EASTMAN KODAK CO
Form 10-Q/A
August 07, 2012

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

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

For the quarterly period ended June 30, 2012
or
[ ] Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the transition period from ___ to ___

Commission File Number 1-87

EASTMAN KODAK COMPANY
(Exact name of registrant as specified in its charter)

NEW JERSEY	16-0417150
(State of incorporation)	(IRS Employer Identification No.)
343 STATE STREET, ROCHESTER, NEW YORK	14650
(Address of principal executive offices)	(Zip Code)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months, and (2) has been subject to such filing requirements for the past 90 days.
Yes [X] No [ ]

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months.
Yes [X] No [ ]

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

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

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

Yes [ ] No [X]

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

Title of each Class	Number of Shares Outstanding at July 27, 2012
Common Stock, $2.50 par value	271,856,537

Eastman Kodak Company
Form 10-Q/A
June 30, 2012

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EXPLANATORY NOTE

The sole purpose of this Amendment No. 1 to the Quarterly Report on Form 10-Q (the "Form 10-Q") of Eastman Kodak Company for the three and six months ended June 30, 2012 is to update Item 2 to the Form 10-Q. The Form 10-Q filing on August 3, 2012 omitted the three month tabular presentation of the Consumer Segment's changes in net sales and gross profit margin. The three month tabular presentation is included in this Amendment No. 1 to the Form 10-Q.

No other changes have been made to the Form 10-Q. This Amendment No. 1 to the Form 10-Q speaks as of the original filing date of the Form 10-Q, does not reflect events that may have occurred subsequent to the original filing date, and does not modify or update in any way disclosures made in the original Form 10-Q.

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

OVERVIEW

On January 19, 2012 (the “Petition Date”), Eastman Kodak Company and its U.S. subsidiaries (collectively, the “Debtors”) filed voluntary petitions for relief (the “Bankruptcy Filing”) under chapter 11 of the United States Bankruptcy Code (the “Bankruptcy Code”) in the United States Bankruptcy Court for the Southern District of New York (the “Bankruptcy Court”) case number 12-10202. The Company’s foreign subsidiaries (collectively, the “Non-Filing Entities”) were not part of the Bankruptcy Filing. The Debtors will continue to operate their businesses as “debtors-in-possession” under the jurisdiction of the Bankruptcy Court and in accordance with the applicable provisions of the Bankruptcy Code and the orders of the Bankruptcy Court. The Non-Filing Entities will continue to operate in the ordinary course of business.

The Bankruptcy Filing is intended to permit the Company to reorganize and increase liquidity in the U.S. and abroad, monetize non-strategic intellectual property, fairly resolve legacy liabilities, and focus on the most valuable business lines to enable sustainable profitability. The Company’s goal is to develop and implement a reorganization plan that meets the standards for confirmation under the Bankruptcy Code.

The Company has been employing a digital growth strategy centered on exploiting its competitive advantage at the intersection of materials science and digital imaging science. The Company has leading market positions in large markets including digital printing plates, scanners, and kiosks. In addition, as a part of the digital growth strategy, the Company has been introducing differentiated value propositions in new growth markets that are in transformation. These digital growth initiatives are: consumer inkjet, within the Consumer Segment, and commercial inkjet, workflow software and services, and packaging solutions within the Commercial Segment. Part of the Company’s strategy was to gain scale in these product lines to enable a more significant and profitable contribution from them. While the Company develops its reorganization plan, the need to invest in the growth businesses will be balanced with the need to increase liquidity.

The Bankruptcy Court has approved bidding procedures for the Company to auction its digital capture and Kodak imaging systems and services patent portfolios. The final date for designation of the successful bidder(s) under the approved bidding procedures is August 13, 2012.

The Company is exiting its dedicated capture devices business, including digital cameras, pocket video cameras, and digital picture frames. Additionally, the Company sold certain assets of, and is exiting the remainder of, its Kodak Gallery business. Both businesses are expected to cease operations in the third quarter of 2012. The closure of these businesses is intended to improve liquidity.

In connection with the Bankruptcy Filing, on January 20, 2012, the Company entered into a Debtor-in-Possession Credit Agreement (“DIP Credit Agreement”). Pursuant to the terms of the DIP Credit Agreement, the lenders agreed to lend to the Company an aggregate principal amount of up to $950 million, consisting of up to $250 million super-priority senior secured asset-based revolving credit facilities and an up to $700 million super-priority senior secured term loan facility.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The accompanying consolidated financial statements and notes to consolidated financial statements contain information that is pertinent to management's discussion and analysis of the financial condition and results of operations. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses, and the related disclosure of contingent assets and liabilities.

The Company believes that the critical accounting policies and estimates discussed below involve the most complex management judgments due to the sensitivity of the methods and assumptions necessary in determining the related asset, liability, revenue and expense amounts. Specific risks associated with these critical accounting policies are discussed throughout this MD&A, where such policies affect the Company's reported and expected financial results. For a detailed discussion of the application of these and other accounting policies, refer to the Notes to Financial Statements in Item 1.

The consolidated financial statements and related notes have been prepared assuming that the Company will continue as a going concern, although its Bankruptcy Filing raises substantial doubt about the Company's ability to continue as a going concern. The consolidated financial statements do not include any adjustments related to the recoverability and classification of recorded assets or to the amounts and classification of liabilities or any other adjustments that might be necessary should the Company be unable to continue as a going concern.

Revenue Recognition

The Company's revenue transactions include sales of the following: products, equipment, software, services, integrated solutions, and intellectual property licensing. The Company recognizes revenue when it is realized or realizable and earned. The timing and the amount of revenue recognized from the licensing of intellectual property depend upon a variety of factors, including the specific terms of each agreement and the nature of the deliverables and obligations. For the sale of multiple-element arrangements, including whereby equipment or intellectual property is combined in a revenue generating transaction with other elements, the Company allocates to, and recognizes revenue from, the various elements based on their relative selling price. As of January 1, 2011, the Company allocates to, and recognizes revenue from, the various elements of multiple-element arrangements based on relative selling price of a deliverable, using: vendor-specific objective evidence, third-party evidence, and best estimated selling price in accordance with the selling price hierarchy.

At the time revenue is recognized, the Company also records reductions to revenue for customer incentive programs. Such incentive programs include cash and volume discounts, price protection, promotional, cooperative and other advertising allowances. For those incentives that require the estimation of sales volumes or redemption rates, such as for volume rebates, the Company uses historical experience and both internal and customer data to estimate the sales incentive at the time revenue is recognized. In the event that the actual results of these items differ from the estimates, adjustments to the sales incentive accruals would be recorded.

Valuation and Useful Lives of Long-Lived Assets, Including Goodwill and Intangible Assets

The Company tests goodwill for impairment annually on September 30, and whenever events occur or circumstances change that would more likely than not reduce the fair value of the reporting unit below its carrying amount.

