |
|---|-------|-----|--------|-----|---------|------|
| Selling, general and administrative expenses | | | | | | |
| Research and development costs | 11 | 1% | 13 | 1% | (2) | -15% |
| Earnings from continuing operations before interest expense, other income (charges), net and income taxes | \$ 77 | 10% | \$ 113 | 12% | \$ (36) | -32% |

| | Three Months Ended September 30, | | | Percent Change vs. 2007 | | |
|---------------------|-------------------------------------|--------------------|--------|-------------------------|---------------------|-------------------------------------|
| | 2008 Amount | Change vs. 2007 | Volume | Price/Mix | Foreign Exchange | Manufacturing and Other Costs |
| Net sales | \$ 764 | -17.7% | -18.9% | -1.3% | 2.5% | n/a |
| Gross profit margin | 23.7% | -2.8pp | n/a | -3.1pp | 0.0pp | 0.3pp |

Worldwide Revenues

Net sales for FPEG decreased 18% primarily due to decreases in Film Capture and Traditional Photofinishing. Net worldwide sales of Film Capture and Traditional Photofinishing decreased 40% and 17%, respectively, in the third quarter of 2008 as compared with the third quarter of 2007, primarily reflecting continuing declines in the consumer film industry, partially offset by favorable foreign exchange.

Net worldwide sales for Entertainment Imaging decreased 3% compared with the prior year, reflecting slight unfavorability in volumes and price/mix, partially offset by favorable foreign exchange. These volume declines are primarily due to the delay in creation of feature films resulting from current contract negotiations between the studios and the Screen Actors' Guild.

Gross Profit

The decrease in FPEG gross profit dollars is primarily a result of declines in sales volume within Film Capture as described above, and unfavorable price/mix within Entertainment Imaging and Film Capture.

The decrease in FPEG gross profit margin was primarily driven by unfavorable price/mix within Entertainment Imaging and Film Capture. The manufacturing and other costs decreased slightly due to the benefit of lower depreciation expense as a result of the change in useful lives executed during the first quarter of this year. These cost decreases were mostly offset by higher costs for silver, paper, and petroleum-based raw material and other costs. Refer to Note 1, "Basis of Presentation."

Selling, General and Administrative Expenses

The decline in SG&A expenses for FPEG was attributable to ongoing efforts to achieve target cost models, partially offset by unfavorable foreign exchange.

GRAPHIC COMMUNICATIONS GROUP

(dollars in millions)

| | Three Months Ended September 30, | | | Increase | | |
|--------------------|-------------------------------------|------------|--------|------------|-------------|----------|
| | 2008 | % of Sales | 2007 | % of Sales | /(Decrease) | % Change |
| Net sales | \$ 821 | | \$ 837 | | \$ (16) | -2% |
| Cost of goods sold | 594 | | 596 | | (2) | 0% |
| Gross profit | 227 | 27.6% | 241 | 28.8% | (14) | -6% |

Edgar Filing: EASTMAN KODAK CO - Form 10-Q

| | | | | | | |
|---|-------|-----|-------|-----|---------|------|
| Selling, general and administrative expenses | 155 | 19% | 153 | 18% | 2 | 1% |
| Research and development costs | 49 | 6% | 52 | 6% | (3) | -6% |
| Earnings from continuing operations before interest expense, other income (charges), net and income taxes | \$ 23 | 3% | \$ 36 | 4% | \$ (13) | -36% |

| | Three Months Ended September 30, | | | Percent Change vs. 2007 | | | Manufacturing and Other Costs |
|---------------------|-------------------------------------|--------------------|--------|-------------------------|---------------------|--|-------------------------------------|
| | 2008 Amount | Change vs. 2007 | Volume | Price/Mix | Foreign Exchange | | |
| Net sales | \$ 821 | -1.9% | -2.6% | -3.5% | 4.2% | | n/a |
| Gross profit margin | 27.6% | -1.2pp | n/a | -2.2pp | 0.0pp | | 1.0pp |

Worldwide Revenues

GCG net sales for the quarter decreased 2% as compared with the prior-year quarter as a result of volume declines and unfavorable price/mix within Prepress Solutions and Digital Printing Solutions, partially offset by favorable foreign exchange. Recent global financial market disruptions have affected equipment placements across most product lines, and tightening credit availability has resulted in deferrals of some orders taken earlier this year at the drupa tradeshow.

Net worldwide sales of Prepress Solutions decreased 3%, primarily driven by volume declines and unfavorable price/mix in analog plates, partially offset by favorable foreign exchange and volume growth in digital plates. The overall volume performance was driven largely by softness in the U.S. market. New product introductions continue to enhance digital plate growth.

Net worldwide sales of Digital Printing Solutions decreased 7%, primarily driven by unfavorable price/mix and lower volumes in digital printing equipment, partially offset by favorable foreign exchange and growth in digital printing consumable volumes. Inkjet and electrophotographic color equipment volumes were negatively impacted by the economic issues in the financial markets that have restricted the availability of credit and delayed purchase decisions. The decline in black-and-white electrophotographic equipment volumes continues as customers convert to solutions that offer color options. Page volume growth of 15% in the color electrophotographic space was a key contributor to the growth of consumable sales volumes in the quarter.

Net worldwide sales of Document Imaging increased 3%. Unfavorable price/mix was more than offset by volume growth and favorable foreign exchange. For the quarter, strong growth was realized in both Distributed Scanners and Production Scanners.

Net worldwide sales of Enterprise Solutions increased 6%, primarily due to favorable foreign exchange, strong volume growth in the production workflow products, and acquisitions made in the second quarter of 2008.

Gross Profit

The decline in gross profit, in both dollars and as a percentage of sales, was driven by Prepress Solutions, due to unfavorable price/mix in plates and output devices and unfavorable manufacturing costs related to higher petroleum-based raw material costs, increased distribution expense, and manufacturing volume declines. Favorable aluminum costs versus the prior year quarter, and foreign exchange partially offset these factors in Prepress Solutions.

Selling, General and Administrative Expenses

The slight increase in SG&A expenses for GCG was attributable to unfavorable foreign exchange.

RESULTS OF OPERATIONS - DISCONTINUED OPERATIONS

For discussion of the results of operations – discontinued operations please refer to Note 15, “Discontinued Operations,” in the Notes to Financial Statements.

Year to Date

RESULTS OF OPERATIONS – CONTINUING OPERATIONS

CONSOLIDATED

(in millions, except per share data)

| | Nine Months Ended September 30, | | | | Increase | |
|--|------------------------------------|------------|----------|------------|-------------|----------|
| | 2008 | % of Sales | 2007 | % of Sales | /(Decrease) | % Change |
| Net sales | \$ 6,983 | | \$ 7,081 | | \$ (98) | -1% |
| Cost of goods sold | 5,312 | | 5,332 | | (20) | 0% |
| Gross profit | 1,671 | 23.9% | 1,749 | 24.7% | (78) | -4% |
| Selling, general and administrative expenses | 1,180 | 17% | 1,253 | 18% | (73) | -6% |
| Research and development costs | 381 | 5% | 409 | 6% | (28) | -7% |
| Restructuring costs, rationalization and other | 40 | | 480 | | (440) | -92% |
| Other operating expenses (income), net | (14) | | (33) | | 19 | -58% |
| Earnings (loss) from continuing operations before interest expense, other income (charges), net and income taxes | 84 | 1% | (360) | -5% | 444 | 123% |
| Interest expense | 80 | | 84 | | (4) | -5% |
| Other income (charges), net | 38 | | 79 | | (41) | -52% |
| Earnings (loss) from continuing operations before income taxes | 42 | | (365) | | 407 | 112% |
| Benefit for income taxes | (145) | | (68) | | (77) | 113% |
| Earnings (loss) from continuing operations | 187 | 3% | (297) | -4% | 484 | 163% |
| Earnings from discontinued operations, net of income taxes | 289 | | 758 | | (469) | -62% |
| NET EARNINGS | \$ 476 | | \$ 461 | | \$ 15 | 3% |

| | Nine Months Ended September 30, | | | Percent Change vs. 2007 | | |
|-----------|------------------------------------|--------------------|--------|-------------------------|---------------------|-------------------------------------|
| | 2008 Amount | Change vs. 2007 | Volume | Price/Mix | Foreign Exchange | Manufacturing and Other Costs |
| Net sales | \$ 6,983 | -1.4% | -0.4% | -5.4% | 4.4% | n/a |

| | | | | | | |
|---------------------|-------|--------|-----|--------|-------|-------|
| Gross profit margin | 23.9% | -0.8pp | n/a | -5.8pp | 0.9pp | 4.1pp |
|---------------------|-------|--------|-----|--------|-------|-------|

Worldwide Revenues

For the nine months ended September 30, 2008, net sales decreased compared with the same period in 2007 due primarily to unfavorable price/mix across all segments and industry related volume declines, driven largely by Film Capture and Traditional Photofinishing within FPEG. These declines were partially offset by volume increases in CDG, and Document Imaging within GCG, and favorable foreign exchange. Within CDG, Digital Capture and Devices and Consumer Inkjet Systems experienced significant increases in volume over the prior-year period. Unfavorable price/mix was primarily driven by Consumer Inkjet Systems and Digital Capture and Devices within CDG.

