

EASTMAN KODAK CO  
Form 10-Q  
November 01, 2007

**SECURITIES AND EXCHANGE COMMISSION**  
**Washington, D.C. 20549**

**FORM 10-Q**

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

**For the quarterly period ended September 30, 2007**

**or**

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

**For the transition period from \_\_\_ to \_\_\_**

**Commission File Number 1-87**

**EASTMAN KODAK COMPANY**

**(Exact name of registrant as specified in its charter)**

**NEW JERSEY**  
**(State of incorporation)**

**16-0417150**  
**(IRS Employer Identification No.)**

**343 STATE STREET, ROCHESTER, NEW YORK**  
**(Address of principal executive offices)**

**14650**  
**(Zip Code)**

**Registrant's telephone number, including area code: 585-724-4000**

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months, and (2) has been subject to such filing requirements for the past 90 days.

Yes [X]      No [ ]

Indicate by check mark whether the registrant 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

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[X]

[ ]

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes [ ] No [X]

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

**Number of Shares Outstanding at  
October 26, 2007  
287,976,505**

**Class  
Common Stock, \$2.50 par value**

PAGE 2

**Eastman Kodak Company  
Form 10-Q  
September 30, 2007**

**Table of Contents**

|  | <b>Page</b> |
|--|-------------|
| <b><u>Part I.</u></b>  |             |
| <b><u>Financial Information</u></b>  |             |
| Item 1.  |             |
| <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           |
| Item 2.  |             |
| <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u> | 25          |
| <u>Liquidity and Capital Resources</u>   | 46          |
| Item 3.  |             |
| <u>Quantitative and Qualitative Disclosures About Market Risk</u>                            | 53          |
| Item 4.  |             |
| <u>Controls and Procedures</u>   | 54          |
| <b><u>Part II.</u></b>   |             |
| <b><u>Other Information</u></b>  |             |
| Item 1.  |             |
| <u>Legal Proceedings</u>   | 54          |
| Item 6.  |             |
| <u>Exhibits</u>  | 54          |
| <u>Signatures</u>  | 55          |
| <u>Index to Exhibits</u>   | 56          |

PAGE 3

**Part I. Financial Information**

**Item 1. Financial Statements**

**EASTMAN KODAK COMPANY**  
**CONSOLIDATED STATEMENT OF OPERATIONS (Unaudited)**

|   | Three Months Ended<br>September 30 |           | Nine Months Ended<br>September 30 |           |
|---|------------------------------------|-----------|-----------------------------------|-----------|
|   | 2007                               | 2006      | 2007                              | 2006      |
| (in millions, except per share data)  |                                    |           |                                   |           |
| Net sales   | \$ 2,581                           | \$ 2,595  | \$ 7,210                          | \$ 7,210  |
| Cost of goods sold  | 1,899                              | 1,944     | 5,453                             | 5,453     |
| Gross profit  | 682                                | 651       | 1,757                             | 1,757     |
| Selling, general and administrative expenses  | 427                                | 464       | 1,259                             | 1,259     |
| Research and development costs  | 129                                | 138       | 398                               | 398       |
| Restructuring costs and other   | 100                                | 108       | 480                               | 480       |
| Other operating expenses (income), net  | 6                                  | (48)      | (33)                              | (33)      |
| Earnings (loss) from continuing operations before interest,<br>other income (charges), net and income taxes | 20                                 | (11)      | (347)                             | (347)     |
| Interest expense  | 28                                 | 51        | 84                                | 84        |
| Other income (charges), net   | 37                                 | 9         | 75                                | 75        |
| Earnings (loss) from continuing operations before income taxes  | 29                                 | (53)      | (356)                             | (356)     |
| (Benefit) provision for income taxes  | (5)                                | 30        | (64)                              | (64)      |
| Earnings (loss) from continuing operations  | 34                                 | (83)      | (292)                             | (292)     |
| Earnings from discontinued operations, net of income taxes  | 3                                  | 46        | 753                               | 753       |
| NET EARNINGS (LOSS)   | \$ 37                              | \$ (37)   | \$ 461                            | \$ 461    |
| Basic and diluted net earnings (loss) per share:  |                                    |           |                                   |           |
| Continuing operations   | \$ 0.12                            | \$ (0.29) | \$ (1.02)                         | \$ (1.02) |
| Discontinued operations   | 0.01                               | 0.16      | 2.62                              | 2.62      |
| Total   | \$ 0.13                            | \$ (0.13) | \$ 1.60                           | \$ 1.60   |
| Number of common shares used in basic net earnings (loss)<br>per share                                      | 287.8                              | 287.2     | 287.6                             | 287.6     |
| Incremental shares from assumed conversion of options   | 0.8                                | □         | □                                 | □         |
| Number of common shares used in diluted net earnings (loss)<br>per share                                    | 288.6                              | 287.2     | 287.6                             | 287.6     |

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

PAGE 4

**EASTMAN KODAK COMPANY**  
**CONSOLIDATED STATEMENT OF RETAINED EARNINGS (Unaudited)**

|  | Three Months Ended<br>September 30 |          | Nine Months Ended<br>September 30 |          |
|--|------------------------------------|----------|-----------------------------------|----------|
|  | 2007                               | 2006     | 2007                              | 2006     |
| (in millions)                            |                                    |          |                                   |          |
| Retained earnings at beginning of period | \$ 6,305                           | \$ 6,062 | \$ 5,967                          | \$ 6,717 |
| Net earnings (loss)                      | 37                                 | (37)     | 461                               | (617)    |
| Cash dividends                           | □                                  | □        | (72)                              | (72)     |
| Loss from issuance of treasury stock     | (9)                                | (3)      | (23)                              | (6)      |
| Retained earnings at end of period       | \$ 6,333                           | \$ 6,022 | \$ 6,333                          | \$ 6,022 |

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

**EASTMAN KODAK COMPANY**  
**CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Unaudited)**

| (in millions)                                     | September<br>30,<br>2007 | December 31,<br>2006 |
|---|--------------------------|----------------------|
| <b>ASSETS</b>                                     |                          |                      |
| <b>CURRENT ASSETS</b>                             |                          |                      |
| Cash and cash equivalents                         | \$ 1,847                 | \$ 1,469             |
| Receivables, net                                  | 2,130                    | 2,072                |
| Inventories, net                                  | 1,230                    | 1,001                |
| Deferred income taxes                             | 114                      | 108                  |
| Other current assets                              | 123                      | 96                   |
| Assets of discontinued operations                 |                          | 811                  |
| Total current assets                              | 5,444                    | 5,557                |
| Property, plant and equipment, net                | 1,906                    | 2,602                |
| Goodwill  | 1,636                    | 1,584                |
| Other long-term assets                            | 3,945                    | 3,509                |
| Assets of discontinued operations                 |                          | 1,068                |
| <b>TOTAL ASSETS</b>                               | <b>\$ 12,931</b>         | <b>\$ 14,320</b>     |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>       |                          |                      |
| <b>CURRENT LIABILITIES</b>                        |                          |                      |
| Accounts payable and other current liabilities    | \$ 3,387                 | \$ 3,712             |
| Short-term borrowings                             | 330                      | 64                   |
| Accrued income and other taxes                    | 303                      | 347                  |
| Liabilities of discontinued operations            |                          | 431                  |
| Total current liabilities                         | 4,020                    | 4,554                |
| Long-term debt, net of current portion            | 1,296                    | 2,714                |
| Pension and other postretirement liabilities      | 3,428                    | 3,934                |
| Other long-term liabilities                       | 1,529                    | 1,690                |
| Liabilities of discontinued operations            |                          | 40                   |
| Total liabilities                                 | 10,273                   | 12,932               |
| Commitments and Contingencies (Note 7)            |                          |                      |
| <b>SHAREHOLDERS' EQUITY</b>                       |                          |                      |
| Common stock, \$2.50 par value                    | 978                      | 978                  |
| Additional paid in capital                        | 884                      | 881                  |
| Retained earnings                                 | 6,333                    | 5,967                |
| Accumulated other comprehensive income (loss)     | 229                      | (635)                |
|   | 8,424                    | 7,191                |
| Less: Treasury stock, at cost                     | 5,766                    | 5,803                |
| Total shareholders' equity                        | 2,658                    | 1,388                |
| <b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b> | <b>\$ 12,931</b>         | <b>\$ 14,320</b>     |