The Company tests goodwill for impairment at a level of reporting referred to as a reporting unit. A reporting unit is an operating segment or one level below an operating segment (referred to as a component). A component of an operating segment is a reporting unit if the component constitutes a business for which discrete financial information is available and segment management regularly reviews the operating results of that component. When two or more components of an operating segment have similar economic characteristics, the components are aggregated and deemed a single reporting unit. An operating segment is deemed to be a reporting unit if all of its components are similar, if none of its components is a reporting unit, or if the segment comprises only a single component.

For goodwill testing purposes in 2011, the components of the Film Photofinishing and Entertainment Group operating segment were similar and, therefore, the segment met the requirement of a reporting unit. Likewise, the components of the CDG were similar and, therefore, the segment met the definition of a reporting unit. The GCG operating segment had two reporting units: the Business Services and Solutions Group ("BSSG") reporting unit and the Commercial Printing reporting unit (consisting of the Prepress Solutions and Digital Printing Solutions strategic product groups). The Commercial Printing reporting unit consisted of components that had similar economic characteristics and, therefore, were aggregated into a single reporting unit.

Goodwill is tested by initially comparing the fair value of each of the Company's reporting units to their related carrying values. If the fair value of the reporting unit is less than its carrying value, the Company must determine the implied fair value of the goodwill associated with that reporting unit. The implied fair value of goodwill is determined by first allocating the fair value of the reporting unit to all of its assets and liabilities and then computing the excess of the reporting unit's fair value over the amounts assigned to the assets and liabilities. If the carrying value of goodwill exceeds the implied fair value of goodwill, such excess represents the amount of goodwill impairment charge that must be recognized.

Determining the fair value of a reporting unit involves the use of significant estimates and assumptions. The fair value of a reporting unit refers to the price that would be received to sell the unit as a whole in an orderly transaction between market participants at the measurement date. Quoted market prices in active markets are the best evidence of fair value, however the market price of an individual equity security may not be representative of the fair value of the reporting unit as a whole and, therefore need not be the sole measurement basis of the fair value of a reporting unit.

In 2011, the Company estimated the fair value of its reporting units using an income approach and a market approach, and ultimately gave 100% weighting to the income approach. To estimate fair value utilizing the market approach, the Company has historically applied valuation multiples, derived from the operating data of publicly-traded benchmark companies, to the same operating data of the reporting units. The valuation multiples are based on a combination of the last twelve months ("LTM") financial measures of revenue, earnings before interest, taxes, depreciation and amortization ("EBITDA") and earnings before interest and taxes ("EBIT").

Historically, with the exception of the FPEG reporting unit in which fair value was determined utilizing only the income approach due to the unique circumstances of the film and photofinishing industry, the use of each of the income and market approaches provided corroboration for each other and the Company believed each methodology provided equally valuable information.

In 2011, the market approach was not utilized because reporting unit LTM EBIT and EBITDA results were negative, which would have only allowed the application of a revenue multiple in determining fair value under the market approach, and/or reporting units ranked below all of the selected market participants for these financial measures. When using the market approach, multiples should be derived from companies that exhibit a high degree of comparability to the business being valued.

To estimate fair value utilizing the income approach, the Company establishes an estimate of future cash flows for each reporting unit and discounts those estimated future cash flows to present value. The discount rates are estimated based on an after-tax weighted average cost of capital ("WACC") for each reporting unit reflecting the rate of return that would be expected by a market participant. The WACC also takes into consideration a company specific risk premium for each reporting unit reflecting the risk associated with the overall uncertainty of the financial projections. Key assumptions used in the income approach for the September 30, 2011 goodwill impairment tests were: (a) expected cash flows for the period from October 1, 2011 to December 31, 2018; and (b) discount rates of 19% to 25%, which were based on the Company's best estimates of the after-tax weighted-average cost of capital of each reporting unit.

A terminal value is included for all reporting units at the end of a five year cash flow projection period to reflect the remaining value that the reporting unit is expected to generate. The terminal value is calculated using the constant growth method ("CGM") based on the cash flows of the final year of the discrete period. If significant growth is projected in the final year of the cash flow projection period, then the CGM is not applied to that year. Rather, the projection period is extended until the growth in the final year approaches a sustainable level. In the 2011 goodwill impairment testing the expected cash flow forecasts for the BSSG reporting unit were extended by two years due to the rate of growth in the BSSG projections toward the end of the projection period. For all other reporting units, the number of periods utilized in the cash flow model for the 2011 goodwill impairment test was the same as the number used in the 2010 goodwill valuation (5+ years).

The CDG reporting unit included licensing activities related to the Company's intellectual property ("IP") in digital imaging products. In July 2011, the Company announced that it was exploring strategic alternatives, including a potential sale, of its digital capture and imaging systems and services patent portfolios. Until such a sale occurs, the Company will continue to pursue its patent licensing program as well as litigation related to its digital capture and imaging systems and services patents. In order to estimate the fair value of the CDG reporting unit, the Company developed estimates of future cash flows both assuming a sale of the digital capture and imaging systems and services patent portfolios (the "IP-Sale Scenario") and assuming no sale of the digital capture and imaging systems and services patent portfolios but the continuation of its patent licensing program (the "No-IP Sale Scenario"). For purposes of the goodwill valuation, the IP-Sale Scenario and the No-IP Sale Scenario were weighted equally in estimating the fair value of the CDG reporting unit.

Based upon the results of the Company's September 30, 2011 goodwill impairment tests, the Company concluded that the carrying value of goodwill for its Commercial Printing reporting unit exceeded the implied fair value of goodwill. The Company recorded a pre-tax impairment charge of $8 million during the three month period ended September 30, 2011. After the impairment charge, the Commercial Printing reporting unit did not have any remaining goodwill balance. For the Company's other reporting units with remaining goodwill balances (CDG and BSSG), no impairment of goodwill was indicated. The January 1, 2012 change in reportable segments did not change the composition of the reporting units with remaining goodwill balances.

A 20 percent change in estimated future cash flows or a 10 percentage point change in discount rate would not have caused additional goodwill impairment charges to be recognized by the Company as of September 30, 2011. Additional impairment of goodwill could occur in the future if market or interest rate environments deteriorate, expected future cash flows decrease or if reporting unit carrying values change materially compared with changes in respective fair values. The Bankruptcy Court has approved bidding procedures for the Company to auction its digital capture and Kodak imaging systems and services patent portfolios. The final date for designation of the successful bidder(s) under the approved bidding procedure is August 13, 2012. Cash flows related to the digital imaging patent portfolios could significantly change and materially impact the fair value of the CDG reporting unit.

The Company’s long-lived assets other than goodwill are evaluated for impairment whenever events or changes in circumstances indicate the carrying value may not be recoverable.