Gross Profit

Gross profit declined in the nine months of 2008 in both dollars and as a percentage of sales, due largely to unfavorable price/mix across all segments, partially offset by reductions in manufacturing and other costs within CDG, and favorable foreign exchange. The improvements in manufacturing and other costs were driven by manufacturing efficiencies within CDG, the benefit of lower depreciation expense as a result of the change in useful lives executed during the first quarter of 2008, changes to the Company's U.S. postemployment benefit plans (see below), and lower restructuring-related charges, partially offset by increased silver, aluminum, paper, and petroleum-based raw material and other costs. The net impact of the change in useful lives is an increase in earnings from continuing operations for the nine months ended September 30, 2008 of \$69 million, or \$.24 on a fully-diluted earnings per share basis. Refer to Note 1, "Basis of Presentation."

Included in gross profit is a non-recurring amendment of an intellectual property licensing agreement within Digital Capture and Devices. This licensing arrangement amendment contributed approximately 1.6% of consolidated revenue to consolidated gross profit dollars in the current period, as compared with 1.0% of consolidated revenue to consolidated gross profit dollars for a non-recurring arrangement in the prior year period.

Selling, General and Administrative Expenses

The year-over-year decrease in consolidated SG&A was primarily attributable to Company-wide cost reduction actions, and curtailment and other gains recognized due to changes to certain of the Company's U.S. postemployment benefit plans (see below), partially offset by unfavorable foreign exchange, increased expenses to support Consumer Inkjet Systems' and Retail Systems Solutions' go-to-market activities, and costs associated with the Company's participation in the drupa tradeshow in the second quarter of 2008.

Research and Development Costs

The decrease in R&D spending compared with prior year was primarily attributable to curtailment and other gains recognized due to changes to certain of the Company's U.S. postemployment benefit plans (see below), and significantly reduced spending in 2008 in CDG due to the introduction of consumer inkjet printers in 2007. These decreases in R&D spending were partially offset by investments in new workflow products in Enterprise Solutions and R&D related acquisitions made in the second quarter of 2008, both within GCG.

Postemployment Benefit Plan Changes

In the third quarter of 2008, the Company amended certain of its U.S. postemployment benefits effective as of January 1, 2009. As a result of these plan changes, curtailment and other gains of \$94 million were recognized in the third quarter of 2008. The gains are reflected in the Consolidated Statement of Operations as follows: \$48 million in cost of goods sold, \$27 million in SG&A, and \$19 million in R&D. The impact of these gains is not reflected in segment results. Refer to Note 10, "Retirement Plans and Other Postretirement Benefits" and Note 13, "Segment Information."

Restructuring Costs, Rationalization and Other

These costs, as well as the restructuring and rationalization-related costs reported in cost of goods sold, are discussed under "RESTRUCTURING COSTS, RATIONALIZATION AND OTHER" section.

Other Operating Expenses (Income), Net

The other operating expenses (income), net category includes gains and losses on sales of capital assets and businesses and certain asset impairment charges. The year-over-year change in other operating expenses (income), net was largely driven by higher gains on sales of capital assets and businesses in the nine months ended September 30, 2007, as compared with 2008.

Other Income (Charges), Net

The other income (charges), net category includes interest income, income and losses from equity investments, and foreign exchange gains and losses. The decrease in other income (charges), net was primarily attributable to a decrease in interest income due to lower interest rates and lower cash balances in 2008 as compared with 2007, an increase in losses on foreign exchange as compared with the prior year, and expense related to support of an educational institution in the second quarter of 2008.

Income Tax Benefit

(dollars in millions)

| | Nine Months Ended September 30, | |
|--|------------------------------------|----------|
| | 2008 | 2007 |
| Earnings (loss) from continuing operations before income taxes | \$ 42 | \$ (365) |
| Benefit for income taxes | \$ (145) | \$ (68) |
| Effective tax rate | (345.2)% | 18.6% |

The change in the Company's effective tax rate from continuing operations is primarily attributable to: (1) a \$270 million benefit recognized during the second quarter of 2008 for interest earned on a refund received from the U.S. Internal Revenue Service, (2) losses generated within the U.S. and in certain jurisdictions outside the U.S. in the nine months of 2008 that were not benefited due to the impact of valuation allowances, (3) a tax benefit recorded in continuing operations in 2007 for losses in certain jurisdictions where historically there have been valuation allowances due to the recognition of the pre-tax gain in discontinued operations, (4) the mix of earnings from operations in certain lower-taxed jurisdictions outside the U.S., and (5) adjustments for uncertain tax positions and tax audits.

CONSUMER DIGITAL IMAGING GROUP

(dollars in millions)

| | Nine Months Ended September 30, | | | | Increase / (Decrease) | % Change |
|---|------------------------------------|------------|----------|------------|--------------------------|----------|
| | 2008 | % of Sales | 2007 | % of Sales | | |
| Total net sales | \$ 2,130 | | \$ 1,875 | | \$ 255 | 14% |
| Cost of goods sold | 1,699 | | 1,406 | | 293 | 21% |
| Gross profit | 431 | 20.2% | 469 | 25.0% | (38) | -8% |
| Selling, general and administrative expenses | 403 | 19% | 392 | 21% | 11 | 3% |
| Research and development costs | 165 | 8% | 185 | 10% | (20) | -11% |
| Loss from continuing operations before interest expense, other income (charges), net and income taxes | \$ (137) | -6% | \$ (108) | -6% | \$ (29) | -27% |

| | Nine Months Ended September 30, | | Percent Change vs. 2007 | | | |
|---------------------|------------------------------------|--------------------|-------------------------|-----------|---------------------|-------------------------------------|
| | 2008 Amount | Change vs. 2007 | Volume | Price/Mix | Foreign Exchange | Manufacturing and Other Costs |
| Net sales | \$ 2,130 | 13.6% | 23.7% | -13.5% | 3.4% | n/a |
| Gross profit margin | 20.2% | -4.8pp | n/a | -14.4pp | 2.0pp | 7.6pp |

Worldwide Revenues

Net sales for CDG increased 14% primarily due to growth in Consumer Inkjet Systems, Digital Capture and Devices, and Retail Systems Solutions.

Net worldwide sales of Digital Capture and Devices, which includes consumer digital still and video cameras, digital picture frames, accessories, memory products, snapshot printers and related media, and intellectual property royalties, increased 16% in the nine months ended September 30, 2008 as compared with the prior year period. This increase primarily reflects higher volumes for digital cameras and digital picture frames, increased intellectual property royalties (see gross profit discussion below) and favorable foreign exchange, partially offset by unfavorable price/mix for digital cameras and digital picture frames. Digital picture frames were introduced at the end of the first quarter of 2007.

Net worldwide sales of Consumer Inkjet Systems, which includes inkjet printers and related consumables, increased significantly in the nine months ended September 30, 2008, reflecting volume improvements due to the launch of the product line at the end of the first quarter of 2007 and the introduction of the second generation of printers in the first quarter of 2008, and favorable foreign exchange, partially offset by unfavorable price/mix.

Net worldwide sales of Retail Systems Solutions, which includes kiosks and related media and APEX drylab systems, increased 6% in the nine months ended September 30, 2008 as compared with the prior year period, reflecting higher equipment and media volumes as well as favorable foreign exchange, partially offset by unfavorable price/mix.

Gross Profit

The decrease in gross profit margin for CDG was primarily attributable to unfavorable price/mix within Consumer Inkjet Systems and Digital Capture and Devices, partially offset by reduced manufacturing and other costs for those two SPGs, and favorable foreign exchange across all SPGs. The reduction in manufacturing and other costs was due to manufacturing efficiencies driven by improved leverage of product platforms.

Included in gross profit is a non-recurring amendment of an intellectual property licensing agreement with an existing licensee. The impact of this amendment contributed approximately 5.3% of segment revenue to segment gross profit dollars in the current period, as compared with 3.6% of segment revenue to segment gross profit dollars for a non-recurring arrangement in the prior year period.

The current year-to-date results also include approximately \$95 million related to intellectual property licensing arrangements under which the Company's continuing obligations are expected to be fulfilled by the end of 2008. The Company expects to secure other new licensing agreements, the timing and amounts of which are difficult to predict. These types of arrangements provide the Company with a return on portions of historical R&D investments and new licensing opportunities are expected to have a continuing impact on the results of operations.