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<br>September 30, |          |
|--|------------------------------------|----------|
|  | 2007                               | 2006     |
| Cash flows from operating activities:                              |                                    |          |
| Net earnings (loss)  | \$ 461                             | \$ (617) |
| Adjustments to reconcile to net cash used in operating activities: |                                    |          |
| Earnings from discontinued operations, net of income taxes         | (753)                              | (167)    |
| Depreciation and amortization                                      | 609                                | 910      |
| Gain on sales of businesses/assets                                 | (39)                               | (49)     |
| Non-cash restructuring costs, asset impairments and other charges  | 286                                | 116      |
| Benefit for deferred income taxes                                  | (78)                               | (126)    |
| (Increase) decrease in receivables                                 | (30)                               | 215      |
| (Increase) decrease in inventories                                 | (183)                              | 31       |
| Decrease in liabilities excluding borrowings                       | (846)                              | (490)    |
| Other items, net   | (121)                              | (140)    |
| Total adjustments  | (1,155)                            | 300      |
| Net cash used in continuing operations                             | (694)                              | (317)    |
| Net cash (used in) provided by discontinued operations             | (30)                               | 245      |
| Net cash used in operating activities                              | (724)                              | (72)     |
| Cash flows from investing activities:                              |                                    |          |
| Additions to properties  | (179)                              | (253)    |
| Net proceeds from sales of businesses/assets                       | 146                                | 112      |
| Acquisitions, net of cash acquired                                 | (2)                                | (3)      |
| Investments in unconsolidated affiliates                           | □                                  | (10)     |
| Marketable securities - sales                                      | 123                                | 89       |
| Marketable securities - purchases                                  | (131)                              | (88)     |
| Net cash used in continuing operations                             | (43)                               | (153)    |
| Net cash provided by (used in) discontinued operations             | 2,335                              | (29)     |
| Net cash provided by (used in) investing activities                | 2,292                              | (182)    |
| Cash flows from financing activities:                              |                                    |          |
| Proceeds from other borrowings                                     | 65                                 | 580      |
| Repayment of other borrowings                                      | (1,213)                            | (827)    |
| Dividends to shareholders  | (72)                               | (72)     |
| Exercise of employee stock options                                 | 5                                  | □        |
| Net cash used in financing activities                              | (1,215)                            | (319)    |
| Effect of exchange rate changes on cash                            | 25                                 | 10       |
| Net increase (decrease) in cash and cash equivalents               | 378                                | (563)    |
| Cash and cash equivalents, beginning of period                     | 1,469                              | 1,665    |
| Cash and cash equivalents, end of period                           | \$ 1,847                           | \$ 1,102 |

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, 2006.

Certain amounts for prior periods have been reclassified to conform to the current period classification. Prior period reclassifications include the following:

- Gains and losses on sales of capital assets and certain asset impairment charges that were previously presented in other income (charges), net have been reclassified to other operating (income) expenses, net. Amounts reclassified for the three months and nine months ended September 30, 2006 were \$48 million of income and \$37 million of income, respectively.
- The presentation of discontinued operations and related assets and liabilities held for sale, as a result of the divestiture of the Health Group segment.
- The adoption of FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes," which requires reclassification of liabilities related to uncertain tax positions.
- Prior period segment results have been revised to conform to the new segment reporting structure, which was effective January 1, 2007.

In preparing the financial statements for the three- and nine-month periods ended September 30, 2007, the Company recorded adjustments for items that should have been recorded in prior periods, the largest of which is a \$20 million tax provision for a valuation allowance recorded in the second quarter of 2007 that should have been recorded in 2006. This item is discussed further in Note 5, "Goodwill and Other Intangibles," and Note 6, "Income Taxes." Each correction recorded in the three- and nine-month periods ended September 30, 2007 is individually no greater than \$6 million, other than the item noted above. The Company has determined that these corrections, individually and in the aggregate, are not material to the financial statements as of and for the three- and nine-month periods ended September 30, 2007, to any prior period financial statements, or to its expected full year results for 2007.

**RECENT ACCOUNTING PRONOUNCEMENTS**

***FASB Statement No. 155***

In February 2006, the Financial Accounting Standards Board (FASB) issued SFAS No. 155, "Accounting for Certain Hybrid Financial Instruments (an amendment of FASB Statements No. 133 and 140)." This Statement permits fair value measurement for any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation. SFAS No. 155 is effective for all financial instruments acquired, issued, or subject to a remeasurement event occurring after the beginning of an entity's first fiscal year that begins after September 15, 2006 (January 1, 2007 for the Company). The adoption of SFAS No. 155 in the first quarter of 2007 did not have a material impact on the Company's Consolidated Financial Statements.

**FASB Interpretation No. 48**

In July 2006, the FASB issued FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" (FIN 48). FIN 48 clarifies the accounting and reporting for uncertainty in income taxes recognized in accordance with SFAS No. 109, "Accounting for Income Taxes." This Interpretation prescribes a recognition threshold and measurement attribute for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return, and also provides guidance on various related matters such as derecognition, classification of interest and penalties, and disclosure. Further information regarding the adoption of FIN 48 is disclosed in Note 6, "Income Taxes."

**FASB Statement No. 157**

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements," which establishes a comprehensive framework for measuring fair value in GAAP 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. This Statement is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. The provisions of SFAS No. 157 are generally required to be applied on a prospective basis, except to certain financial instruments accounted for under SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," for which the provisions of SFAS No. 157 should be applied retrospectively. The Company will adopt SFAS No. 157 in the first quarter of 2008.

**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 will adopt SFAS No. 159 in the first quarter of 2008.

**NOTE 2: RECEIVABLES, NET**

| (in millions)   | September   | December 31, |
|---|-------------|--------------|
|   | 30,<br>2007 | 2006         |
| Trade receivables   | \$ 1,729    | \$ 1,737     |
| Miscellaneous receivables   | 401         | 335          |
| Total (net of allowances of \$117 and \$134 as of<br>September 30, 2007 and December 31, 2006,<br>respectively) | \$ 2,130    | \$ 2,072     |

Of the total trade receivable amounts of \$1,729 million and \$1,737 million as of September 30, 2007 and December 31, 2006, respectively, approximately \$215 million and \$272 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.

PAGE 9

**NOTE 3: INVENTORIES, NET**

| (in millions)   | September   | December 31, |
|-----------------|-------------|--------------|
|                 | 30,<br>2007 | 2006         |
| Finished goods  | \$ 762      | \$ 606       |
| Work in process | 272         | 192          |
| Raw materials   | 196         | 203          |

Total \$ 1,230 \$ 1,001

**NOTE 4: PROPERTY, PLANT AND EQUIPMENT, NET**

| (in millions)                       | September 30,<br>2007 | December 31,<br>2006 |
|-------------------------------------|-----------------------|----------------------|
| Land                                | \$ 92                 | \$ 91                |
| Buildings and building improvements | 1,857                 | 2,319                |
| Machinery and equipment             | 5,875                 | 7,153                |
| Construction in progress            | 34                    | 86                   |
|                                     | 7,858                 | 9,649                |
| Accumulated depreciation            | (5,952)               | (7,047)              |
| Net properties                      | \$ 1,906              | \$ 2,602             |

Depreciation expense for the three months ended September 30, 2007 and 2006 was \$136 million and \$243 million, respectively, of which approximately \$23 million and \$73 million, respectively, represented accelerated depreciation in connection with restructuring actions. Depreciation expense for the nine months ended September 30, 2007 and 2006 was \$526 million and \$820 million, respectively, of which approximately \$103 million and \$213 million, respectively, represented accelerated depreciation in connection with restructuring actions.

In April 2007, the Company entered into an agreement to sell its manufacturing site in Xiamen, China. This sale closed in the second quarter of 2007 and resulted in a reduction to net properties of approximately \$278 million. This action is part of the 2004-2007 Restructuring Program.