When evaluating long-lived assets for impairment, the Company compares the carrying value of an asset group to its estimated undiscounted future cash flows. An impairment is indicated if the estimated future cash flows are less than the carrying value of the asset group. The impairment is the excess of the carrying value over the fair value of the long-lived asset group.

In 2005, the Company shortened the useful lives of certain production machinery and equipment in the traditional film and paper businesses as a result of the anticipated acceleration of the decline in those businesses at that time. The result of that change was that the related production machinery and equipment was scheduled to be fully depreciated by mid-2010 for the traditional film and paper businesses. In 2008, and again in 2011, with the benefit of additional experience in the secular decline in these product groups, the Company assessed that overall film and paper demand had declined but at a slower rate than anticipated in previous analyses. Therefore, with respect to production machinery and equipment and buildings in film and paper manufacturing locations that were expected to continue production beyond the previously estimated useful life, the Company extended the useful lives.

The Company depreciates the cost of property, plant, and equipment over its expected useful life in such a way as to allocate it as equitably as possible to the periods during which services are obtained from their use, which aims to distribute the cost over the estimated useful life of the unit in a systematic and rational manner. An estimate of useful life not only considers the economic life of the asset, but also the remaining life of the asset to the entity. Because the film and paper businesses are experiencing industry related volume declines, changes in the estimated useful lives of production equipment for those businesses have been related to estimated industry demand, in addition to production capacity of the particular property.

Income Taxes

The Company recognizes deferred tax liabilities and assets for the expected future tax consequences of operating losses, credit carryforwards and temporary differences between the carrying amounts and tax basis of the Company’s assets and liabilities. The Company records a valuation allowance to reduce its net deferred tax assets to the amount that is more likely than not to be realized. The Company has considered forecasted earnings, future taxable income, the geographical mix of earnings in the jurisdictions in which the Company operates and prudent and feasible tax planning strategies in determining the need for these valuation allowances. As of June 30, 2012, the Company has net deferred tax assets before valuation allowances of approximately $3.3 billion and a valuation allowance related to those net deferred tax assets of approximately $2.9 billion, resulting in net deferred tax assets of approximately $0.4 billion. If the Company were to determine that it would not be able to realize a portion of its net deferred tax assets in the future, for which there is currently no valuation allowance, an adjustment to the net deferred tax assets would be charged to earnings in the period such determination was made. Conversely, if the Company were to make a determination that it is more likely than not that deferred tax assets, for which there is currently a valuation allowance, would be realized, the related valuation allowance would be reduced and a benefit to earnings would be recorded. The Company considers both positive and negative evidence, in determining whether a valuation allowance is needed by territory, including, but not limited to, whether particular entities are in three year cumulative income positions. During 2011 and the six months ended June 30, 2012, the Company determined that it was more likely than not that a portion of the deferred tax assets outside the U.S. would not be realized due to reduced manufacturing volumes negatively impacting profitability in a location outside the U.S. and accordingly, recorded provisions of $53 and $16 million, respectively, associated with the establishment of a valuation allowance on those deferred tax assets.

During 2011, the Company concluded that the undistributed earnings of its foreign subsidiaries would no longer be considered permanently reinvested. After assessing the assets of the subsidiaries relative to specific opportunities for reinvestment, as well as the forecasted uses of cash for both its domestic and foreign operations, the Company concluded that it was prudent to change its indefinite reinvestment assertion to allow greater flexibility in its cash management.

The Company operates within multiple taxing jurisdictions worldwide and is subject to audit in these jurisdictions. These audits can involve complex issues, which may require an extended period of time for resolution. Management's ongoing assessments of the more-likely-than-not outcomes of these issues and related tax positions require judgment, and although management believes that adequate provisions have been made for such issues, there is the possibility that the ultimate resolution of such issues could have an adverse effect on the earnings of the Company. Conversely, if these issues are resolved favorably in the future, the related provisions would be reduced, thus having a positive impact on earnings.

Pension and Other Postretirement Benefits

The Company's defined benefit pension and other postretirement benefit costs and obligations are estimated using several key assumptions. These assumptions, which are reviewed at least annually by the Company, include the discount rate, long-term expected rate of return on plan assets ("EROA"), salary growth, healthcare cost trend rate and other economic and demographic factors. Actual results that differ from the Company's assumptions are recorded as unrecognized gains and losses and are amortized to earnings over the estimated future service period of the active participants in the plan or, if almost all of a plan's participants are inactive, the average remaining lifetime expectancy of inactive participants, to the extent such total net unrecognized gains and losses exceed 10% of the greater of the plan's projected benefit obligation or the calculated value of plan assets. Significant differences in actual experience or significant changes in future assumptions would affect the Company's pension and other postretirement benefit costs and obligations.

Asset and liability modeling studies are utilized by the Company to adjust asset exposures and review a liability hedging program through the use of forward looking correlation, risk and return estimates. Those forward looking estimates of correlation, risk and return generated from the modeling studies are also used to estimate the EROA. The EROA is estimated utilizing a forward-looking building block model factoring in the expected risk of each asset category, return and correlation over a 5-7 year horizon, and weighting the exposures by the current asset allocation. Historical inputs are utilized in the forecasting model to frame the current market environment with adjustments made based on the forward looking view. The Company aggregates investments into major asset categories based on the underlying benchmark of the strategy. The Company's asset categories include broadly diversified exposure to U.S. and non-U.S. equities, U.S. and non-U.S. government and corporate bonds, inflation-linked bonds, commodities and absolute return strategies. Each allocation to these major asset categories is determined within the overall asset allocation to accomplish unique objectives, including enhancing portfolio return, providing portfolio diversification, or hedging plan liabilities.

The EROA, once set, is applied to the calculated value of plan assets in the determination of the expected return component of the Company's pension income or expense. The Company uses a calculated value of plan assets, which recognizes changes in the fair value of assets over a four-year period, to calculate expected return on assets. At December 31, 2011, the calculated value of the assets of the Company's major U.S. and Non-U.S. defined benefit pension plans was approximately $7.3 billion and the fair value was approximately $7.2 billion. Asset gains and losses that are not yet reflected in the calculated value of plan assets are not included in amortization of unrecognized gains and losses.

The Company reviews its EROA assumption annually. To facilitate this review, every three years, or when market conditions change materially, the Company's larger plans will undertake asset allocation or asset and liability modeling studies. The weighted average EROA for major U.S. and non-U.S. defined benefit pension plans used to determine net pension expense was 8.09% and 7.79%, respectively, for the year ended December 31, 2011.

Generally, the Company bases the discount rate assumption for its significant plans on high quality corporate bond yields in the respective countries as of the measurement date. Specifically, for its U.S. and Canadian plans, the

Company determines a discount rate using a cash flow model to incorporate the expected timing of benefit payments and an AA-rated corporate bond yield curve. For the Company's U.S. plans, the Citigroup Above Median Pension Discount Curve is used. For the Company’s other non-U.S. plans, the discount rates are determined by comparison to published local high quality bond yields or indices considering estimated plan duration and removing any outlying bonds, as warranted.