Selling, General and Administrative Expenses

The increase in SG&A expenses for CDG was primarily driven by increased expenses to support Consumer Inkjet Systems' and Retail Systems Solutions' go-to-market activities, and unfavorable foreign exchange. These increases were partially offset by a decrease in SG&A expenses in Digital Capture and Devices driven primarily by ongoing efforts to achieve target cost models.

Research and Development Costs

The decrease in research and development (R&D) costs for CDG was primarily attributable to lower spending in 2008 as compared to the prior year due to the introduction of consumer inkjet printers in 2007, and decreased spending in the current period as a result of cost reduction actions taken throughout the segment.

FILM, PHOTOFINISHING AND ENTERTAINMENT GROUP

(dollars in millions)

| | Nine Months Ended September 30, | | | | Increase / (Decrease) | % Change |
|--|------------------------------------|------------|----------|------------|--------------------------|----------|
| | 2008 | % of Sales | 2007 | % of Sales | | |
| Total net sales | \$ 2,335 | | \$ 2,738 | | \$ (403) | -15% |
| Cost of goods sold | 1,823 | | 2,045 | | (222) | -11% |
| Gross profit | 512 | 21.9% | 693 | 25.3% | (181) | -26% |
| Selling, general and administrative expenses | 313 | 13% | 382 | 14% | (69) | -18% |
| Research and development costs | 42 | 2% | 47 | 2% | (5) | -11% |
| Earnings from continuing operations before interest expense, other income (charges), net and income taxes | \$ 157 | 7% | \$ 264 | 10% | \$ (107) | -41% |

| | Nine Months Ended September 30, | | Percent Change vs. 2007 | | | |
|---------------------|------------------------------------|--------------------|-------------------------|-----------|---------------------|-------------------------------------|
| | 2008 Amount | Change vs. 2007 | Volume | Price/Mix | Foreign Exchange | Manufacturing and Other Costs |
| Total net sales | \$ 2,335 | -14.7% | -16.9% | -1.5% | 3.7% | n/a |
| Gross profit margin | 21.9% | -3.4pp | n/a | -2.0pp | 0.5pp | -1.9pp |

Worldwide Revenues

Net sales for FPEG decreased 15% primarily due to Film Capture and Traditional Photofinishing. Net worldwide sales of Film Capture and Traditional Photofinishing decreased 36% and 16%, respectively, in the nine months ended September 30, 2008 as compared with the comparable period of 2007, primarily reflecting continuing industry volume declines in both of these SPGs, partially offset by favorable foreign exchange.

Net worldwide sales for Entertainment Imaging decreased 3% compared with the prior year period, primarily reflecting the effects of the writers' strike that negatively impacted volumes in the first quarter of 2008, and reduced demand from the delay in creation of feature films resulting from current contract negotiations between the studios and the Screen Actors' Guild. These decreases were partially offset by favorable foreign exchange.

Gross Profit

The decrease in FPEG gross profit dollars is primarily a result of declines in sales volume within Film Capture as described above, unfavorable price/mix primarily within Entertainment Imaging and Traditional Photofinishing, and increased manufacturing costs across all SPGs. These declines were partially offset by favorable foreign exchange.

The decrease in FPEG gross profit margin was primarily driven by unfavorable price/mix and increased manufacturing and other costs across all SPGs, partially offset by favorable foreign exchange. The increased manufacturing and other costs were driven by higher costs of silver, paper, and petroleum-based raw material and other costs. These cost increases were partially offset by the benefit of lower depreciation expense as a result of the change in useful lives. Refer to Note 1, "Basis of Presentation."

Selling, General and Administrative Expenses

The decline in SG&A expenses for FPEG was attributable to ongoing efforts to achieve target cost models, partially offset by unfavorable foreign exchange.

GRAPHIC COMMUNICATIONS GROUP

(dollars in millions)

| | Nine Months Ended September 30, | | | | Increase / (Decrease) | % Change |
|--|------------------------------------|------------|----------|------------|--------------------------|----------|
| | 2008 | % of Sales | 2007 | % of Sales | | |
| Total net sales | \$ 2,513 | | \$ 2,460 | | \$ 53 | 2% |
| Cost of goods sold | 1,814 | | 1,753 | | 61 | 3% |
| Gross profit | 699 | 27.8% | 707 | 28.7% | (8) | -1% |
| Selling, general and administrative expenses | 488 | 19% | 474 | 19% | 14 | 3% |
| Research and development costs | 176 | 7% | 159 | 6% | 17 | 11% |
| Earnings from continuing operations before interest expense, other income (charges), net and income taxes | \$ 35 | 1% | \$ 74 | 3% | \$ (39) | -53% |

| | Nine Months Ended September 30, | | Percent Change vs. 2007 | | | |
|---------------------|------------------------------------|--------------------|-------------------------|-----------|---------------------|-------------------------------------|
| | 2008 Amount | Change vs. 2007 | Volume | Price/Mix | Foreign Exchange | Manufacturing and Other Costs |
| Net sales | \$ 2,513 | 2.2% | -0.5% | -3.4% | 6.1% | n/a |
| Gross profit margin | 27.8% | -0.9pp | n/a | -1.5pp | -0.1pp | 0.7pp |

Worldwide Revenues

GCG net sales increased 2% as compared with the prior year period, primarily driven by favorable foreign exchange. Volume growth in digital plates within Prepress Solutions and in Document Imaging was offset by volume declines and unfavorable price/mix in analog plates within Prepress Solutions and in other SPGs. Recent global financial market disruptions have affected equipment placements across most product lines, and tightening credit availability has resulted in deferrals of some orders taken earlier this year at the drupa tradeshow.

Net worldwide sales of Prepress Solutions increased 3%, driven primarily by volume growth in digital plates and favorable foreign exchange, partially offset by volume declines in analog plates and output devices. New product introductions continue to enhance digital plate growth.

Net worldwide sales of Digital Printing Solutions decreased 2%. Declines in volume and unfavorable price/mix attributable to equipment products were partially offset by volume growth in consumables and favorable foreign exchange for all products. Volume declines were largely attributable to inkjet equipment placements, where certain customers have delayed purchases based on the availability of credit and the current economic issues in the marketplace, and black-and-white electrophotographic equipment, which continues to decline as certain customers convert to solutions that offer color options. Color electrophotographic equipment volumes increased, driven by new

product line introductions and enhancements. Page volume growth of 19% in the color electrophotographic space was a key contributor to the growth of consumable sales volumes.

Net worldwide sales of Document Imaging increased 3% compared with the prior year period. Unfavorable price/mix was more than offset by volume growth and favorable foreign exchange. Volume growth in both the Distributed Scanners and Production Scanners contributed to year over year performance.

Net worldwide sales of Enterprise Solutions increased 2% as compared with the prior year period. Favorable foreign exchange and acquisitions made during the second quarter of 2008 were partially offset by unfavorable price/mix and volume declines.

Gross Profit

The decline in gross profit margin was primarily driven by Prepress Solutions, as increased manufacturing costs related to aluminum and petroleum-based raw materials, as well as higher distribution expense and manufacturing volume declines were partially offset by favorable foreign exchange. Document Imaging gross profit improvements partially offset the declines in Prepress Solutions.

Selling, General and Administrative Expenses

The increase in SG&A expenses for GCG was attributable to increased costs associated with the Company's participation in the drupa tradeshow in the second quarter of 2008, go-to-market investments, and unfavorable foreign exchange.

Research and Development Costs

The increase in R&D costs for GCG was driven by investments in new workflow products in Enterprise Solutions, R&D related to acquisitions made in the second quarter of 2008, and increased investments in Document Imaging technologies.

RESULTS OF OPERATIONS - DISCONTINUED OPERATIONS

For discussion of the results of operations – discontinued operations please refer to Note 15, “Discontinued Operations,” in the Notes to Financial Statements.

RESTRUCTURING COSTS, RATIONALIZATION AND OTHER

The Company has completed the cost reduction program that was initially announced in January 2004, which was referred to as the “2004–2007 Restructuring Program.” With the completion of the 2004-2007 Restructuring Program, the Company has drastically reduced the amount and scope of workforce reduction plans and exit and disposal activities. However, the Company recognizes the need to continually rationalize its workforce and streamline its operations to remain competitive in the face of an ever-changing business and economic climate. These initiatives, referred to as ongoing rationalization activities, began in the first quarter of 2008.

During the three and nine months ended September 30, 2008, the Company made cash payments of approximately \$21 million and \$101 million, respectively, related to restructuring and rationalization.