**NOTE 5: GOODWILL AND OTHER INTANGIBLE ASSETS**

Goodwill was \$1,636 million and \$1,584 million at September 30, 2007 and December 31, 2006, respectively. The changes in the carrying amount of goodwill by reportable segment for the nine months ended September 30, 2007 were as follows:

| (in millions)                    | As of September 30, 2007                |                           |                                    |                       |
|----------------------------------|---|---------------------------|------------------------------------|-----------------------|
|                                  | Consumer<br>Digital<br>Imaging<br>Group | Film<br>Products<br>Group | Graphic<br>Communications<br>Group | Consolidated<br>Total |
| Balance at December 31, 2006     | \$ 217                                  | \$ 544                    | \$ 823                             | \$ 1,584              |
| Additions                        | □                                       | □                         | 2                                  | 2                     |
| Purchase accounting adjustment   | □                                       | □                         | 24                                 | 24                    |
| Currency translation adjustments | 7                                       | 14                        | 5                                  | 26                    |
| Balance at September 30, 2007    | \$ 224                                  | \$ 558                    | \$ 854                             | \$ 1,636              |

PAGE 10

During the second quarter of 2007, the Company identified a deferred tax asset in a recently acquired non-U.S. subsidiary that was overstated at the date of acquisition. Therefore, the Company recorded an increase in the value of goodwill of \$24 million in the second quarter to appropriately reflect the proper goodwill balance. This \$24 million is presented as a purchase accounting adjustment in the table above. The Company also recorded a valuation allowance of \$20 million, which should have been recorded in 2006, in order to properly reflect the value of the net deferred tax asset. The Company has determined that this correction is not material to the current period or to any prior period financial statement amounts.



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Due to the realignment of the Kodak operating model and change in reporting structure, as described in Note 14, "Segment Information," effective January 1, 2007, 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." Additionally, the Company reassessed its goodwill for impairment during the first quarter of 2007, and determined that no reporting units' carrying values exceeded their respective estimated fair values based on the realigned reporting structure and, therefore, there was no impairment.

The gross carrying amount and accumulated amortization by major intangible asset category as of September 30, 2007 and December 31, 2006 were as follows:

| <b>As of September 30, 2007</b> |                                      |                                     |            |   |
|---------------------------------|--------------------------------------|-------------------------------------|------------|---|
| (in millions)                   | <b>Gross<br/>Carrying<br/>Amount</b> | <b>Accumulated<br/>Amortization</b> | <b>Net</b> | <b>Weighted-Average<br/>Amortization Period</b> |
| Technology-based                | \$ 326                               | \$ 154                              | \$ 172     | 7 years   |
| Customer-related                | 279                                  | 119                                 | 160        | 10 years  |
| Other                           | 216                                  | 116                                 | 100        | 7 years   |
| Total                           | \$ 821                               | \$ 389                              | \$ 432     | 8 years   |

  

| <b>As of December 31, 2006</b> |                                      |                                     |            |   |
|--------------------------------|--------------------------------------|-------------------------------------|------------|---|
| (in millions)                  | <b>Gross<br/>Carrying<br/>Amount</b> | <b>Accumulated<br/>Amortization</b> | <b>Net</b> | <b>Weighted-Average<br/>Amortization Period</b> |
| Technology-based               | \$ 324                               | \$ 119                              | \$ 205     | 7 years   |
| Customer-related               | 274                                  | 95                                  | 179        | 10 years  |
| Other                          | 214                                  | 88                                  | 126        | 8 years   |
| Total                          | \$ 812                               | \$ 302                              | \$ 510     | 8 years   |

Amortization expense related to purchased intangible assets for the three months ended September 30, 2007 and 2006 was \$27 million and \$30 million, respectively. Amortization expense related to purchased intangible assets for the nine months ended September 30, 2007 and 2006 was \$83 million and \$90 million, respectively.

Estimated future amortization expense related to purchased intangible assets at September 30, 2007 is as follows (in millions):

|                     |        |
|---------------------|--------|
| 2007                | \$ 28  |
| 2008                | 107    |
| 2009                | 102    |
| 2010                | 80     |
| 2011                | 40     |
| 2012 and thereafter | 75     |
| Total               | \$ 432 |

PAGE 11

### NOTE 6: INCOME TAXES

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

| (dollars in millions)  | <b>Three Months<br/>Ended<br/>September 30</b> |             | <b>Nine Months<br/>Ended<br/>September 30</b> |             |
|--|--|-------------|---|-------------|
|  | <b>2007</b>                                    | <b>2006</b> | <b>2007</b>                                   | <b>2006</b> |
| Earnings (loss) from continuing operations before income taxes | \$29   | (\$53)      | (\$356)                                       | (\$685)     |

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|                                      |         |         |       |         |
|--------------------------------------|---------|---------|-------|---------|
| (Benefit) provision for income taxes | (5)     | 30      | (64)  | 99      |
| Effective tax rate                   | (17.2)% | (56.6)% | 18.0% | (14.5)% |

For the three months ended September 30, 2007, the Company recorded a benefit of \$5 million on pre-tax earnings of \$29 million, representing an effective rate of (17.2)%. The difference between the effective tax rate and the U.S. statutory rate of 35.0% is primarily attributable to: (1) losses generated in certain jurisdictions outside the U.S., which were not benefited, (2) the mix of earnings from operations in certain lower-taxed jurisdictions outside the U.S., (3) non-U.S. tax benefits of \$6 million associated with restructuring costs and asset impairments, (4) a net benefit of \$16 million associated with adjustments related to uncertain tax positions, and (5) a tax provision of \$13 million associated with the impact of foreign legislative tax rate changes.

In accordance with SFAS No. 109, "Accounting for Income Taxes," 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.

For the three months ended September 30, 2006, the Company recorded a provision of \$30 million on a pre-tax loss of \$53 million, representing an effective rate of (56.6)%. The difference between the effective tax rate and the U.S. statutory rate of 35.0% is primarily attributable to: (1) losses generated within the U.S. and in certain jurisdictions outside the U.S., which were not benefited, (2) the mix of earnings from operations in certain lower-taxed jurisdictions outside the U.S., (3) non-U.S. tax benefits of \$8 million associated with restructuring costs and asset impairments, and (4) discrete tax benefits of \$9 million relating primarily to tax rate changes, impacts from ongoing tax audits with respect to open tax years, and other property sales gains/losses.

For the nine months ended September 30, 2007, the Company recorded a benefit of \$64 million on a pre-tax loss of \$356 million, representing an effective rate of 18.0%. The difference between the effective tax rate and the U.S. statutory rate of 35.0% is primarily attributable to: (1) losses generated in certain jurisdictions outside the U.S., which were not benefited, (2) the mix of earnings from operations in certain lower-taxed jurisdictions outside the U.S., (3) non-U.S. tax benefits of \$42 million associated with restructuring costs and asset impairments, (4) a net benefit of \$75 million associated with adjustments related to uncertain tax positions, and (5) a tax provision of \$13 million associated with the impact of foreign legislative tax rate changes.

For the nine months ended September 30, 2006, the Company recorded a provision of \$99 million on a pre-tax loss of \$685 million, representing an effective rate of (14.5)%. The difference between the effective tax rate and the U.S. statutory rate of 35.0% is primarily attributable to: (1) losses generated within the U.S. and in certain jurisdictions outside the U.S., which were not benefited and (2) the mix of earnings from operations in certain lower-taxed jurisdictions outside the U.S., (3) non-U.S. tax benefits of \$64 million associated with restructuring costs and asset impairments, and (4) discrete tax charges of \$44 million relating primarily to purchase accounting for the Creo and KPG acquisitions, tax rate changes, impacts from ongoing tax audits with respect to open tax years, and other property sales gains/losses.

During the second quarter of 2007 the Company identified a deferred tax asset in a recently acquired non-U.S. subsidiary that was overstated at the date of acquisition. Therefore, the Company recorded an increase in the value of goodwill of \$24 million in the second quarter of 2007 to appropriately reflect the proper goodwill balance. The Company also recorded a valuation allowance of \$20 million, which should have been recorded in 2006, in order to properly reflect the value of the net deferred tax asset. This amount is included in the \$64 million benefit for the nine months ended September 30, 2007. The Company has determined that this correction is not material to the three- or nine-month periods ended September 30, 2007 or to any prior period financial statement amounts.

PAGE 12

The Company adopted FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" (FIN 48) in the first quarter of 2007. As a result of the implementation of FIN 48, there was no cumulative effect adjustment for unrecognized tax benefits, which would have been accounted for as an adjustment to the January 1, 2007 balance of retained earnings. The Company had a liability for income taxes associated with uncertain tax benefits, including interest and penalties, of \$301 million, \$324 million and \$323 million as of September 30, 2007, June 30, 2007 and March 31, 2007, respectively. For the third quarter of 2007, the decline in the liability for income taxes associated with uncertain tax benefits of \$23 million relates to a \$20 million decrease as the result of the

closure of a foreign jurisdiction audit for tax years 1999 through 2001, and a net decrease of \$3 million related to various worldwide tax positions, including interest and payments.