The salary growth assumptions are determined based on the Company’s long-term actual experience and future and near-term outlook. The healthcare cost trend rate assumptions are based on historical cost and payment data, the near-term outlook and an assessment of the likely long-term trends.

The following table illustrates the sensitivity to a change to certain key assumptions used in the calculation of expense for the year ending December 31, 2012 and the projected benefit obligation ("PBO") at December 31, 2011 for the Company's major U.S. and non-U.S. defined benefit pension plans:

(in millions)	Impact on 2012 Pre-Tax Pension Expense Increase (Decrease)		Impact on PBO December 31, 2011 Increase (Decrease)	
	U.S.	Non-U.S.	U.S.	Non-U.S.
Change in assumption:				
25 basis point decrease in discount rate	$ 6	$ 3	$ 128	$ 125
25 basis point increase in discount rate	(6)	(3)	(122)	(119)
25 basis point decrease in EROA	11	6	N/A	N/A
25 basis point increase in EROA	(11)	6	N/A	N/A

Total pension cost from continuing operations before special termination benefits, curtailments, and settlements for the major funded and unfunded defined benefit pension plans in the U.S. is expected to change from income of $61 million in 2011 to expense of approximately $40 million in 2012, due primarily to an expected increase in amortization of actuarial losses. Pension expense from continuing operations before special termination benefits, curtailments and settlements for the major funded and unfunded non-U.S. defined benefit pension plans is projected to increase from $43 million in 2011 to approximately $69 million in 2012.

Additionally, the Company expects the expense, before curtailment and settlement gains and losses of its major other postretirement benefit plans, to be approximately $5 million in 2012 as compared with expense of $20 million for 2011. The decrease is due primarily to an expected decrease in interest expense.

Environmental Commitments

Environmental liabilities are accrued based on undiscounted estimates of known environmental remediation responsibilities. The liabilities include accruals for sites owned or leased by the Company, sites formerly owned or leased by the Company, and other third party sites where the Company was designated as a potentially responsible party ("PRP"). The amounts accrued for such sites are based on these estimates, which are determined using the ASTM Standard E 2137-06, "Standard Guide for Estimating Monetary Costs and Liabilities for Environmental Matters." The overall method includes the use of a probabilistic model that forecasts a range of cost estimates for the remediation required at individual sites. The Company's estimate includes equipment and operating costs for investigations, remediation and long-term monitoring of the sites. Such estimates may be affected by changing determinations of what constitutes an environmental liability or an acceptable level of remediation. The Company's estimate of its environmental liabilities may also change if the proposals to regulatory agencies for desired methods and outcomes of remediation are viewed as not acceptable, or additional exposures are identified. The Company has an ongoing monitoring process to assess how activities, with respect to the known exposures, are progressing against the accrued cost estimates.

Additionally, 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. 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.

CURRENT KODAK OPERATING MODEL AND REPORTING STRUCTURE

As of January 1, 2012 the Company has two reportable segments: the Commercial Segment and the Consumer Segment. 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. A description of the segments is as follows:

Commercial Segment: The Commercial Segment serves a variety of customers in the creative, in-plant, data center, commercial printing, packaging, newspaper and digital service bureau market segments with a range of software, media and hardware products that provide customers with a variety of solutions for prepress equipment, workflow software, analog and digital printing, and document scanning. The Commercial Segment also includes entertainment and commercial film. The Commercial Segment encompasses the following SPGs. Products and services included within each SPG are identified below.

Graphics, Entertainment and Commercial Film includes prepress solutions, which includes equipment, plates, chemistry, media and related services; entertainment imaging products and services; aerial and industrial film products; film for the production of printed circuit boards; and specialty chemicals.

Digital and Functional Printing includes high-speed, high-volume commercial inkjet, and color and black-and-white electrophotographic printing equipment and packaging equipment and related consumables and services.

Enterprise Services and Solutions includes document scanning products and services and related maintenance offerings, workflow software and digital controllers. Also included in this SPG are the activities related to the Company's business solutions and consulting services.

Consumer Segment: This segment provides consumer digital and traditional imaging products and service offerings. The Consumer Segment encompasses the following SPGs. Products and services included within each SPG are identified below.

Consumer Inkjet Systems includes consumer inkjet printers and related ink and media consumables.

Retail Systems Solutions includes kiosks, APEX drylab systems, and related consumables and services.

Traditional Photofinishing includes film capture, paper and output systems and photofinishing services.

Intellectual Property includes the licensing activities related to the Company's intellectual property in digital imaging products and branded licensed products.

Digital Capture and Devices includes digital still and pocket video cameras, digital picture frames, and accessories. As announced on February 9, 2012, the Company plans to phase out its dedicated capture devices business, including digital cameras, pocket video cameras, and digital picture frames. The business is expected to cease operations during the third quarter of 2012.

Consumer Imaging Services includes Kodak Gallery products and photo sharing services. As previously announced, certain assets of Kodak Gallery have been sold to Shutterfly, Inc. The remainder of the Kodak Gallery business is expected to cease operations during the third quarter of 2012.

New Reportable Segments

Effective for the third quarter of 2012, the Company will report financial information for three reportable segments; Consumer Businesses Segment, Graphics, Entertainment and Commercial Films Segment, and Digital Printing and Enterprise Segment.

The Consumer Businesses Segment will be comprised of the following: Intellectual Property and the Consumer Business, consisting of Consumer Inkjet Systems and Personalized Imaging.

The Graphics, Entertainment and Commercial Films Segment will be comprised of the following: Entertainment Imaging & Commercial Films, and Graphics.

The Digital Printing and Enterprise Segment will be comprised of the following: Enterprise Services & Solutions, and Digital & Functional Printing.

Net Sales from Continuing Operations by Reportable Segment

(dollars in millions)	Three Months Ended June 30, 2012	2011	% Change	Foreign Currency Impact*	Six Months Ended June 30, 2012	2011	Change	Foreign Currency Impact*
Commercial Segment								
Inside the U.S.	$ 215	$ 238	-10 %	0 %	$ 418	$ 471	-11 %	0 %
Outside the U.S.	469	627	-25	-4	938	1,202	-22	-3
Total Commercial Segment	684	865	-21	-3	1,356	1,673	-19	-2
Consumer Segment								
Inside the U.S.	156	250	-38	0	231	447	-48	0
Outside the U.S.	237	370	-36	-5	455	687	-34	-3
Total Consumer Segment	393	620	-37	-3	686	1,134	-40	-2
Consolidated								
Inside the U.S.	371	488	-24	0	649	918	-29	0
Outside the U.S.	706	997	-29	-5	1,393	1,889	-26	-3
Consolidated Total	$ 1,077	$ 1,485	-27 %	-3 %	$ 2,042	$ 2,807	-27 %	-2 %