The \$52 million of charges, net of reversals, for the third quarter of 2008 includes \$2 million of charges for accelerated depreciation and \$2 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 September 30, 2008. The remaining costs incurred, net of reversals, of \$48 million were reported as restructuring costs, rationalization and other in the accompanying Consolidated Statement of Operations for the three months ended September 30, 2008. 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 charges, net of reversals, of \$52 million recorded in the third quarter of 2008 included \$6 million applicable to FPEG, \$23 million applicable to CDG, \$17 million applicable to GCG, and \$6 million that was applicable to manufacturing, research and development, and administrative functions, which are shared across all segments.

The ongoing rationalization actions implemented in the third quarter of 2008 are expected to generate future annual cash savings of approximately \$62 million. These savings are expected to reduce future cost of goods sold, SG&A,

and R&D expenses by \$41 million, \$17 million, and \$4 million, respectively. On a year-to-date basis, the ongoing rationalization actions implemented during the first three quarters of 2008 are expected to generate future annual cash savings of approximately \$68 million. These savings are expected to reduce future cost of goods sold, SG&A, and R&D expenses by \$41 million, \$20 million, and \$7 million, respectively. The Company began realizing these savings in the first quarter of 2008, and expects the savings to be fully realized by the end of the second quarter of 2009 as most of the actions and severance payouts are completed.

Rationalization charges are expected in the fourth quarter of 2008 and beyond as the Company will continue to explore and execute on cost efficiency opportunities with respect to its sales, manufacturing and administrative infrastructure.

LIQUIDITY AND CAPITAL RESOURCES

Cash Flow Activity

| (in millions) | Nine months ended | | Change |
|--|-----------------------|----------|------------|
| | September 30, 2008 | 2007 | |
| Cash flows from operating activities: | | | |
| Net cash used in continuing operations | \$ (659) | \$ (694) | \$ 35 |
| Net cash provided by (used in) discontinued operations | 300 | (30) | 330 |
| Net cash used in operating activities | (359) | (724) | 365 |
| Cash flows from investing activities: | | | |
| Net cash used in continuing operations | (149) | (43) | (106) |
| Net cash provided by discontinued operations | - | 2,335 | (2,335) |
| Net cash used in (provided by) investing activities | (149) | 2,292 | (2,441) |
| Cash flows from financing activities: | | | |
| Net cash used in financing activities | (582) | (1,215) | 633 |
| Effect of exchange rate changes on cash | (15) | 25 | (40) |
| Net (decrease) increase in cash and cash equivalents | \$ (1,105) | \$ 378 | \$ (1,483) |

Operating Activities

Net cash used in continuing operations from operating activities decreased \$35 million for the nine months ended September 30, 2008 as compared with the corresponding period in 2007, due primarily to improvements on a year-over-year basis in accounts receivable, lower restructuring payments, and the interest portion of a federal income tax refund received in the second quarter of 2008. The impact from these factors was partially offset by lower cash earnings from continuing operations for the first nine months of 2008 as compared with the prior period, mainly due to non-cash income related to curtailment and other gains recognized in the third quarter of 2008 on the U.S. postemployment benefit plan changes, and a non-recurring intellectual property licensing agreement included in earnings for the third quarter of 2008, for which the cash will be received in 2009. Net cash provided by (used in) discontinued operations increased \$330 million as compared with the prior year period due primarily to the receipt, in the second quarter of 2008, of a refund of past federal income taxes paid. Refer to Note 5, "Income Taxes."

Investing Activities

Net cash used in continuing operations from investing activities increased \$106 million for the nine months ended September 30, 2008 as compared with the corresponding period in 2007 due primarily to lower cash proceeds received from sales of assets and businesses. Net cash provided by discontinued operations for the nine months ended September 30, 2007 of \$2,335 million represents the proceeds received from the sale of the Health Group in the

second quarter of 2007. Refer to Note 15, "Discontinued Operations."

Financing Activities

Net cash used in financing activities decreased \$633 million for the nine months ended September 30, 2008 as compared with the corresponding period in 2007 due to lower repayments of borrowings, mainly due to the repayment of the Company's Secured Term Debt in the second quarter of 2007 that was required as a result of the sale of the Health Group. The impact on cash usage from lower debt repayments was partially offset by repurchases of the Company's common stock that commenced in the third quarter of 2008.

On June 24, 2008, the Company announced that its Board of Directors authorized a new share repurchase program allowing the Company, at management's determination, to purchase up to \$1.0 billion of its common stock. The program will expire at the earlier of December 31, 2009 or when the Company has used all authorized funds for repurchase. For the nine months ended September 30, 2008, the Company repurchased approximately 14 million shares at an average price of \$15.53 per share, for a total cost of \$219 million under this program. Under the terms of this program, the Company is authorized to repurchase an additional \$781 million of its common stock through the end of 2009. See Note 12: "Shareholders' Equity." Since maintaining financial flexibility is critical in the current environment, additional share repurchases will depend on the Company's assessment of overall economic and market conditions.

The Company has a dividend policy whereby it makes semi-annual payments which, when declared, will be paid on the Company's 10th business day each July and December to shareholders of record on the close of the first business day of the preceding month. On May 14, 2008, the Board of Directors declared a semi-annual cash dividend of \$.25 per share payable to shareholders of record at the close of business on June 1, 2008. This dividend, which amounted to \$72 million, was paid on July 16, 2008. On October 14, 2008, the Board of Directors declared a semi-annual cash dividend of \$.25 per share payable to shareholders of record at the close of business on November 3, 2008. This dividend will be paid on December 12, 2008.

The Company believes that its current cash balance, combined with cash flows from operating activities, will be sufficient to meet its anticipated needs, including working capital, capital investments, scheduled debt repayments, restructuring/rationalization and dividend payments, and employee benefit plan payments or contributions required. If the global economic weakness that resulted from recent disruptions in the broad financial markets were to deteriorate or be prolonged for an extended period, it could impact the Company's profitability and related cash generation capability. Refer to Item 1A of Part II, "Risk Factors." In addition to its existing cash balance, the Company may use financing arrangements currently available, as described in more detail below, to bridge any future timing differences between required expenditures and cash generated from operations or for unforeseen shortfalls in cash flow from operating activities.

Short-Term Borrowings

As of September 30, 2008, the Company and its subsidiaries, on a consolidated basis, maintained \$1,050 million in committed bank lines of credit and \$497 million in uncommitted bank lines of credit to ensure continued access to short-term borrowing capacity.

Secured Credit Facilities

On October 18, 2005 the Company closed on \$2.7 billion of Senior Secured Credit Facilities (Secured Credit Facilities) under a new Secured Credit Agreement (Secured Credit Agreement) and associated Security Agreement and Canadian Security Agreement. The Secured Credit Facilities consist of a \$1.0 billion 5-Year Committed Revolving Credit Facility (5-Year Revolving Credit Facility) expiring October 18, 2010 and \$1.7 billion of Term Loan Facilities (Term Facilities) expiring October 18, 2012. The Term Facilities were repaid during 2007 and are no longer available for new borrowings.

The 5-Year Revolving Credit Facility can be used by Eastman Kodak Company (U.S. Borrower) for general corporate purposes including the issuance of letters of credit. Amounts available under the facility can be borrowed, repaid and re-borrowed throughout the term of the facility provided the Company remains in compliance with covenants contained in the Secured Credit Agreement. As of September 30, 2008, there was no debt outstanding and \$132 million of letters of credit issued under this facility.

Pursuant to the Secured Credit Agreement and associated Security Agreement, each subsidiary organized in the U.S. jointly and severally guarantees the obligations under the Secured Credit Agreement and all other obligations of the Company and its subsidiaries to the lenders. The guaranty is supported by the pledge of certain U.S. assets of the U.S. Borrower and the Company's U.S. subsidiaries including, but not limited to, receivables, inventory, equipment, deposit accounts, investments, intellectual property, including patents, trademarks and copyrights, and the capital stock of "Material Subsidiaries." Excluded from pledged assets are real property, "Principal Properties" and equity interests in "Restricted Subsidiaries," as defined in the Company's 1988 Indenture.

"Material Subsidiaries" are defined as those subsidiaries with revenues or assets constituting 5 percent or more of the consolidated revenues or assets of the corresponding borrower. "Material Subsidiaries" are determined on an annual basis under the Secured Credit Agreement.

Pursuant to the Secured Credit Agreement and associated Canadian Security Agreement, Eastman Kodak Company and Kodak Graphic Communications Company (KGCC, formerly Creo Americas, Inc.), jointly and severally guarantee the obligations of Kodak Graphic Communications Canada Company (the Canadian Borrower), to the lenders. Subsequently, KGCC has been merged into Eastman Kodak Company. Certain assets of the Canadian Borrower in Canada were also pledged, including, but not limited to, receivables, inventory, equipment, deposit accounts, investments, intellectual property, including patents, trademarks and copyrights, and the capital stock of the Canadian Borrower's Material Subsidiaries.