If the unrecognized tax benefits were recognized, they would favorably affect the effective income tax rate for the remainder of 2007 or in any future periods. Consistent with the provisions of FIN 48, the Company has classified certain income tax liabilities as current or non-current based on management's estimate of when these liabilities will be settled and has reclassified these items in the Consolidated Statement of Financial Position as of December 31, 2006 to conform to the current period presentation. These non-current income tax liabilities are recorded in Other long-term liabilities in the Consolidated Statement of Financial Position.

It is reasonably possible that the liability associated with our unrecognized tax benefits will increase or decrease within the next twelve months. These changes may be the result of ongoing audits or the expiration of statutes of limitations. At this time, an estimate of the range of the reasonably possible outcomes cannot be made.

The Company files numerous consolidated and separate income tax returns in the U.S. federal jurisdiction and in many state and foreign jurisdictions. The Company has substantially concluded all U.S. federal income tax matters for years through 2000. The Company's U.S. tax matters for the years 2001 through 2006 remain subject to examination by the Internal Revenue Service. Substantially all material state, local, and foreign income tax matters have been concluded for years through 1998. The Company's tax matters for the years 1999 through 2006 remain subject to examination by the respective state, local, and foreign tax jurisdiction authorities.

As previously reported, on October 3, 2006, the Company filed a claim for a federal tax refund related to a 1994 loss recognized on the sale of a subsidiary's stock that was disallowed at that time under Internal Revenue Service regulations. Since that time, the IRS has issued new regulations that serve as the basis for this refund claim. At September 30, 2007, the Company anticipates that this claim will be brought to the Joint Committee of Taxation for review during the fourth quarter of 2007. Based on information available at this time, and in accordance with FIN 48, the Company has not recorded a tax benefit due to the uncertainty of the resolution and the amount associated with the claim.

The Company's policy regarding interest and/or penalties related to income tax matters is to recognize such items as a component of income tax expense. As of the adoption of FIN 48, the Company had \$58 million accrued for income tax-related interest and penalties.

## **NOTE 7: COMMITMENTS AND CONTINGENCIES**

### **Environmental**

At September 30, 2007, the Company's undiscounted accrued liabilities for environmental remediation costs amounted to \$140 million and are reported in other long-term liabilities in the accompanying Consolidated Statement of Financial Position. Included in this amount are the items described below.

The Company is currently implementing a Corrective Action Program required by the Resource Conservation and Recovery Act (RCRA) at the Kodak Park site in Rochester, NY. The Company is currently in the process of completing, and in many cases has completed, RCRA Facility Investigations (RFI), Corrective Measures Studies (CMS) and Corrective Measures Implementation (CMI) for areas at the site. At September 30, 2007, estimated future investigation and remediation costs of \$64 million are accrued for this site, the majority of which relates to long-term operation, maintenance of remediation systems and monitoring costs.

PAGE 13

The Company has accrued for obligations relating to other operating sites with estimated future investigation, remediation and monitoring costs of \$19 million.

The Company has obligations relating to plant closures and former operations. The Company has accrued for obligations with estimated future investigation, remediation and monitoring costs of \$37 million at sites of former operations.

The Company has retained certain obligations for environmental remediation and Superfund matters related to certain sites associated with the non-imaging health businesses sold in 1994. The Company has accrued for

obligations with estimated future remediation costs of \$20 million for these sites.

Cash expenditures for the aforementioned investigation, remediation and monitoring activities are expected to be incurred over the next twenty-eight years for many 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 2137-01, "Standard Guide for Estimating Monetary Costs and Liabilities for Environmental Matters," and have not been reduced by possible recoveries from third parties. The overall method includes the use of a probabilistic model which forecasts a range of cost estimates for the remediation required at individual sites. The projects are closely monitored and the models are reviewed as significant events occur or at least once per year. The Company's estimate includes investigations, equipment and operating costs for remediation and long-term monitoring of the sites. The Company does not believe it is reasonably possible that the losses for the known exposures could exceed the current accruals by material amounts.

A Consent Decree was signed in 1994 in settlement of a civil complaint brought by the U.S. Environmental Protection Agency and the U.S. Department of Justice. In connection with the Consent Decree, the Company is subject to a Compliance Schedule, under which the Company has improved its waste characterization procedures, upgraded one of its incinerators, and is evaluating and upgrading its industrial sewer system. The total expenditures required to complete this program are currently estimated to be approximately \$1 million over the next year. These expenditures are incurred as part of plant operations and, therefore, are not included in the environmental accrual at September 30, 2007.

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 nine 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.

Uncertainties associated with environmental remediation contingencies are pervasive and often result in wide ranges of outcomes. Estimates developed in the early stages of remediation can vary significantly. A finite estimate of costs does not normally become fixed and determinable at a specific time. Rather, the costs associated with environmental remediation become estimable over a continuum of events and activities that help to frame and define a liability, and the Company continually updates its cost estimates. The Company has an ongoing monitoring and identification process to assess how the activities, with respect to the known exposures, are progressing against the accrued cost estimates, as well as to identify other potential remediation issues.

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.

PAGE 14

### **Asset Retirement Obligations**

As of September 30, 2007, the Company has recorded \$71 million of asset retirement obligations within Other long-term liabilities in the accompanying Consolidated Statement of Financial Position.

The Company's asset retirement obligations primarily relate to asbestos contained in buildings that the Company owns. 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 change in the Company's asset retirement obligations from December 31, 2006 to September 30, 2007 was as follows:

|   |       |
|---|-------|
| <b>(in millions)</b>                                  |       |
| Asset retirement obligations as of December 31, 2006  | \$ 92 |
| Liabilities incurred in the current period            | 3     |
| Liabilities settled in the current period             | (36)  |
| Accretion expense                                     | 3     |
| Revisions in estimated cash flows                     | 7     |
| Foreign exchange                                      | 2     |
| Asset retirement obligations as of September 30, 2007 | \$ 71 |

### Other Commitments and Contingencies

At September 30, 2007, the Company had outstanding letters of credit totaling \$143 million and surety bonds in the amount of \$85 million primarily to ensure the payment of possible casualty and workers' compensation claims.

The Company and its subsidiary companies are involved in various lawsuits, claims, investigations and proceedings, including product liability, commercial, 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 claims and legal proceedings concerning intellectual property matters, including patent infringement suits in which the Company is a defendant, and suits in which the Company is the plaintiff. There are no such matters pending representing contingent losses that the Company and its General Counsel expect to be material in relation to the Company's business, financial position, results of operations or cash flows.

PAGE 15

### 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. At September 30, 2007, the following customer guarantees were in place:

| <b>(dollars in millions)</b>                            | <b>As of September 30, 2007</b> |                               |
|---|---------------------------------|-------------------------------|
|   | <b>Maximum<br/>Amount</b>       | <b>Amount<br/>Outstanding</b> |
| Customer amounts due to banks and leasing companies     | \$ 151                          | \$ 110                        |
| Other third-parties                                     | 2                               | □                             |
| Total guarantees of customer debt and other obligations | \$ 153                          | \$ 110                        |

The guarantees for the third party debt mature between 2007 and 2011. 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.

Management believes the likelihood is remote that material payments will be required under any of the guarantees disclosed above. With respect to the guarantees that the Company issued in the quarter ended September 30, 2007, 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.

The Company also guarantees debt owed to banks and other third parties for some of its consolidated subsidiaries. The maximum amount guaranteed is \$666 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 \$239 million. These guarantees expire in 2007 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 and other obligations of the Company and its subsidiaries to the \$2.7 billion Secured Credit Facilities lenders are guaranteed.

## 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, 2007 was not material to the Company's financial position, results of operations or cash flows.

PAGE 16

## 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 at December 31, 2006  | \$ | 39   |
| Actual warranty experience during 2007             |    | (35) |
| 2007 warranty provisions                           |    | 31   |
| Accrued warranty obligations at September 30, 2007 | \$ | 35   |

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 presentation below. Costs incurred under these arrangements for the nine months ended September 30, 2007 amounted to \$131 million. The change in the Company's deferred revenue balance in relation to these extended warranty arrangements from December 31, 2006 to September 30, 2007, 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 at December 31, 2006                        | \$ | 143   |
| New extended warranty arrangements in 2007                   |    | 292   |
| Recognition of extended warranty arrangement revenue in 2007 |    | (280) |

|   |        |
|---|--------|
| Adjustments for changes in estimate in 2007 | (1)    |
| Deferred revenue at September 30, 2007      | \$ 154 |

**NOTE 9: RESTRUCTURING COSTS AND OTHER**

The Company has undertaken a cost reduction program that was initially announced in January 2004. This program is referred to as the "2004-2007 Restructuring Program." This program was expected to result in total charges of \$1.3 billion to \$1.7 billion over a three-year period ending in 2006, of which \$700 million to \$900 million related to severance, with the remainder relating to the disposal of buildings and equipment. Overall, Kodak's worldwide facility square footage was expected to be reduced by approximately one-third. Approximately 12,000 to 15,000 positions worldwide were expected to be eliminated through these actions primarily in global manufacturing, selected traditional businesses and corporate administration.