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

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

(dollars in millions)	Three Months Ended June 30, 2012	Three Months Ended June 30, 2011	Change	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011	Change
Commercial Segment	$ (26)	$ (39)	+33 %	$ (90)	$ (106)	+15 %
Consumer Segment	(27)	(96)	+72 %	(191)	(283)	+33 %
Total	$ (53)	$ (135)	+61 %	$ (281)	$ (389)	+28 %
Percent of Sales	(5)%	(9)%		(14)%	(14)%	
Restructuring costs and other	(21)	(36)		(116)	(71)	
Corporate components of pension and OPEB expense	(35)	(4)		(65)	(12)	
Other operating income (expenses), net	19	1		20	71	
Legal contingencies, settlements and other	(5)	-		(1)	-	
Loss on early extinguishment of debt, net	-	-		(7)	-	
Interest expense	(41)	(38)		(77)	(76)	
Other income (charges), net	(4)	17		(1)	9	
Reorganization items, net	(160)	-		(248)	-	
Consolidated loss from continuing operations before income taxes	$ (300)	$ (195)	-54 %	$ (776)	$ (468)	-66 %

2012 COMPARED WITH 2011

Second Quarter and Year to Date

RESULTS OF OPERATIONS – CONTINUING OPERATIONS

CONSOLIDATED

(dollars in millions)	Three Months Ended June 30,					Six Months Ended June 30,				
	2012	% of Sales	2011	% of Sales	% Change	2012	% of Sales	2011	% of Sales	% Change
Net sales	$ 1,077		$ 1,485		-27 %	$ 2,042		$ 2,807		-27 %
Cost of sales	902		1,274		-29 %	1,829		2,471		-26 %
Gross profit	175	16 %	211	14 %	-17 %	213	10 %	336	12 %	-37 %
Selling, general and administrative expenses	216	20 %	289	19 %	-25 %	443	22 %	600	21 %	-26 %
Research and development costs	54	5 %	68	5 %	-21 %	120	6 %	146	5 %	-18 %
Restructuring costs and other	19		29		-34 %	113		62		82 %
Other operating (income) expenses, net	(19)		(1)		1800 %	(20)		(71)		-72 %
Loss from continuing operations before interest expense, other income (charges), net, reorganization items, net and income taxes	(95)	-9 %	(174)	-12 %	45 %	(443)	-22 %	(401)	-14 %	-10 %
Interest expense	41		38		8 %	77		76		1 %
Loss on early extinguishment of debt, net	-		-			7		-		
Other income (charges), net	(4)		17			(1)		9		
Reorganization items, net	160		-			248		-		
Loss from continuing operations before income taxes	(300)		(195)		-54 %	(776)		(468)		-66 %
	(1)		(16)			(111)		(40)		

Benefit for income taxes										
Loss from continuing operations	(299)	-28 %	(179)	-12 %	-67 %	(665)	-33 %	(428)	-15 %	-55 %
Earnings from discontinued operations, net of income taxes	-		-			-		3		
NET LOSS ATTRIBUTABLE TO EASTMAN KODAK COMPANY	$ (299)		$ (179)		-67 %	$ (665)		$ (425)		-56 %

	Three Months Ended June 30,		Percent Change vs. 2011			
	2012 Amount	Change vs. 2011	Volume	Price/Mix	Foreign Exchange	Manufacturing and Other Costs
Net sales	$ 1,077	-27 %	-24 %	0 %	-3 %	n/a
Gross profit margin	16 %	2pp	n/a	3pp	-1pp	0pp

	Six Months Ended June 30,		Percent Change vs. 2011			
	2012 Amount	Change vs. 2011	Volume	Price/Mix	Foreign Exchange	Manufacturing and Other Costs
Net sales	$ 2,042	-27 %	-22 %	-3 %	-2 %	n/a
Gross profit margin	10 %	-2pp	n/a	0pp	-1pp	-1pp

Revenues

Current Quarter

For the three months ended June 30, 2012, net sales decreased approximately 27% compared with the same period in 2011 due to volume declines in the Consumer Segment (-14%), due primarily to the exit from the dedicated capture devices business, which is expected to cease operations in the third quarter of 2012. Also contributing to the revenue declines were volume declines in the Commercial Segment (-10%) driven by reduced demand in entertainment imaging products and services due to fewer prints of movie releases. See segment discussions below for additional information.

Year to Date

For the six months ended June 30, 2012, net sales decreased approximately 27% compared with the same period in 2011 due to volume declines in the Consumer Segment (-13%), due primarily to the exit from the dedicated capture devices business, and the $61 million license revenue reduction reflecting sharing, with licensees, of the withholding tax refund received in the first quarter of 2012 (refer to Note 8, "Income Taxes" for additional information). Also contributing to the revenue declines were volume declines in the Commercial Segment (-9%) driven by reduced demand in entertainment imaging products and services due to fewer prints of movie releases. See segment discussions below for additional information.

Gross Profit

Current Quarter

The increase in gross profit percent for the three months ended June 30, 2012 as compared with the prior year quarter was primarily due to favorable price/mix within the Consumer Segment driven by sales for Consumer Inkjet Systems (+3pp). See segment discussions below for additional details.

Year to Date

Gross profit percent for the six months ended June 30, 2012 as compared with the prior year quarter was relatively flat despite the $61 million licensing revenue reduction (-2pp) in the first quarter of 2012 (refer to Note 8 “Income Taxes” for additional information) and the impact of exiting the dedicated capture devices business (-1pp). Partially offsetting these declines was favorable price/mix within Consumer Inkjet Systems (+1pp). See segment discussions below for additional details.

Selling, General and Administrative Expenses

The decreases in consolidated selling, general and administrative expenses (SG&A) for the three and six months ended June 30, 2012 as compared with the prior year periods were the result of cost reduction actions impacting the current quarter and year to date periods (-17% and -17%, respectively). SG&A expenses also declined due to decreases in advertising expense in the current quarter and year to date periods (-8% and 10%, respectively) primarily related to the Company’s exit from the dedicated capture devices business.

Research and Development Costs

The decreases in consolidated research and development (R&D) costs for the three and six months ended June 30, 2012 as compared with the prior year periods were primarily due to the Company’s exit from the dedicated capture devices business.

Restructuring Costs and Other

These costs, as well as the restructuring costs reported in Cost of sales, are discussed under the "RESTRUCTURING COSTS AND OTHER" section.

Other Operating (Income) Expenses, Net

For details, refer to Note 13, “Other Operating (Income) Expenses, Net.”