Interest rates for borrowings under the Secured Credit Agreement are dependent on the Company's Long Term Senior Secured Credit Rating. The Secured Credit Agreement contains various affirmative and negative covenants customary in a facility of this type, including two quarterly financial covenants: (1) a consolidated debt for borrowed money to consolidated earnings before interest, taxes, depreciation and amortization (EBITDA) (subject to adjustments to exclude any extraordinary income or losses, as defined by the Secured Credit Agreement, interest income and certain non-cash items of income and expense) ratio on a rolling four-quarter basis of not greater than 3.50 to 1 as of December 31, 2006 and thereafter, and (2) a consolidated EBITDA to consolidated interest expense (subject to adjustments to exclude interest expense not related to borrowed money) ratio, on a rolling four-quarter basis, of no less than 3.00 to 1. As of September 30, 2008, the Company was in compliance with all covenants under the Secured Credit Agreement.

In addition, subject to various conditions and exceptions in the Secured Credit Agreement, in the event the Company sells assets for net proceeds totaling \$75 million or more in any year, except for proceeds used within 12 months for reinvestments in the business of up to \$300 million, proceeds from sales of assets used in the Company's non-digital products and services businesses to prepay or repay debt or pay cash restructuring charges within 12 months from the date of sale of the assets, or proceeds from the sale of inventory in the ordinary course of business, the amount in excess of \$75 million must be applied to prepay loans under the Secured Credit Agreement.

The Company pays a commitment fee at an annual rate of 37.5 basis points on the undrawn balance of the 5-Year Revolving Credit Facility at the Company's current Senior Secured credit rating of Ba1 and BB from Moody's Investor Services, Inc. (Moody's) and Standard & Poor's Rating Services (S&P), respectively. This fee amounts to \$3.75 million annually, and is reported as interest expense in the Company's Consolidated Statement of Operations.

In addition to the 5-Year Revolving Credit Facility, the Company has other committed and uncommitted lines of credit as of September 30, 2008 totaling \$50 million and \$497 million, respectively. These lines primarily support borrowing needs of the Company's subsidiaries, which include term loans, overdraft coverage, letters of credit and revolving credit lines. Interest rates and other terms of borrowing under these lines of credit vary from country to country, depending on local market conditions. Total outstanding borrowings against these other committed and uncommitted lines of credit as of September 30, 2008 were \$4 million and \$1 million, respectively. These outstanding borrowings are reflected in the short-term borrowings in the accompanying Consolidated Statement of Financial Position as of September 30, 2008.

As of September 30, 2008, the Company had outstanding letters of credit totaling \$134 million and surety bonds in the amount of \$66 million primarily to ensure the payment of possible casualty and workers' compensation claims, environmental liabilities, and to support various customs and trade activities.

Debt Shelf Registration and Convertible Securities

On September 5, 2003, the Company filed a shelf registration statement on Form S-3 (the primary debt shelf registration) for the issuance of up to \$2.0 billion of new debt securities. Pursuant to Rule 429 under the Securities Act of 1933, \$650 million of remaining unsold debt securities under a prior shelf registration statement were included in the primary debt shelf registration, thus giving the Company the ability to issue up to \$2.65 billion in public debt. After issuance of \$500 million in notes in October 2003, the remaining availability under the primary debt shelf registration was \$2.15 billion. The existing shelf registration is set to expire in December 2008. While the Company has no current intentions to access borrowings under the shelf registration, the Company's intent is to renew the shelf registration.

The Company has \$575 million aggregate principal amount of Convertible Senior Notes due 2033 (the Convertible Securities) on which interest accrues at the rate of 3.375% per annum and is payable semiannually. The Convertible Securities are unsecured and rank equally with all of the Company's other unsecured and unsubordinated indebtedness. The Convertible Securities may be converted, at the option of the holders, to shares of the Company's common stock if the Company's Senior Unsecured credit rating assigned to the Convertible Securities by either Moody's or S&P is lower than Ba2 or BB, respectively. At the Company's current Senior Unsecured credit rating, the Convertible Securities may be converted by their holders.

The Company's \$1.0 billion 5-year Committed Revolving Credit Facility, along with other committed and uncommitted credit lines, and cash balances, provide the Company with adequate liquidity to meet its working capital and investing needs.

Credit Quality

Moody's and S&P's ratings for the Company, including their outlooks, as of the filing date of this Form 10-Q are as follows:

| | Senior Secured Rating | Corporate Rating | Senior Unsecured Rating | Outlook | Most Recent Update |
|---------|-----------------------|------------------|-------------------------|---------|--------------------|
| Moody's | Ba1 | B1 | B2 | Stable | May 7, 2007 |
| S&P | BB | B+ | B | Stable | April 23, 2008 |

On April 23, 2008, Standard & Poor's (S&P) reconfirmed its ratings and changed its outlook for the Company from negative to stable. Standard & Poor's reconfirmed its ratings and stable outlook on August 1, 2008.

The Company is in compliance with all covenants or other requirements set forth in its credit agreements and indentures. Further, the Company does not have any rating downgrade triggers that would accelerate the maturity dates of its debt. However, the Company could be required to increase the dollar amount of its letters of credit or provide other financial support up to an additional \$64 million at the current credit ratings. As of the filing date of this Form 10-Q, the Company has not been requested to materially increase its letters of credit or other financial support. Downgrades in the Company's credit rating or disruptions in the capital markets could impact borrowing costs and the nature of its funding alternatives.

Off-Balance Sheet Arrangements

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 product and equipment from the Company. As of September 30, 2008, the following customer guarantees were in place:

| (in millions) | As of September 30, 2008 | |
|---|--------------------------|--------------------|
| | Maximum Amount | Amount Outstanding |
| Customer amounts due to banks and leasing companies | \$ 138 | \$ 80 |
| Other third-parties | 2 | - |
| Total guarantees of customer debt and other obligations | \$ 140 | \$ 80 |

The guarantees for the third party debt, presented in the table above, mature between 2008 and 2013. The customer financing agreements and related guarantees 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.

The Company believes it is unlikely that material payments will be required under any of the guarantees disclosed above. However, if the global economic environment were to continue to deteriorate or a prolonged recession were to occur, the likelihood of payments under these guarantees may increase. With respect to the guarantees that the Company issued in the quarter ended September 30, 2008, 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 debt owed to banks and other third parties for some of its consolidated subsidiaries. The maximum amount guaranteed is \$517 million, and the outstanding debt under those guarantees, which is recorded within the short-term borrowings and long-term debt, net of current portion components in the accompanying Consolidated Statement of Financial Position, is \$187 million. These guarantees expire in 2009 through 2013. Pursuant to the terms of the Company's \$2.7 billion Senior Secured Credit Agreement dated October 18, 2005, obligations under the \$2.7 billion Secured Credit Facilities (the “Credit Facilities”) and other obligations of the Company and its subsidiaries to the Credit Facilities’ lenders are guaranteed.

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. Currently, the Plan’s local funding valuation is in process and expected to be completed by March 2009. As of September 30, 2008 management believes that performance under this guarantee by EKC is unlikely given expected investment performance and cash available at the Plan’s sponsoring company, the Subsidiary, should future cash contributions be needed. The funding status of the Plan is included in pension and other postretirement liabilities presented in the Consolidated Statement of Financial Position.

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 September 30, 2008 was not material to the Company’s financial position, results of operations or cash flows.

Other

Refer to Note 7, “Commitments and Contingencies” in the Notes to Financial Statements for discussion regarding the Company’s undiscounted liabilities for environmental remediation costs, asset retirement obligations, and other commitments and contingencies including legal matters.

CAUTIONARY STATEMENT PURSUANT TO SAFE HARBOR PROVISIONS OF THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995

Certain statements in this report may be forward-looking in nature, or "forward-looking statements" as defined in the United States Private Securities Litigation Reform Act of 1995. For example, references to the Company's expectations regarding its revenue, cash flow, new licensing arrangements, proceeds from licensing arrangements, working capital, capital investments, cost of environmental compliance, results of litigation, cost of retirement related benefits, guarantees, depreciation, receivables, rationalization charges, and savings from rationalization charges are forward-looking statements.