The Company subsequently expanded the program to extend into 2007 and increased the expected employment reductions to 28,000 to 30,000 positions and total charges to \$3.6 billion to \$3.8 billion. The Company now expects that the total employment reductions will be in the range of 27,000 to 28,000 positions and total charges will be in the range of \$3.4 billion to \$3.6 billion. These new estimates reflect greater efficiencies in manufacturing infrastructure projects as well as the Company's ability to outsource or sell certain operations, which reduces involuntary severance charges.

The aforementioned 2004-2007 Restructuring Program underpins a dramatic transformation of the Company focused on two primary elements of cost restructuring: manufacturing infrastructure and operating expense rationalization. As this four-year effort has progressed, the underlying business model necessarily has evolved, requiring broader and more costly manufacturing infrastructure reductions (primarily non-cash charges) than originally anticipated, as well as similarly broader rationalization of selling, administrative and other business resources (primarily severance charges). In addition, the recent divestiture of the Health Group has further increased the amount of reductions necessary to appropriately scale the Corporate infrastructure.

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

PAGE 17

**Restructuring Programs Summary**

The activity in the accrued restructuring balances and the non-cash charges incurred in relation to all of the Company's restructuring programs were as follows for the third quarter of 2007:

|   | Balance<br>June<br>30,<br>2007 | Costs<br>Incurred<br>(1) | Reversals | Cash<br>Payments<br>(2) | Non-cash<br>Settlements | Other<br>Adjustments<br>and<br>Reclasses<br>(3) | Balance<br>Sept.<br>30,<br>2007 |
|---|--------------------------------|--------------------------|-----------|-------------------------|-------------------------|---|---------------------------------|
| <b>(in millions)</b>                                      |                                |                          |           |                         |                         |   |                                 |
| <b>2004-2007 Restructuring Program:</b>                   |                                |                          |           |                         |                         |   |                                 |
| Severance reserve   | \$ 173                         | \$ 59                    | \$ (1)    | \$ (62)                 | \$ □                    | \$ (6)  | \$ 163                          |
| Exit costs reserve  | 24                             | 38                       | □         | (40)                    | □                       | 2   | 24                              |
| Total reserve   | \$ 197                         | \$ 97                    | \$ (1)    | \$ (102)                | \$ □                    | \$ (4)  | \$ 187                          |
| Long-lived asset impairments and<br>inventory write-downs | \$ □                           | \$ 10                    | \$ □      | \$ □                    | \$ (10)                 | \$ □  | \$ □                            |
| Accelerated depreciation                                  | \$ □                           | \$ 23                    | \$ □      | \$ □                    | \$ (23)                 | \$ □  | \$ □                            |
| <b>Pre-2004 Restructuring Programs:</b>                   |                                |                          |           |                         |                         |   |                                 |
| Severance reserve   | \$ □                           | \$ □                     | \$ □      | \$ □                    | \$ □                    | \$ □  | \$ □                            |
| Exit costs reserve  | 6                              | □                        | □         | (1)                     | □                       | 1   | 6                               |



|                                     |        |        |        |          |         |        |        |
|-------------------------------------|--------|--------|--------|----------|---------|--------|--------|
| Total reserve                       | \$ 6   | \$ □   | \$ □   | \$ (1)   | \$ □    | \$ 1   | \$ 6   |
| Total of all restructuring programs | \$ 203 | \$ 130 | \$ (1) | \$ (103) | \$ (33) | \$ (3) | \$ 193 |

- (1) The costs incurred include both continuing operations of \$128 million and discontinued operations of \$2 million.
- (2) During the three months ended September 30, 2007, the Company paid approximately \$110 million related to restructuring. Of this total amount, \$103 million was recorded against restructuring reserves, while \$7 million was recorded against pension and other postretirement liabilities.
- (3) The total restructuring charges of \$130 million include pension and other postretirement charges and credits for curtailments, settlements and special termination benefits. However, because the impact of these charges and credits relate to the accounting for pensions and other postretirement benefits, the related impacts on the Consolidated Statement of Financial Position are reflected in their respective components as opposed to within the accrued restructuring balances at September 30, 2007. Accordingly, the Other Adjustments and Reclasses column of the table above includes (1) reclassifications to Other long-term assets and Pension and other postretirement liabilities for the position elimination-related impacts on the Company's pension and other postretirement employee benefit plan arrangements, including net curtailment, settlement and special termination charges of (\$11) million, and (2) reclassifications to Other long-term liabilities for the restructuring-related impacts on the Company's environmental remediation liabilities of \$1 million. Additionally, the Other Adjustments and Reclasses column of the table above includes foreign currency translation of \$7 million.

The costs incurred, net of reversals, which total \$129 million for the three months ended September 30, 2007, include \$23 million and \$4 million of charges related to accelerated depreciation and inventory write-downs that were reported in cost of goods sold in the accompanying Consolidated Statement of Operations for the three months ended September 30, 2007. Of the remaining costs incurred, net of reversals, \$2 million was included in discontinued operations and \$100 million was reported as restructuring costs and other in the accompanying Consolidated Statement of Operations for the three months ended September 30, 2007. The severance costs and exit costs require the outlay of cash, while long-lived asset impairments, accelerated depreciation and inventory write-downs represent non-cash items.

PAGE 18

### 2004-2007 Restructuring Program Activity

The Company implemented certain actions under the program during the third quarter of 2007. As a result of these actions, the Company recorded charges, net of reversals, of \$129 million in the third quarter of 2007, which were composed of severance, long-lived asset impairments, exit costs, inventory write-downs, and accelerated depreciation of \$58 million, \$6 million, \$38 million, \$4 million, and \$23 million, respectively. Included in these amounts, \$2 million of exit costs are presented as discontinued operations. The severance costs related to the elimination of approximately 1,425 positions, including approximately 100 photofinishing, 1,025 manufacturing, 50 research and development and 250 administrative positions. The geographic composition of the positions to be eliminated includes approximately 775 in the United States and Canada and 650 throughout the rest of the world. The reduction of the 1,425 positions and the \$129 million charges, net of reversals, are reflected in the 2004-2007 Restructuring Program table below. The \$6 million charge in the third quarter for long-lived asset impairments was included in restructuring costs and other in the accompanying Consolidated Statement of Operations for the three months ended September 30, 2007. The charges taken for inventory write-downs of \$4 million were reported in cost of goods sold in the accompanying Consolidated Statement of Operations for the three months ended September 30, 2007.



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As a result of initiatives implemented under the 2004-2007 Restructuring Program, the Company also recorded \$23 million of accelerated depreciation on long-lived assets in cost of goods sold in the accompanying Consolidated Statement of Operations for the three months ended September 30, 2007. The accelerated depreciation relates to long-lived assets accounted for under the held and used model of SFAS No. 144. The total amount of \$23 million relates to \$22 million of manufacturing facilities and equipment, and \$1 million of photofinishing facilities that will be used until their abandonment. The Company will incur approximately \$2 million of accelerated depreciation in the fourth quarter of 2007 as a result of the initiatives already implemented under the 2004-2007 Restructuring Program.

In April 2007, the Company entered into an agreement to sell its manufacturing site in Xiamen, China. This sale closed in the second quarter of 2007 and resulted in a non-cash charge of approximately \$238 million. This action is part of the 2004-2007 Restructuring Program.

Under this program, on a life-to-date basis as of September 30, 2007, the Company has recorded charges of \$3,329 million, which was composed of severance, long-lived asset impairments, exit costs, inventory write-downs and accelerated depreciation of \$1,381 million, \$617 million, \$342 million, \$79 million and \$931 million, respectively, less reversals of \$21 million. The severance costs related to the elimination of approximately 27,025 positions, including approximately 6,525 photofinishing, 12,975 manufacturing, 1,500 research and development and 6,025 administrative positions.