Reorganization Items, Net

A summary of Reorganization items, net for the three and six months ended June 30, 2012 is presented in the following table:

(in millions)	Three Months Ended June 30, 2012	Six Months Ended June 30, 2012
Professional fees	$ 45	$ 88
DIP credit agreement financing costs	-	45
Provision for expected allowed claims	119	119
Other items, net	(4)	(4)
Reorganization items, net	$ 160	$ 248

Income Tax (Benefit) Provision

(dollars in millions)	Three Months Ended June 30, 2012	Three Months Ended June 30, 2011	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011
Loss from continuing operations before income taxes	$ (300)	$ (195)	$ (776)	$ (468)
Benefit for income taxes	$ (1)	$ (16)	$ (111)	$ (40)
Effective tax rate	0.3 %	8.2 %	14.3 %	8.5 %

Current Quarter
The change in the Company's effective tax rate from continuing operations for the quarter is primarily attributable to: (1) a U.S. Internal Revenue Service federal audit settlement for calendar years 2001 through 2005 in the three months ended June 30, 2011, (2) losses generated in the U.S. and certain jurisdictions outside the U.S. for which no benefit was recognized due to management's conclusion that it was more likely than not that the tax benefits would not be realized, (3) the establishment of a deferred tax asset valuation allowance in certain jurisdictions outside the U.S. in the three months ended June 30, 2011, (4) tax accounting impacts related to items reported in Accumulated other comprehensive loss in the Consolidated Statement of Financial Position and (5) a provision associated with foreign withholding taxes on undistributed earnings for the three months ended June 30, 2012.

Year to Date
The change in the Company's effective tax rate from continuing operations for the six months ended June 30, 2012 is primarily attributable to: (1) a benefit as a result of the Company reaching a settlement of a competent authority claim in the six months ended June 30, 2012, (2) a U.S. Internal Revenue Service federal audit settlement for calendar years 2001 through 2005 in the six months ended June 30, 2011, (3) losses generated in the U.S. and certain jurisdictions outside the U.S. for which no benefit was recognized due to management's conclusion that it was more likely than not that the tax benefits would not be realized, (4) the release of a deferred tax asset valuation allowance in a certain jurisdiction outside the U.S. in the six months ended June 30, 2011, (5) the establishment of deferred tax asset valuation allowances in certain jurisdictions outside the U.S., (6) tax accounting impacts related to items reported in Accumulated other comprehensive loss in the Consolidated Statement of Financial Position (7) a provision associated with foreign withholding taxes on undistributed earnings for the six months ended June 30, 2012 and (8) other changes in audit reserves.

COMMERCIAL SEGMENT

(dollars in millions)	Three Months Ended June 30,					Six Months Ended June 30,				
	2012	% of Sales	2011	% of Sales	% Change	2012	% of Sales	2011	% of Sales	% Change
Net sales	$ 684		$ 865		-21 %	$ 1,356		$ 1,673		-19 %
Cost of sales	550		707		-22 %	1,124		1,373		-18 %
Gross profit	134	20 %	158	18 %	-15 %	232	17 %	300	18 %	-23 %

Selling, general and administrative expenses	125	18 %	158	18 %	-21 %	246	18 %	324	19 %	-24 %
Research and development costs	35	5 %	39	5 %	-10 %	76	6 %	82	5 %	-7 %
Loss from continuing operations before interest expense, other income (charges), net and income taxes	$ (26)	-4 %	$ (39)	-5 %	33 %	$ (90)	-7 %	$ (106)	-6 %	15 %

	Three Months Ended June 30,		Percent Change vs. 2011			
	2012 Amount	Change vs. 2011	Volume	Price/Mix	Foreign Exchange	Manufacturing and Other Costs
Net sales	$ 684	-21 %	-17 %	-1 %	-3 %	n/a
Gross profit margin	20 %	2pp	n/a	1pp	0pp	1pp

	Six Months Ended June 30,		Percent Change vs. 2011			
	2012 Amount	Change vs. 2011	Volume	Price/Mix	Foreign Exchange	Manufacturing and Other Costs
Net sales	$ 1,356	-19 %	-16 %	-1 %	-2 %	n/a
Gross profit margin	17 %	-1pp	n/a	0pp	-1pp	0pp

Revenues

Current Quarter
The decrease in Commercial Segment net sales of approximately 21% for the quarter was primarily attributable to volume declines within Graphics Entertainment and Commercial Films (-13%), largely attributable to reduced demand in entertainment imaging products and services due to fewer prints of movie releases (-8%), as well as declines for prepress solutions (-4%) due to lower demand for digital plates and the exit of analog plates in most geographies. Additionally, there were volume declines in Digital and Functional Printing (-3%) driven by lower placements of commercial inkjet equipment.

Year to Date
The decrease in Commercial Segment net sales of approximately 19% for the six months ended June 30, 2012 was primarily attributable to volume declines within Graphics Entertainment and Commercial Films (-12%), largely attributable to reduced demand in entertainment imaging products and services due to fewer prints of movie releases (-8%) and reduced volumes for prepress solutions (-3%) due to lower demand for digital plates and the exit of analog plates in most geographies. Additionally, there were volume declines within Digital and Functional Printing (-2%) driven by lower placements of commercial inkjet equipment and volume declines for document scanning products, workflow software and business solutions in Enterprise Services and Solutions (-2%).

Gross Profit

Current Quarter
The increase in the Commercial Segment gross profit percent for the three months ended June 30, 2012 was partially due to favorable price/mix within Graphics, Entertainment and Commercial Films (+1pp) due to improved pricing in the current year period. Also contributing to the increase in gross profit percent was improved manufacturing and other costs within Digital and Functional Printing (+2pp), driven by the stabilization of start-up costs associated with the commercialization and placement of PROSPER printing systems.

Year to Date
Gross profit percent in the Commercial Segment for the six months ended June 30, 2012 as compared with the prior year period was relatively flat. Pricing pressures for digital plates within Graphics, Entertainment and Commercial Films in the first quarter were largely mitigated in the year to date results.

Selling, General and Administrative Expenses

The decrease in SG&A for the three and six months ended June 30, 2012 as compared with the prior year period was primarily attributable to cost reduction actions.