Actual results may differ from those expressed or implied in forward-looking statements. In addition, any forward-looking statements represent the Company's estimates only as of the date they are made, and should not be relied upon as representing the Company's estimates as of any subsequent date. While the Company may elect to

update forward-looking statements at some point in the future, the Company specifically disclaims any obligation to do so, even if its estimates change. The forward-looking statements contained in this report are subject to a number of factors and uncertainties, including the successful:

- execution of the digital growth and profitability strategies, business model and cash plan;
 - execution of our restructuring and rationalization activities;
- management of the Company's global shared services model including its outsourced functions;
- implementation of, and performance under, the debt management program, including compliance with the Company's debt covenants;
 - development and implementation of product go-to-market and e-commerce strategies;
- protection, enforcement and defense of the Company's intellectual property, including defense of its products against the intellectual property challenges of others;
 - execution of intellectual property licensing programs and other strategies;
- integration of the Company's businesses to SAP, the Company's enterprise system software;
 - execution of the Company's planned process driven productivity gains;
 - commercialization of the Company's breakthrough technologies;
 - expansion of the Company's product portfolios in each of its core businesses;
- ability to accurately predict product, customer and geographic sales mix and seasonal sales trends;
 - management of inventories and capital expenditures;
- integration of acquired businesses and consolidation of the Company's subsidiary structure;
 - improvement in manufacturing productivity and techniques;
 - improvement in working capital management and cash conversion cycle;
- continued availability of essential components and services from concentrated sources of supply;
 - performance under the Company's share repurchase program;
 - improvement in supply chain efficiency and dependability; and
- implementation of the strategies designed to address the decline in the Company's traditional businesses.

The forward-looking statements contained in this report are subject to the following additional risk factors:

- inherent unpredictability of currency fluctuations, commodity prices and raw material costs;
 - competitive actions, including pricing;
 - uncertainty generated by volatility in the financial markets;
 - the nature and pace of technology evolution;
- changes to accounting rules and tax laws, as well as other factors which could impact the Company's reported financial position or effective tax rate;
- pension and other postretirement benefit cost factors such as actuarial assumptions, market performance, and employee retirement decisions;
- general economic, business, geo-political and regulatory conditions or unanticipated environmental liabilities or costs;
 - changes in market growth;
 - continued effectiveness of internal controls; and
- other factors and uncertainties disclosed from time to time in the Company's filings with the Securities and Exchange Commission.

Any forward-looking statements in this report should be evaluated in light of these important factors and uncertainties.

Item 3. Quantitative And Qualitative Disclosures About Market Risk

The Company, as a result of its global operating and financing activities, is exposed to changes in foreign currency exchange rates, commodity prices, and interest rates, which may adversely affect its results of operations and financial position. In seeking to minimize the risks associated with such activities, the Company may enter into derivative contracts. The Company does not utilize financial instruments for trading or other speculative purposes.

Foreign currency forward contracts are used to hedge existing foreign currency denominated assets and liabilities, especially those of the Company's International Treasury Center, as well as forecasted foreign currency denominated intercompany sales. Silver forward contracts are used to mitigate the Company's risk to fluctuating silver prices.

The Company's exposure to changes in interest rates results from its investing and borrowing activities used to meet its liquidity needs. Long-term debt is generally used to finance long-term investments, while short-term debt is used to meet working capital requirements.

Using a sensitivity analysis based on estimated fair value of open foreign currency forward contracts using available forward rates, if the U.S. dollar had been 10% stronger at September 30, 2008 and 2007, the fair value of open forward contracts would have decreased \$32 million and \$40 million, respectively. Such losses would be substantially offset by gains from the revaluation or settlement of the underlying positions hedged.

Using a sensitivity analysis based on estimated fair value of open silver forward contracts using available forward prices, if available forward silver prices had been 10% lower at September 30, 2008 and 2007, the fair value of open forward contracts would have decreased \$3 million and \$5 million, respectively. Such losses in fair value, if realized, would be offset by lower costs of manufacturing silver-containing products.

The Company is exposed to interest rate risk primarily through its borrowing activities and, to a lesser extent, through investments in marketable securities. The Company may utilize borrowings to fund its working capital and investment needs. The majority of short-term and long-term borrowings are in fixed-rate instruments. There is inherent roll-over risk for borrowings and marketable securities as they mature and are renewed at current market rates. The extent of this risk is not predictable because of the variability of future interest rates and business financing requirements.

Using a sensitivity analysis based on estimated fair value of short-term and long-term borrowings, if available market interest rates had been 10% (about 73 basis points) lower at September 30, 2008, the fair value of short-term and long-term borrowings would have increased less than \$1 million and \$58 million, respectively. Using a sensitivity analysis based on estimated fair value of short-term and long-term borrowings, if available market interest rates had been 10% (about 57 basis points) lower at September 30, 2007, the fair value of short-term and long-term borrowings would have increased \$1 million and \$59 million, respectively.

The Company's financial instrument counterparties are high-quality investment or commercial banks with significant experience with such instruments. The Company manages exposure to counterparty credit risk by requiring specific minimum credit standards and diversification of counterparties. The Company has procedures to monitor the credit exposure amounts. The maximum credit exposure at September 30, 2008 was not significant to the Company.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

The Company maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in the Company's reports under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to management, including the Company's Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. The Company's management, with participation of the Company's Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Company's disclosure controls and procedures as of the end of the period covered by this Quarterly Report on Form 10-Q. The Company's Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of the period covered by this Quarterly Report on Form 10-Q, the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) were effective.

Changes in Internal Control over Financial Reporting

There have been no changes in the Company's internal control over financial reporting during the most recently completed fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Part II. Other Information

Item 1. Legal Proceedings

During March 2005, the Company was contacted by members of the Division of Enforcement of the SEC concerning the announced restatement of the Company's financial statements for the full year and quarters of 2003 and the first three unaudited quarters of 2004. An informal inquiry by the staff of the SEC into the substance of that restatement is continuing. The Company continues to fully cooperate with this inquiry, and the staff has indicated that the inquiry should not be construed as an indication by the SEC or its staff that any violations of law have occurred.

On July 9, 2008, the Company received a proposed Consent Order from the New York State Department of Environmental Conservation ("DEC") resolving alleged violations of the environmental quality programs at the Company's primary manufacturing facility in Rochester, New York ("Kodak Park") which have occurred between February 28, 2005 and June 30, 2008. These alleged violations include violations of the solid and hazardous waste management regulations, the facility-wide air permit and the waste water discharge permit; most were discovered by Kodak and self-reported to the DEC. An agreement was reached on September 23, 2008, concluding this matter, with Kodak paying \$125,000 to the DEC.

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 flows 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.

Item 1A. Risk Factors

Recent economic trends could adversely affect our financial performance.

Economic downturns and declines in consumption in the Company's global markets may affect the levels of both commercial and consumer sales and profitability. As widely reported, the global financial markets have been experiencing extreme disruption in recent months, including severely diminished liquidity and credit availability. Concurrently, economic weakness has begun to accelerate globally. The Company believes these conditions have not materially impacted its financial position as of September 30, 2008 or liquidity for the nine months ended September 30, 2008. However, the Company could be negatively impacted if either of these conditions exists for a sustained period of time, or if there is further deterioration in financial markets and major economies. First, the current tightening of credit in financial markets may adversely affect the ability of our customers and suppliers to obtain financing for significant purchases and operations, which could result in a decrease in, or cancellation of, orders for our products and services. In addition, because purchases of Kodak's consumer products are, to a significant extent, discretionary, weakening economic conditions and outlook may result in a further decline in the level of consumer spending that could adversely affect Kodak's results of operations and liquidity. The Company is unable to predict the likely duration and severity of the current disruption in financial markets and adverse economic conditions in the U.S. and its other major markets outside the U.S.

Our future pension and other postretirement plan costs and required level of contributions could be unfavorably impacted by changes in actuarial assumptions and future market performance of plan assets which could adversely affect our financial position, results of operations, and cash flow.

We have significant defined benefit pension and other postretirement benefit obligations. The Company's U.S. defined benefit pension plans, which include the Company's most significant defined benefit pension plan, were overfunded by more than \$2.1 billion as of December 31, 2007. (Additional information about the funded status of our U.S. and non-U.S. benefit plans is available in Note 10, "Retirement Plans and Other Postretirement Benefits.") Nevertheless, the funded status of these plans and our other benefit plans, and the related cost reflected in our financial statements, are

affected by various factors that are subject to an inherent degree of uncertainty, particularly in the current economic environment. Key assumptions used to value these benefit obligations, funded status and expense recognition include the discount rate for future payment obligations, the long-term expected rate of return on plan assets, salary growth, healthcare cost trend rate, and other economic and demographic factors. Significant differences in actual experience or significant changes in future assumptions could lead to a potential future need to contribute cash or assets to our plans and could have an adverse effect on the Company's consolidated financial position, results of operations and cash flow.

If we do not timely implement our planned working capital improvements, this could adversely affect our cash flow.

Unanticipated delays in the Company's plans to continue working capital improvements could adversely impact the Company's cash flow. Planned inventory reductions could be compromised by slower sales due to the deteriorating economic environment, the competitive environment for digital products, and the continuing decline in demand for traditional products, which could also place pressures on Kodak's sales and market share. Conversely, accounts receivable goals could be missed due to a decline in our customers' ability to pay as a result of the recent economic downturn. In addition, if the Company does not make the expected progress to align our accounts payable metrics with our peer groups, our cash flow could be negatively impacted. In the event Kodak is unable to successfully manage these issues in a timely manner, they could adversely impact the planned working capital improvement.