PAGE 19

The following table summarizes the activity with respect to the charges recorded in connection with the focused cost reduction actions that the Company has committed to under the 2004-2007 Restructuring Program and the remaining balances in the related reserves at September 30, 2007:

| (dollars in millions)                     | Number of<br>Employees | Severance<br>Reserve | Exit<br>Costs<br>Reserve | Total  | Long-lived<br>Asset<br>Impairments<br>and<br>Inventory Accelerated<br>Write-downs Depreciation |              |
|---|------------------------|----------------------|--------------------------|--------|--|--------------|
|   |                        |                      |                          |        | Write-downs  | Depreciation |
| 2004 charges - continuing operations      | 8,975                  | \$ 405               | \$ 95                    | \$ 500 | \$ 156   | \$ 152       |
| 2004 charges - discontinued operations    | 650                    | 13                   | 4                        | 17     | 1  | □            |
| 2004 reversals - continuing operations    | □                      | (6)                  | (1)                      | (7)    | □  | □            |
| 2004 utilization                          | (5,175)                | (169)                | (47)                     | (216)  | (157)  | (152)        |
| 2004 other adj. & reclasses               | □                      | 24                   | (15)                     | 9      | □  | □            |
| Balance at 12/31/04                       | 4,450                  | 267                  | 36                       | 303    | □  | □            |
| 2005 charges - continuing operations      | 7,850                  | 472                  | 82                       | 554    | 160  | 391          |
| 2005 charges - discontinued operations    | 275                    | 25                   | 2                        | 27     | 1  | □            |
| 2005 reversals - continuing operations    | □                      | (3)                  | (6)                      | (9)    | □  | □            |
| 2005 utilization                          | (10,225)               | (377)                | (95)                     | (472)  | (161)  | (391)        |
| 2005 other adj. & reclasses               | □                      | (113)                | 4                        | (109)  | □  | □            |
| Balance at 12/31/05                       | 2,350                  | 271                  | 23                       | 294    | □  | □            |
| 2006 charges - continuing operations      | 5,150                  | 266                  | 66                       | 332    | 97   | 273          |
| 2006 charges - discontinued operations    | 475                    | 52                   | 3                        | 55     | 3  | 12           |
| 2006 reversals - continuing operations    | □                      | (3)                  | (1)                      | (4)    | □  | □            |
| 2006 utilization                          | (5,700)                | (416)                | (67)                     | (483)  | (100)  | (285)        |
| 2006 other adj. & reclasses               | □                      | 58                   | □                        | 58     | □  | □            |
| Balance at 12/31/06                       | 2,275                  | 228                  | 24                       | 252    | □  | □            |
| Q1 2007 charges - continuing operations   | 1,075                  | 53                   | 22                       | 75     | 11   | 65           |
| Q1 2007 charges - discontinued operations | 50                     | 17                   | □                        | 17     | □  | □            |
| Q1 2007 utilization                       | (1,000)                | (84)                 | (20)                     | (104)  | (11)   | (65)         |
| Q1 2007 other adj. & reclasses            | □                      | (18)                 | □                        | (18)   | □  | □            |
| Balance at 3/31/07                        | 2,400                  | 196                  | 26                       | 222    | □  | □            |

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|   |         |        |       |        |       |      |
|---|---------|--------|-------|--------|-------|------|
| Q2 2007 charges - continuing operations   | 1,100   | 16     | 28    | 44     | 257   | 15   |
| Q2 2007 charges - discontinued operations | □       | 3      | 2     | 5      | □     | □    |
| Q2 2007 utilization                       | (1,250) | (83)   | (32)  | (115)  | (257) | (15) |
| Q2 2007 other adj. & reclasses            | □       | 41     | □     | 41     | □     | □    |
| Balance at 6/30/07                        | 2,250   | 173    | 24    | 197    | □     | □    |
| Q3 2007 charges - continuing operations   | 1,425   | 59     | 36    | 95     | 10    | 23   |
| Q3 2007 charges - discontinued operations | □       | □      | 2     | 2      | □     | □    |
| Q3 2007 reversals - continuing operations | □       | (1)    | □     | (1)    | □     | □    |
| Q3 2007 utilization                       | (1,000) | (62)   | (40)  | (102)  | (10)  | (23) |
| Q3 2007 other adj. & reclasses            | □       | (6)    | 2     | (4)    | □     | □    |
| Balance at 9/30/07                        | 2,675   | \$ 163 | \$ 24 | \$ 187 | \$ □  | \$ □ |

As a result of the initiatives already implemented under the 2004-2007 Restructuring Program, severance payments will be paid during periods through 2008 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. Most exit costs have been paid or will be paid during 2007. However, certain costs, such as long-term lease payments, will be paid over periods after 2007.

PAGE 20

The charges of \$130 million recorded in the third quarter of 2007 included \$28 million applicable to FPG, \$19 million applicable to CDG, \$7 million applicable to GCG, and \$74 million that was applicable to manufacturing, research and development, and administrative functions, which are shared across all segments. The remaining \$2 million was applicable to discontinued operations.

### Pre-2004 Restructuring Programs Activity

At September 30, 2007, the Company had remaining exit costs reserves of \$6 million, relating to restructuring plans committed to or executed prior to 2004. Most of these remaining exit costs reserves represent long-term lease payments, which will continue to be paid over periods throughout and after 2007.

### 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, |          |       |          |
|--|----------------------------------|----------|-------|----------|---------------------------------|----------|-------|----------|
|  | 2007                             |          | 2006  |          | 2007                            |          | 2006  |          |
|  | U.S.                             | Non-U.S. | U.S.  | Non-U.S. | U.S.                            | Non-U.S. | U.S.  | Non-U.S. |
| Service cost   | \$ 16                            | \$ 6     | \$ 22 | \$ 8     | \$ 55                           | \$ 20    | \$ 68 | \$       |
| Interest cost  | 74                               | 52       | 82    | 46       | 232                             | 150      | 246   |          |
| Expected return on plan assets   | (133)                            | (65)     | (131) | (57)     | (405)                           | (187)    | (391) | (        |
| Amortization of:   |                                  |          |       |          |                                 |          |       |          |
| Prior service cost   | □                                | □        |       | 2        | □                               |          | □     |          |
| Recognized net actuarial loss  | 2                                | 14       | 2     | 17       | 5                               | 48       | 8     |          |
| Pension (income) expense before special termination benefits, curtailments and settlements | (41)                             | 7        | (25)  | 16       | (113)                           | 31       | (69)  |          |
| Special termination benefits   | 17                               | □        |       | 8        | 45                              | 7        | □     |          |
| Curtailment (gains) losses   | □                                | □        | (13)  | (6)      | (15)                            | (3)      | (20)  |          |
| Settlement (gains) losses  | (7)                              | □        | 5     | □        | (45)                            | (4)      | 13    |          |
| Net pension (income) expense   | (31)                             | 7        | (33)  | 18       | (128)                           | 31       | (76)  |          |
| Other plans including unfunded plans   | □                                | 5        |       | 5        | □                               | 8        | □     |          |

|   |    |      |    |    |    |      |    |    |    |       |    |    |    |      |    |
|---|----|------|----|----|----|------|----|----|----|-------|----|----|----|------|----|
| Total net pension (income) expense from continuing operations | \$ | (31) | \$ | 12 | \$ | (33) | \$ | 23 | \$ | (128) | \$ | 39 | \$ | (76) | \$ |
|---|----|------|----|----|----|------|----|----|----|-------|----|----|----|------|----|

For the quarters ended September 30, 2007 and 2006, \$17 million and \$8 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. Additionally, as a result of the Company's restructuring actions, the Company recognized net curtailment and settlement gains of \$7 million that have been included in restructuring costs and other in the Consolidated Statement of Operations for the quarter ended September 30, 2007.

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 2007. 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 2007 to be approximately \$39 million.

PAGE 21

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:

| (in millions)  | Three Months Ended<br>September 30, |       | Nine Months Ended<br>September 30, |        |
|--|-------------------------------------|-------|------------------------------------|--------|
|  | 2007                                | 2006  | 2007                               | 2006   |
| Service cost   | \$ 2                                | \$ 2  | \$ 6                               | \$ 8   |
| Interest cost  | 41                                  | 43    | 123                                | 125    |
| Amortization of:   |                                     |       |                                    |        |
| Prior service cost   | (8)                                 | (11)  | (28)                               | (35)   |
| Actuarial loss   | 11                                  | 10    | 38                                 | 38     |
| Other postretirement benefit cost before curtailment and settlement (gains) losses | 46                                  | 44    | 139                                | 136    |
| Curtailment gain   |                                     | (4)   | (5)                                | (8)    |
| Total net postretirement benefit cost  | \$ 46                               | \$ 40 | \$ 134                             | \$ 128 |

The Company paid benefits totaling approximately \$42 million relating to its U.S., United Kingdom and Canada postretirement benefit plans in the third quarter of 2007. The Company expects to pay benefits of \$51 million for these postretirement plans for the balance of 2007.