CONSUMER SEGMENT

(dollars in millions)	Three Months Ended June 30,					Six Months Ended June 30,				
	2012	% of Sales	2011	% of Sales	% Change	2012	% of Sales	2011	% of Sales	% Change
Net sales	$ 393		$ 620		-37 %	$ 686		$ 1,134		-40 %

Cost of sales	323		552		-41 %	661		1,068		-38 %
Gross profit	70	18 %	68	11 %	3 %	25	4 %	66	6 %	-62 %
Selling, general and administrative expenses	78	20 %	131	21 %	-40 %	174	25 %	276	24 %	-37 %
Research and development costs	19	5 %	34	5 %	-44 %	42	6 %	73	6 %	-42 %
Loss from continuing operations before interest expense, other income (charges), net and income taxes	$ (27)	-7 %	$ (97)	-16 %	72 %	$ (191)	-28 %	$ (283)	-25 %	33 %

	Three Months Ended June 30,		Percent Change vs. 2011			
	2012 Amount	Change vs. 2011	Volume	Price/Mix	Foreign Exchange	Manufacturing and Other Costs
Net sales	$ 393	-37 %	-33 %	-1 %	-3 %	n/a
Gross profit margin	18 %	7pp	n/a	8pp	-1pp	0pp

	Six Months Ended June 30,		Percent Change vs. 2011			
	2012 Amount	Change vs. 2011	Volume	Price/Mix	Foreign Exchange	Manufacturing and Other Costs
Net sales	$ 686	-40 %	-31 %	-7 %	-2 %	n/a
Gross profit margin	4 %	-2pp	n/a	0pp	-1pp	-1pp

Revenues

Current Quarter

The Consumer Segment's second quarter revenue decline of approximately 37% was primarily attributable to volume declines (-25%) and unfavorable price/mix (-4%) within Digital Capture and Devices, reflective of the Company's exit of its dedicated capture devices business, which is expected to cease operations in the third quarter of 2012. Volume declines in Traditional Photofinishing (-7%) also contributed to the decrease, due to secular declines within the industry. Favorable price/mix within Consumer Inkjet Systems (+2%) and within Traditional Photofinishing (+3%) due to the results of pricing actions, largely mitigated the unfavorable price/mix within the segment.

Year to Date

The Consumer Segment's year to date revenue decline of approximately 40% was primarily attributable to volume declines (-23%) and unfavorable price/mix (-4%) within Digital Capture and Devices, reflective of the Company's exit from its dedicated capture devices business. Also contributing to the decline were volume declines within Traditional Photofinishing (-7%), due to secular declines within the industry and volume declines in Consumer Inkjet Systems (-2%) due to reduced printer sales as the Company balances its investment in growth businesses with the need to increase liquidity. Additionally, the revenue decline was partially attributable to unfavorable price/mix for Intellectual Property (-7%) due to the $61 million licensing revenue reduction reflecting sharing, with licensees, of the withholding tax refund received (refer to Note 8 "Income Taxes" for additional information). Partially offsetting these declines were favorable price/mix within Traditional Photofinishing (+3%) due to the results of pricing actions.

Gross Profit

Current Quarter
The increase in gross profit percent for the three months ended June 30, 2012 was primarily attributable to favorable price/mix within Consumer Inkjet Systems (+6pp), due to a higher proportion of ink versus printer sales, reflecting the tactical shift to improve liquidity, and within Traditional Photofinishing (+3pp) driven by pricing actions noted above. Offsetting the increase was unfavorable price/mix within Digital Capture and Devices (-4pp) reflective of the Company's exit from its dedicated capture devices business.

Year to Date
The decrease in gross profit percent for the six months ended June 30, 2012 was primarily attributable to unfavorable price/mix within Intellectual Property (-7pp) due to the $61 million licensing revenue reduction. Also contributing to the decline was unfavorable price/mix within Digital Capture and Devices (-5pp) reflective of the Company's exit from its dedicated capture devices business. Offsetting these declines was favorable price/mix within Consumer Inkjet Systems (+7pp), due to a higher proportion of ink versus printer sales, reflecting the tactical shift to improve liquidity, and within Traditional Photofinishing (+3pp) driven by pricing actions noted above.

Selling, General and Administrative Expenses

The decreases in consolidated selling, general and administrative expenses (SG&A) for the three and six months ended June 30, 2012 as compared with the prior year periods were due to advertising and other cost reduction impacts in the current quarter and year to date periods primarily related to the Company's exit from the dedicated capture devices business.

Research and Development Costs

The decreases in R&D cost for the three and six months ended June 30, 2012 as compared with the prior year period were primarily due to the Company's exit from the dedicated capture devices business.

RESTRUCTURING COSTS AND OTHER

The Company recorded $21 million of charges, including $1 million of charges for accelerated depreciation and $1 million of charges for inventory write-downs, which were reported in Cost of sales in the accompanying Consolidated Statement of Operations for the three months ended June 30, 2012. The Company recorded $116 million of charges, including $2 million of charges for accelerated depreciation and $1 million of charges for inventory write-downs, which were reported in Cost of sales in the accompanying Consolidated Statement of Operations for the six months ended June 30, 2012. The remaining costs incurred of $19 million and $113 million were reported as Restructuring costs, rationalization and other in the accompanying Consolidated Statement of Operations for the three and six months ended June 30, 2012, respectively. The severance and exit costs reserves require the outlay of cash, while long-lived asset impairments, accelerated depreciation and inventory write-downs represent non-cash items.

During the three and six months ended June 30, 2012, the Company made cash payments related to restructuring and rationalization of approximately $27 million and $50 million, respectively.

The charges of $116 million recorded in the six months ended June 30, 2012 included $41 million applicable to the Consumer segment, $29 million applicable to the Commercial segment, and $46 million that was applicable to manufacturing, research and development, and administrative functions, which are shared across all segments.

The restructuring actions implemented in the first half of 2012 are expected to generate future annual cash savings of approximately $164 million. These savings are expected to reduce future annual Cost of sales, SG&A, and R&D expenses by $80 million, $54 million, and $30 million, respectively. The Company began realizing a portion of these savings in the first half of 2012, and expects the majority of the annual savings to be in effect by the end of 2012 as actions are completed.

LIQUIDITY AND CAPITAL RESOURCES

(in millions)	As of June 30, 2012	As of December 31, 2011
Cash and cash equivalents	$ 1,257	$ 861

Cash Flow Activity

(in millions)	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011	Change
Cash flows from operating activities:			
Net cash used in continuing operations	$ (152)	$ (837)	$ 685
Net cash used in discontinued operations	-	(10)	10
Net cash used in operating activities	(152)	(847)	695
Cash flows from investing activities:			
Net cash provided by (used in) investing activities	2	(26)	28
Cash flows from financing activities:			
Net cash provided by financing activities	553	191	362
Effect of exchange rate changes on cash	(7)	15	(22)
Net increase (decrease) in cash and cash equivalents	$ 396	$ (667)	$ 1,063

Operating Activities

Net cash used in operating activities decreased $695 million for the six months ended June 30, 2012 as compared with the corresponding period in 2011, primarily due to non-payment of pre-petition claims. Partially offsetting this improvement was the incremental payment of reorganization and restructuring costs of approximately $100 million in the current year period.

Investing Activities

Net cash provided by investing activities increased $28 million for the six months ended June 30, 2012 as compared with the six months ended June 30, 2011, due to decreases in current period capital expenditures of $30 million, as well as cash used for a business acquisition in the prior year period of $27 million and the funding of a restricted cash account of $22 million in the prior year period. Partially offsetting these cash improvements was a decrease in proceeds from the sales of businesses/assets of $50 million.