If we do not effectively execute on our growth initiatives, our financial performance could be adversely affected.

The Company participates in digital product markets dominated by a few, large competitors with broad, well-established distribution channels and supplier arrangements. Achievement of scale, in those markets where Kodak has nascent, but growing, businesses, is necessary for the Company to successfully compete in these markets. The Company's failure to obtain sustainable growth in these businesses could adversely affect the Company's financial performance.

If we fail to comply with the covenants contained in our Secured Credit Agreement, including the two financial covenants, our ability to meet our financial obligations could be severely impaired.

There are affirmative, negative and financial covenants contained in the Company's Secured Credit Agreement. These covenants are typical for a secured credit agreement of this nature. The Company's failure to comply with these covenants could result in a default under the Secured Credit Agreement. If an event of default was to occur and is not waived by the lenders, then all outstanding debt, letters of credit, interest and other payments under the Secured Credit Agreement could become immediately due and payable and any unused borrowing availability under the revolving credit facility of the Secured Credit Agreement could be terminated by the lenders. The failure of the Company to repay any accelerated debt under the Secured Credit Agreement could result in acceleration of the majority of the Company's unsecured outstanding debt obligations.

If we cannot effectively anticipate technology trends and develop new products to respond to changing customer preferences, this could adversely affect our revenues.

Due to changes in technology and customer preferences, the market for traditional photography products and services is in decline. In its Film, Photofinishing and Entertainment Group, the Company continues to experience declines in customer demand for film products, consistent with industry trends. Management has developed initiatives to address the anticipated impact of these trends on the Company's performance. In addition, the Company's product development efforts are focused on digital capture devices (digital cameras and scanners) designed to improve the image acquisition or digitalization process, software products designed to enhance and simplify the digital workflow, output devices (thermal and inkjet printers and commercial printing systems and solutions) designed to produce high quality documents and images, and media (thermal and silver halide) optimized for digital workflows. Kodak's success depends in part on its ability to develop and introduce new products and services in a timely manner that keep pace with technological developments and that are accepted in the market. The Company continues to introduce new consumer and commercial digital product offerings. However, there can be no assurance that the Company will be successful in anticipating and developing new products, product enhancements or new solutions and services to adequately address changing technologies and customer requirements. In addition, if the Company is unable to anticipate and develop improvements to its current technology, to adapt its products to changing customer preferences or requirements or to continue to produce high quality products in a timely and cost-effective manner in order to

compete with products offered by its competitors, this could adversely affect the revenues of the Company.

If we cannot continue to license or enforce the intellectual property rights on which our business depends or if third parties assert that we violate their intellectual property rights our revenue, earnings and expenses may be adversely impacted.

Kodak relies upon patent, copyright, trademark and trade secret laws in the United States and similar laws in other countries, and agreements with its employees, customers, suppliers and other parties, to establish, maintain and enforce its intellectual property rights. Any of the Company's direct or indirect intellectual property rights could, however, be challenged, invalidated or circumvented, or such intellectual property rights may not be sufficient to permit the Company to take advantage of current market trends or otherwise to provide competitive advantages, which could result in costly product redesign efforts, discontinuance of certain product offerings or other competitive harm. Further, the laws of certain countries do not protect proprietary rights to the same extent as the laws of the United States. Therefore, in certain jurisdictions, Kodak may be unable to protect its proprietary technology adequately against unauthorized third party copying or use, which could adversely affect its competitive position. Also, because of the rapid pace of technological change in the information technology industry, much of our business and many of our products rely on key technologies developed or licensed by third parties, and we may not be able to obtain or continue to obtain licenses and technologies from these third parties at all or on reasonable terms.

Kodak has made substantial investments in new, proprietary technologies and has filed patent applications and obtained patents to protect its intellectual property rights in these technologies as well as the interests of the Company's licensees. The execution and enforcement of licensing agreements protects the Company's intellectual property rights and provides a revenue stream in the form of royalties that enables Kodak to further innovate and provide the marketplace with new products and services. There is no assurance that such measures alone will be adequate to protect the Company's intellectual property. The Company's ability to execute its intellectual property licensing strategies could also affect the Company's revenue and earnings. Kodak's failure to develop and properly manage new intellectual property could adversely affect the Company's market positions and business opportunities. Furthermore, the Company's failure to identify and implement licensing programs, including identifying appropriate licensees, could adversely affect the profitability of Kodak's operations.

Finally, third parties may claim that the Company or customers indemnified by Kodak are infringing upon their intellectual property rights. Such claims may be made by competitors seeking to block or limit Kodak's access to digital markets. Additionally, in recent years, individuals and groups have begun purchasing intellectual property assets for the sole purpose of making claims of infringement and attempting to extract settlements from large companies like Kodak. Even if Kodak believes that the claims are without merit, the claims can be time-consuming and costly to defend and distract management's attention and resources. Claims of intellectual property infringement also might require the Company to redesign affected products, enter into costly settlement or license agreements or pay costly damage awards, or face a temporary or permanent injunction prohibiting Kodak from marketing or selling certain of its products. Even if the Company has an agreement to indemnify it against such costs, the indemnifying party may be unable to uphold its contractual agreement to Kodak. If we cannot or do not license the infringed technology at all, license the technology on reasonable terms or substitute similar technology from another source, our revenue and earnings could be adversely impacted.

If we cannot attract, retain and motivate key employees, our business could be harmed.

In order for the Company to be successful, we must continue to attract, retain and motivate executives and other key employees, including technical, managerial, marketing, sales, research and support positions. Hiring and retaining qualified executives, research professionals, and qualified sales representatives are critical to the Company's future and competition for experienced employees in the industries in which we compete can be intense. The market for employees with digital skills is highly competitive and, therefore, the Company's ability to attract such talent will depend on a number of factors, including compensation and benefits, work location and persuading potential employees that the Company is well-positioned for success in the new digital markets Kodak has and will enter. The Company also must keep employees focused on the strategic initiatives and goals in order to be successful. If we cannot attract properly qualified individuals, retain key executives and employees or motivate our employees, our business could be harmed.

System integration issues could adversely affect our revenue and earnings.

Portions of our IT infrastructure may experience interruptions, delays or cessations of service or product errors in connection with systems integration or migration work that takes place from time to time; in particular, installation of SAP within our Graphic Communications Group. We may not be successful in implementing new systems and transitioning data, which could cause business disruptions and be more expensive, time consuming, disruptive and resource-intensive. Such disruption could adversely affect our ability to fulfill orders and interrupt other processes. Delayed sales, higher costs or lost customers resulting from these disruptions could adversely affect our financial results and reputation.

Our inability to effectively complete, integrate and manage acquisitions, divestitures and other significant transactions could adversely impact our business performance including our financial results.

As part of our business strategy, we frequently engage in discussions with third parties regarding possible investments, acquisitions, strategic alliances, joint ventures, divestitures and outsourcing transactions ("transactions") and enter into agreements relating to such transactions in order to further our business objectives. In order to pursue this strategy successfully, we must identify suitable candidates for and successfully complete transactions, some of which may be large and complex, and manage post-closing issues such as the integration of acquired companies or employees. Integration and other risks of transactions can be more pronounced for larger and more complicated transactions, or if multiple transactions are pursued simultaneously. If we fail to identify and complete successfully transactions that further our strategic objectives, we may be required to expend resources to develop products and technology internally, we may be at a competitive disadvantage or we may be adversely affected by negative market perceptions, any of which may have a material adverse effect on our revenue, gross margin and profitability.

In 2005, Kodak completed two large business acquisitions in its Graphic Communications Group segment in order to strengthen and diversify its portfolio of businesses, while establishing itself as a leader in the graphic communications market. The Company has substantially completed its extensive restructuring of its traditional manufacturing and corporate infrastructure, but will need to continue to rationalize all items of cost to remain competitive. In the event that Kodak fails to effectively manage the continuing decline of its more traditional businesses while simultaneously integrating these acquisitions, it could fail to obtain the expected synergies and favorable impact of these acquisitions. Such a failure could cause Kodak to lose market opportunities and experience a resulting adverse impact on its revenues and earnings.

Delays in our plans to improve manufacturing productivity and control cost of operations could negatively impact our gross margins.

Kodak's failure to successfully manage operational performance factors could delay or curtail planned improvements in manufacturing productivity. Delays in Kodak's plans to improve manufacturing productivity and control costs of operations, could negatively impact the gross margins of the Company. Furthermore, if Kodak is unable to successfully negotiate competitive raw material costs with its suppliers, or incurs adverse pricing on certain of its commodity-based raw materials, gross margins could be adversely impacted.