As a result of the cumulative impact of the ongoing position eliminations under its Pre-2004 and 2004-2007 Restructuring Programs, as disclosed in Note 9, certain of the Company's retirement plans experienced curtailment events in the third quarter of 2007. These curtailment events resulted in the remeasurement of the plans' obligations during the quarter, which decreased the Company's recognized retirement and other postretirement benefit plan obligation by \$133 million.

#### NOTE 11: EARNINGS PER SHARE

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 common stock at weighted average per share prices of \$42.91. 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 the period.

As a result of the net loss from continuing operations presented for the nine months ended September 30, 2007, the Company calculated diluted net earnings (loss) per share using weighted average basic shares outstanding for the period, as utilizing diluted shares would be anti-dilutive to net earnings (loss) per share. Therefore, outstanding options to purchase 29.8 million shares of the Company's common stock were excluded in the computation of diluted net earnings (loss) per share for the nine months ended September 30, 2007.

As a result of the net loss from continuing operations presented for the three and nine months ended September 30, 2006, the Company calculated diluted net earnings (loss) per share using weighted average basic shares outstanding for the period, as utilizing diluted shares would be anti-dilutive to loss per share. Therefore, outstanding options to purchase 33.8 million shares of the Company's common stock were not included in the computation of diluted net earnings (loss) per share for the three and nine months ended September 30, 2006.

The Company currently has approximately \$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. 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 (loss) per share exclude the effect of the Convertible Securities, as they were anti-dilutive for all periods presented.

PAGE 22

## 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, 2007 and December 31, 2006. Treasury stock at cost consists of approximately 103 million shares at September 30, 2007 and 104 million shares at December 31, 2006.

## NOTE 13: COMPREHENSIVE INCOME (LOSS)

| (in millions)   | Three Months Ended<br>September 30, |         | Nine Months Ended<br>September 30, |          |
|---|-------------------------------------|---------|------------------------------------|----------|
|   | 2007                                | 2006    | 2007                               | 2006     |
| Net earnings (loss)   | \$ 37                               | \$ (37) | \$ 461                             | \$ (617) |
| Unrealized gains on available-for-sale securities, net of tax     | □                                   | 4       |                                    | 6        |
| Realized and unrealized gains from hedging activity, net of tax   | 7                                   |         | 7                                  | 1        |
| Currency translation adjustments                                  | 53                                  | 30      | 87                                 | 54       |
| Pension and other postretirement benefit plan obligation activity | 81                                  | (60)    | 770                                | 146      |
| Total comprehensive income (loss), net of tax                     | \$ 178                              | \$ (63) | \$ 1,325                           | \$ (410) |

## NOTE 14: SEGMENT INFORMATION

### Kodak Operating Model and Reporting Structure

The Company has three reportable segments: Consumer Digital Imaging Group (CDG), Film Products Group (FPG), 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 capture, kiosks, snapshot printing, consumer imaging services, photographic paper, photofinishing services, consumer inkjet printing and imaging sensors. This segment provides consumers and professionals with a full range of products and services

for capturing, storing, printing and sharing images. CDG also includes the licensing activities related to the Company's intellectual property in digital capture products.

**Film Products Group Segment (FPG):** FPG encompasses consumer and professional film, one-time-use cameras, aerial and industrial film, and entertainment imaging products and services. This segment provides consumers, professionals, cinematographers, and other entertainment imaging customers with film-related products and services.

**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 IT services. Products and related services include workflow software and digital controller development; 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.

PAGE 23

Prior period segment results have been revised to conform to the current period segment reporting structure.

Segment financial information is shown below:

| (in millions)  | Three Months Ended<br>September 30, |          | Nine Months Ended<br>September 30, |                            |
|--|-------------------------------------|----------|------------------------------------|----------------------------|
|  | 2007                                | 2006     | 2007                               | 2006                       |
| <b>Net sales from continuing operations:</b>   |                                     |          |                                    |                            |
| Consumer Digital Imaging Group   | \$ 1,123                            | \$ 1,109 | \$ 2,901                           | \$ 2,881                   |
| Film Products Group  | 488                                 | 593      | 1,505                              | 1,505                      |
| Graphic Communications Group   | 928                                 | 880      | 2,721                              | 2,721                      |
| All Other  | 42                                  | 13       | 83                                 | 13                         |
| Consolidated total   | \$ 2,581                            | \$ 2,595 | \$ 7,210                           | \$ 7,120                   |
| <b>Earnings (loss) from continuing operations before interest, other income (charges), net and income taxes:</b> |                                     |          |                                    |                            |
| Consumer Digital Imaging Group   | \$ 10                               | \$ (3)   | \$ (168)                           | \$ (168)                   |
| Film Products Group  | 122                                 | 115      | 329                                | 329                        |
| Graphic Communications Group   | 42                                  | 26       | 95                                 | 95                         |
| All Other  | (9)                                 | (16)     | (30)                               | (30)                       |
| Total of segments  | 165                                 | 122      | 226                                | 226                        |
| Restructuring costs and other  | (127)                               | (181)    | (594)                              | (594)                      |
| Other operating income (expenses), net   | (6)                                 | 48       | 33                                 | 33                         |
| Legal reserve/settlement   | (12)                                | □        | (12)                               | □                          |
| Interest expense   | (28)                                | (51)     | (84)                               | (84)                       |
| Other income (charges), net  | 37                                  | 9        | 75                                 | 75                         |
| Consolidated earnings (loss) from continuing operations before income taxes                                      | \$ 29                               | \$ (53)  | \$ (356)                           | \$ (356)                   |
|  |                                     |          |                                    |                            |
|  |                                     |          | At<br>September 30,<br>2007        | At<br>December 31,<br>2006 |
| (in millions)  |                                     |          |                                    |                            |

**Segment total assets:**

|                                 |    |        |    |    |
|---------------------------------|----|--------|----|----|
| Consumer Digital Imaging Group  | \$ | 3,465  | \$ | 3  |
| Film Products Group             |    | 2,845  |    | 3  |
| Graphic Communications Group    |    | 4,024  |    | 3  |
| All Other                       |    | 72     |    |    |
| Total of segments               |    | 10,406 |    | 10 |
| Cash and marketable securities  |    | 1,876  |    | 1  |
| Deferred income tax assets      |    | 650    |    |    |
| Other corporate assets/reserves |    | (1)    |    |    |
| Assets held for sale            |    | □      |    | 1  |
| Consolidated total assets       | \$ | 12,931 | \$ | 14 |

PAGE 24

**NOTE 15: DISCONTINUED OPERATIONS**

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. If Onex investors realize an internal rate of return in excess of 25% on their investment, the Company will receive payment equal to 25% of the excess return, up to \$200 million.

The Company recognized a pre-tax gain of \$980 million on the sale 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 excludes the following: up to \$200 million of potential future payments related to Onex's return on its investment as noted above; potential charges 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 used a portion of the initial \$2.35 billion cash proceeds to fully repay its approximately \$1.15 billion of Secured Term Debt. About 8,100 employees of the Company associated with the Health Group transitioned to Carestream Health, Inc. as part of the transaction. Also included in the sale were manufacturing operations focused on the production of health imaging products, as well as an office building in Rochester, NY.

The following is a summary of the composition of Earnings from discontinued operations, net of income taxes, included in the Consolidated Statement of Operations:

| (in millions)  | Three Months Ended<br>September 30, |        | Nine Months Ended<br>September 30, |          |
|--|-------------------------------------|--------|------------------------------------|----------|
|  | 2007                                | 2006   | 2007                               | 2006     |
| Revenues from Health Group operations (1)                  | \$ □                                | \$ 609 | \$ 754                             | \$ 1,878 |
| Pre-tax income from Health Group operations                | \$ □                                | \$ 35  | \$ 34                              | \$ 141   |
| Pre-tax gain on sale of Health Group segment               | 6                                   | □      | 986                                | □        |
| Provision (benefit) for income taxes                       | 3                                   | (11)   | 267                                | (26)     |
| Earnings from discontinued operations, net of income taxes | \$ 3                                | \$ 46  | \$ 753                             | \$ 167   |

(1) Due to the April 30, 2007 close date, 2007 amounts include four months of revenue in the nine months ended September 30, 2007.

Upon authorization of the Company's Board of Directors on January 8, 2007, the Company met all the requirements of SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," for accounting for the Health Group segment as a discontinued operation. As such, the Health Group business ceased depreciation and amortization of long-lived assets. In accordance with EITF No. 87-24, "Allocation of Interest to

Discontinued Operations," the Company allocated certain interest expense on debt that was required to be repaid as a result of the sale. Interest expense allocated to discontinued operations totaled \$23 million for the three months ended September 30, 2006, and \$30 million and \$67 million for the nine months ended September 30, 2007 and 2006, respectively.

In accordance with SFAS No. 109, "Accounting for Income Taxes," 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.

The following assets and liabilities, related to the Health Group business, were segregated and included in current and non-current Assets of discontinued operations and Liabilities of discontinued operations, as appropriate, in the Consolidated Statement of Financial Position at December 31, 2006.

PAGE 25

|   | December<br>31,<br>2006 |
|---|-------------------------|
| (in millions)                                     |                         |
| Receivables, net                                  | \$ 598                  |
| Inventories, net                                  | 201                     |
| Other current assets                              | 12                      |
| Current assets of discontinued operations         | \$ 811                  |
| Property, plant and equipment, net                | \$ 240                  |
| Goodwill  | 612                     |
| Other long-term assets                            | 216                     |
| Noncurrent assets of discontinued operations      | \$ 1,068                |
| Current liabilities of discontinued operations    | \$ 431                  |
| Pension and other postretirement liabilities      | \$ 30                   |
| Other long-term liabilities                       | 10                      |
| Noncurrent liabilities of discontinued operations | \$ 40                   |

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

### Kodak Operating Model and Reporting Structure

The Company has three reportable segments: Consumer Digital Imaging Group (CDG), Film Products Group (FPG), 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 capture, kiosks, snapshot printing, consumer imaging services, photographic paper, photofinishing services, consumer inkjet printing and imaging sensors. This segment provides consumers and professionals with a full range of products and services for capturing, storing, printing and sharing images. CDG also includes the licensing activities related to the Company's intellectual property in digital capture products.

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**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 IT services. Products and related services include workflow software and digital controller development; 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.

Prior period segment results have been revised to conform to the current period segment reporting structure.

PAGE 26

### Net Sales from Continuing Operations by Reportable Segment and All Other

| (in millions)                               | Three Months Ended September 30, |                 |              |                          | Nine Months Ended September 30, |                 |             |                          |
|---|----------------------------------|-----------------|--------------|--------------------------|---------------------------------|-----------------|-------------|--------------------------|
|   | 2007                             | 2006            | Change       | Foreign Currency Impact* | 2007                            | 2006            | Change      | Foreign Currency Impact* |
| <b>Consumer Digital Imaging Group</b>       |                                  |                 |              |                          |                                 |                 |             |                          |
| Inside the U.S.                             | \$ 597                           | \$ 579          | 3%           | 0%                       | \$ 1,498                        | \$ 1,569        | -5%         | -1%                      |
| Outside the U.S.                            | 526                              | 530             | -1%          | +5%                      | 1,403                           | 1,547           | -9%         | -1%                      |
| <b>Total Consumer Digital Imaging Group</b> | <b>1,123</b>                     | <b>1,109</b>    | <b>+1%</b>   | <b>+2%</b>               | <b>2,901</b>                    | <b>3,116</b>    | <b>-7%</b>  | <b>-2%</b>               |
| <b>Film Products Group</b>                  |                                  |                 |              |                          |                                 |                 |             |                          |
| Inside the U.S.                             | 115                              | 170             | -32%         | 0%                       | 365                             | 502             | -27%        | -1%                      |
| Outside the U.S.                            | 373                              | 423             | -12%         | +4%                      | 1,140                           | 1,251           | -9%         | -1%                      |
| <b>Total Film Products Group</b>            | <b>488</b>                       | <b>593</b>      | <b>-18%</b>  | <b>+3%</b>               | <b>1,505</b>                    | <b>1,753</b>    | <b>-14%</b> | <b>-2%</b>               |
| <b>Graphic Communications Group</b>         |                                  |                 |              |                          |                                 |                 |             |                          |
| Inside the U.S.                             | 301                              | 314             | -4%          | 0%                       | 887                             | 941             | -6%         | -1%                      |
| Outside the U.S.                            | 627                              | 566             | +11%         | +3%                      | 1,834                           | 1,717           | +7%         | +1%                      |
| <b>Total Graphic Communications Group</b>   | <b>928</b>                       | <b>880</b>      | <b>+5%</b>   | <b>+2%</b>               | <b>2,721</b>                    | <b>2,658</b>    | <b>+2%</b>  | <b>+1%</b>               |
| <b>All Other</b>                            |                                  |                 |              |                          |                                 |                 |             |                          |
| Inside the U.S.                             | 30                               | 7               | +329%        | 0%                       | 59                              | 37              | +60%        | -1%                      |
| Outside the U.S.                            | 12                               | 6               | +100%        | 0%                       | 24                              | 11              | +118%       | -1%                      |
| <b>Total All Other</b>                      | <b>42</b>                        | <b>13</b>       | <b>+223%</b> | <b>0%</b>                | <b>83</b>                       | <b>48</b>       | <b>+73%</b> | <b>-1%</b>               |
| <b>Consolidated</b>                         |                                  |                 |              |                          |                                 |                 |             |                          |
| Inside the U.S.                             | 1,043                            | 1,070           | -3%          | 0%                       | 2,809                           | 3,049           | -8%         | -1%                      |
| Outside the U.S.                            | 1,538                            | 1,525           | +1%          | +4%                      | 4,401                           | 4,526           | -3%         | -1%                      |
| <b>Consolidated Total</b>                   | <b>\$ 2,581</b>                  | <b>\$ 2,595</b> | <b>-1%</b>   | <b>+2%</b>               | <b>\$ 7,210</b>                 | <b>\$ 7,575</b> | <b>-4%</b>  | <b>-2%</b>               |

\* 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, 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, |        |        |
|---------------------------------------|----------------------------------|--------|--------|---------------------------------|--------|--------|
|                                       | 2007                             | 2006   | Change | 2007                            | 2006   | Change |
| <b>Consumer Digital Imaging Group</b> | \$ 10                            | \$ (3) | +433%  | \$ (168)                        | \$ (1) | +167%  |
| <b>Film Products Group</b>            | 122                              | 115    | +6%    | 329                             | 329    | 0%     |
| <b>Graphic Communications Group</b>   | 42                               | 26     | +62%   | 95                              | 95     | 0%     |
| <b>All Other</b>                      | (9)                              | (16)   | +44%   | (30)                            | (30)   | 0%     |



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|   |    |       |    |       |       |    |       |    |  |
|---|----|-------|----|-------|-------|----|-------|----|--|
| Total of segments   | \$ | 165   | \$ | 122   | +35%  | \$ | 226   | \$ |  |
| Restructuring costs and other   |    | (127) |    | (181) |       |    | (594) |    |  |
| Other operating income (expenses), net                                      |    | (6)   |    | 48    |       |    | 33    |    |  |
| Legal reserve/settlement  |    | (12)  |    |       |       |    | (12)  |    |  |
| Interest expense  |    | (28)  |    | (51)  |       |    | (84)  |    |  |
| Other income (charges), net   |    | 37    |    | 9     |       |    | 75    |    |  |
| Consolidated earnings (loss) from continuing operations before income taxes | \$ | 29    | \$ | (53)  | +155% | \$ | (356) | \$ |  |

PAGE 27

**2007 COMPARED WITH 2006**

**Third Quarter**

**RESULTS OF OPERATIONS □ CONTINUING OPERATIONS**

**CONSOLIDATED**

**Three Months Ended  
September 30**

| (in millions, except per share data) | 2007     | % of<br>Sales | 2006     | % of<br>Sales | Increase<br>/<br>(Decrease) | %<br>Change |
|--------------------------------------|----------|---------------|----------|---------------|-----------------------------|-------------|
| Digital net sales                    | \$ 1,589 |               | \$ 1,417 |               | \$ 172                      | 12%         |
| Traditional net sales                | 986      |               | 1,169    |               | (183)                       | -16%        |
| New technologies                     | 6        |               | 9        |               | (3)                         | -33%        |
| Net sales                            | 2,581    |               | 2,595    |               | (14)                        | -1%         |
| Cost of goods sold                   | 1,899    |               | 1,944    |               |                             |             |