We depend on third party suppliers and, therefore, our revenue and gross margins could suffer if we fail to manage supplier relationships properly.

Kodak's operations depend on its ability to anticipate the needs for components, products and services and Kodak's suppliers' ability to deliver sufficient quantities of quality components, products and services at reasonable prices in time for Kodak to meet its customers' demand. Given the wide variety of products, services and systems that Kodak offers, the large number of suppliers and contract manufacturers the Company depends upon that are dispersed across the globe, and the long lead times that are required to manufacture, assemble and deliver certain components and products, problems could arise in planning production and managing inventory levels that could seriously harm Kodak. Other supplier problems that Kodak could face include component shortages, excess supply, risks related to terms of its contracts with suppliers, and risks related to dependency on single source suppliers.

We have outsourced a significant portion of our overall worldwide manufacturing and back-office operations and face the risks associated with relying on third party manufacturers and external suppliers.

We have outsourced a significant portion of our overall worldwide manufacturing, customer support and administrative operations (such as human resource, credit and collection, and general ledger accounting functions) to third parties and various service providers. To the extent that we rely on third party manufacturing relationships, we face the risk that those manufacturers may not be able to develop manufacturing methods appropriate for our products, they may not be able to maintain an adequate control environment, they may not be able to quickly respond to changes in customer demand for our products, they may not be able to obtain supplies and materials necessary for the manufacturing process, they may experience labor shortages and/or disruptions, manufacturing costs could be higher than planned and the reliability of our products could decline. If any of these risks were to be realized, and assuming alternative third-party manufacturing relationships could not be established, we could experience interruptions in supply or increases in costs that might result in our being unable to meet customer demand for our products, damage to our relationships with our customers, and reduced market share, all of which could adversely affect our results of operations and financial condition.

If our ongoing efforts to improve our supply chain efficiency are not achieved, this could adversely affect our revenue and earnings.

Kodak's improvement in supply chain efficiency, if not achieved, could adversely affect its business by preventing shipments of certain products to be made in their desired quantities and in a timely and cost-effective manner. The ongoing efficiencies could be compromised if Kodak expands into new markets with new applications that are not fully understood or if the portfolio broadens beyond that anticipated when the plans were initiated. Any unforeseen changes in manufacturing capacity could also compromise our supply chain efficiencies.

The competitive pressures we face could harm our revenue, gross margins and market share.

The markets in which we do business are highly competitive, and we encounter aggressive price competition for all our products and services from numerous companies globally. Over the past several years, price competition in the market for digital products (including consumer inkjet printers), film and services has been particularly intense as competitors have aggressively cut prices and lowered their profit margins for these products. In the Graphic Communications Group segment, aggressive pricing tactics by our competitors have intensified the contract negotiation process. Our results of operations and financial condition may be adversely affected by these and other industry-wide pricing pressures. If the Company is unable to obtain pricing or programs sufficiently competitive with current and future competitors, Kodak could also lose market share, adversely affecting its revenue and gross margins.

If we fail to manage distribution of our products and services properly, our revenue, gross margins and earnings could be adversely impacted.

The Company uses a variety of different distribution methods to sell our products and services, including third-party resellers and distributors and both direct and indirect sales to both enterprise accounts and customers. Successfully managing the interaction of direct and indirect channels to various potential customer segments for our products and services is a complex process. Moreover, since each distribution method has distinct risks and costs, our failure to implement the most advantageous balance in the delivery model for our products and services could adversely affect our revenue, gross margins and earnings. Due to changes in the Company's go-to-market models, the Company is more reliant on fewer distributors. This has concentrated the Company's credit risk, which, if not appropriately managed, could result in an adverse impact on the Company's financial performance.

We may provide financing and financial guarantees to our customers, some of which may be for significant amounts.

The competitive environment in which we operate may require us to provide financing to our customers in order to win a contract. Customer financing arrangements may include all or a portion of the purchase price for our products and services. We may also assist customers in obtaining financing from banks and other sources and may provide financial guarantees on behalf of our customers. Our success may be dependent, in part, upon our ability to provide customer financing on competitive terms and on our customers' creditworthiness. As noted previously, the recent tightening of credit in the global financial markets could adversely affect the ability of our customers to obtain financing for significant purchases, which could result in a decrease in, or cancellation of, orders for our products and services. If we are unable to provide competitive financing arrangements to our customers or if we extend credit to customers whose creditworthiness deteriorates, this could adversely impact our revenues, profitability and financial position.

Because we sell our products and services worldwide, we are subject to changes in currency exchange rates and interest rates that may adversely impact our results of operations and financial position.

Kodak, as a result of its global operating and financing activities, is exposed to changes in currency exchange rates and interest rates, which may adversely affect its results of operations and financial position. Exchange rates and interest rates in certain markets in which the Company does business tend to be more volatile than those in the United States and Western Europe. There can be no guarantees that the economic situation in developing markets or elsewhere will not worsen, which could result in future effects on revenue and earnings should such events occur.

If we cannot protect our reputation due to product quality and liability issues, our business could be harmed.

Kodak products are becoming increasingly sophisticated and complicated to design and build as rapid advancements in technologies occur. Although Kodak has established internal procedures to minimize risks that may arise from product quality and liability issues, there can be no assurance that Kodak will be able to eliminate or mitigate occurrences of these issues and associated damages. Kodak may incur expenses in connection with, for example, product recalls, service and lawsuits, and Kodak's brand image and reputation as a producer of high-quality products could suffer.

Business disruptions could seriously harm our future revenue and financial condition and increase our costs and expenses.

Our worldwide operations could be subject to earthquakes, power shortages, telecommunications failures, water shortages, tsunamis, floods, hurricanes, typhoons, fires, extreme weather conditions, medical epidemics and other natural or manmade disasters or business interruptions, for which we are predominantly self-insured. The occurrence of any of these business disruptions could seriously harm our revenue and financial condition and increase our costs and expenses. In addition, some areas, including parts of the east coast of the United States, have previously experienced, and may experience in the future, major power shortages and blackouts. These blackouts could cause disruptions to our operations or the operations of our suppliers, distributors and resellers, or customers. These events could seriously harm our revenue and financial condition, and increase our costs and expenses.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Share Repurchase Program

On June 24, 2008, the Company announced that its Board of Directors authorized a new share repurchase program allowing the Company, at management's determination, to purchase up to \$1.0 billion of its common stock. The program will expire at the earlier of December 31, 2009 or when the Company has used all authorized funds for repurchase. For the three months ended September 30, 2008, the Company purchased 14,113,000 shares in open market purchases. Since maintaining financial flexibility is critical in the current environment, additional share repurchases will depend on the Company's assessment of overall economic and market conditions.

The following table shows the share repurchase activity for each of the three months in the quarter ended September 30, 2008:

(in millions, except average price paid per share)

| Period | Total Number of Shares Purchased | Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Programs | Approximate Dollar Value of Shares That May Yet Be Purchased under the Program |
|---|---|------------------------------------|--|---|
| July 1, 2008 to July 31, 2008 | - | \$ - | - | \$ 1,000 |
| August 1, 2008 to August 31, 2008 | 6.7 | \$ 16.32 | 6.7 | \$ 890 |
| September 1, 2008 to September 30, 2008 | 7.4 | \$ 14.81 | 7.4 | \$ 781 |
| Total | 14.1 | \$ 15.53 | 14.1 | |

Item 6. Exhibits

(a) Exhibits required as part of this report are listed in the index appearing on page 56.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

EASTMAN KODAK COMPANY
(Registrant)

Date: October 30, 2008

/s/ Diane E. Wilfong

Diane E. Wilfong
Chief Accounting Officer and Controller

Eastman Kodak Company and Subsidiary Companies
Index to Exhibits

Exhibit
Number

(3) A. Certificate of Incorporation, as amended and restated May 11, 2005.
(Incorporated by reference to the Eastman Kodak Company Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2005, Exhibit 3.)

B. By-laws, as amended and restated May 11, 2005.
(Incorporated by reference to the Eastman Kodak Company Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2005, Exhibit 3.)

Amendments to Eastman Kodak Company By-Laws
(Incorporated by reference to the Eastman Kodak Company Current Report on Form 8-K for the date December 11, 2007, as filed on December 14, 2007, Exhibit 3.1.)

(10) F. Form of Administrative Guide for Leadership Stock Program under the 2005 Omnibus Long-Term Compensation Plan.
(Incorporated by reference to the Eastman Kodak Company Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2008, Exhibit 10.)

(12) Statement Re Computation of Ratio of Earnings to Fixed Charges.

(31.1) Certification.

(31.2) Certification.

(32.1) Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

(32.2) Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