Financing Activities

Net cash provided by financing activities increased $362 million for the six months ended June 30, 2012 as compared with the corresponding period in 2011 primarily due to the first quarter net borrowing increase of approximately $355 million and the proceeds from the sale and leaseback of a property in Mexico in the first quarter for approximately $41 million. Partially offsetting these increases was an increase in reorganization items of $40 million. Refer to discussion below for more details on current period financing activities.

Sources of Liquidity

The Company has been using cash received from operations, including intellectual property licensing, and the sale of non-core assets to fund its investment in its growth businesses and its transformation from a traditional film manufacturing company to a digital technology company. While the Company develops its reorganization plan, the need to invest in its growth businesses will be balanced with the need to improve liquidity. The Company faces an uncertain business environment and a number of substantial challenges, including the level of investment necessary for its growth businesses, aggressive price competition, secular decline in the Company's traditional film businesses, the cost to restructure the Company to enable sustainable profitability, underfunded and unfunded defined benefit and other postretirement benefit plans, and short-term uncertainty relating to monetization of the Company's digital imaging patent portfolios.

The Company's Bankruptcy Filing is intended to permit the Company to reorganize and improve liquidity in the U.S. and abroad, monetize non-strategic intellectual property, fairly resolve legacy liabilities, and focus on the most valuable business lines to enable sustainable profitability. The Company's goal is to develop and implement a reorganization plan that meets the standards for confirmation under the Bankruptcy Code.

On January 20, 2012, in connection with the Company's Bankruptcy Filing, the Company entered into the DIP Credit Agreement which provides up to a $700 million super-priority senior secured term loan facility and up to a $250 million super-priority senior secured asset-based revolving credit facility. During the first half of 2012 the Company borrowed $700 million in term loans and issued $114 million of letters of credit and had secured agreements of $20 million under the revolving credit facilities. As of June 30, 2012 there was $667 million, $114 million and $20 million of outstanding debt, letters of credit and secured agreements, respectively, outstanding under the DIP Credit Agreement.

The Company must prepay the DIP Credit Agreement with all net cash proceeds from sales of or casualty events relating to certain types of collateral consisting of accounts, inventory, equipment or machinery. In addition, all net cash proceeds from any sale in respect of the Company's digital imaging patent portfolio must be used to prepay the DIP Credit Agreements. With respect to all other asset sales or casualty events, or intellectual property licensing or settlement agreements, 75% of the net cash proceeds must be used to prepay the DIP Credit Agreement and 25% may be retained by the Company (retained proceeds are $19 million as of June 30, 2012). However, once the Company's share of these retained proceeds totals $150 million, all remaining and future net proceeds must be used to prepay the DIP Credit Agreement. The DIP Credit Agreement terminates and all outstanding obligations must be repaid on the earliest to occur of (i) July 20, 2013, (ii) the date of the substantial consummation of certain reorganization plans and (iii) certain other events, including Events of Default and repayment in full of the obligations pursuant to a mandatory prepayment.

Cash and cash equivalents are held in various locations throughout the world. At June 30, 2012 and December 31, 2011, approximately $495 million and $170 million, respectively, of cash and cash equivalents were held within the U.S. The Company utilizes a variety of tax planning and financing strategies in an effort to ensure that cash is available in locations where it is needed; however, as of June 30, 2012, cash balances held outside of the U.S. are generally required to support local country operations, or may have high tax costs, and are therefore not readily available for operations in other jurisdictions. Additionally, in China, where approximately $355 million in cash and cash equivalents was held as of June 30, 2012, there are limitations related to net asset balances that impact the ability to make cash available to other jurisdictions in the world. Under the terms of the DIP Credit Agreement, the Debtors are permitted to invest up to $100 million at any time in subsidiaries that are not party to the loan agreement.

The Bankruptcy Filing constituted an event of default for certain of the Debtor's debt obligations. However, payment obligations under the debt agreements are stayed as a result of the Bankruptcy Filing and the creditors' rights of enforcement in respect of the debt agreements are subject to the applicable provisions of the Bankruptcy Code.

The Company believes that it will have sufficient amounts available under the DIP Credit Agreement, plus trade credit extended by vendors, proceeds from sales of assets, intellectual property monetization transactions, and cash generated from operations to fund anticipated cash requirements through the next twelve months. The Bankruptcy Court has approved bidding procedures for the Company to auction its digital capture and Kodak imaging systems and services patent portfolios. The final date for designation of the successful bidder(s) under the approved bidding procedures is August 13, 2012. If the Company is unable to sell its digital imaging patent portfolio at an appropriate price, it will pursue additional licensing opportunities related to that patent portfolio. Additionally, if liquidity needs require, the Company could further slow its rate of investment in its digital growth initiatives, pursue the sale of certain of its cash generating businesses that have leading market positions in large markets, and/or pursue alternative financing arrangements. However, there can be no assurance that cash on hand, cash generated through operations, cash generated from asset sales, and other available funds will be sufficient to meet the Company's reorganization or ongoing cash needs, or that the Company will remain in compliance with all the necessary terms and conditions of the DIP Credit Agreement. As a result, the Company may be required to consider other alternatives to maximize the potential recovery for the various creditor constituencies, including, but not limited to, a possible sale of the Company or certain of the Company's material assets pursuant to Section 363 of the Bankruptcy Code.

Liens on assets under the Company's borrowing arrangements are not expected to affect the Company's strategy of divesting non-core assets.

Refer to Note 7, "Short-Term Borrowings and Long-Term Debt," in the Notes to Financial Statements for further discussion of sources of liquidity, presentation of long-term debt, related maturities and interest rates as of June 30, 2012 and December 31, 2011.

Debtor-in-Possession Credit Agreement

In connection with the Bankruptcy Filing, on January 20, 2012, the Company and Kodak Canada Inc. (the "Canadian Borrower" and, together with the Company, the "Borrowers") entered into a Debtor-in-Possession Credit Agreement, as amended on January 25, 2012, March 5, 2012 and April 26, 2012 (the "DIP Credit Agreement"), with certain subsidiaries of the Company and the Canadian Borrower signatory thereto ("Subsidiary Guarantors"), the lenders signatory thereto (the "Lenders"), Citigroup Global Markets Inc., as sole lead arranger and bookrunner, and Citicorp North America, Inc., as syndication agent, administration agent and co-collateral agent (the "Agent"). Pursuant to the terms of the DIP Credit Agreement, the Lenders agreed to lend in an aggregate principal amount of up to $950 million, consisting of an up to $250 million super-priority senior secured asset-based revolving credit facility and an up to $700 million super-priority senior secured term loan facility (collectively, the "Loans"). A portion of the revolving credit facility will be available to the Canadian Borrower and may be borrowed in Canadian Dollars. The DIP Credit Agreement was approved on February 15, 2012 by the Bankruptcy Court. The DIP Credit Agreement terminates and all outstanding obligations must be repaid on the earliest to occur of (i) July 20, 2013, (ii) the date of the substantial consummation of certain reorganization plans and (iii) certain other events, including Events of Default and repayment in full of the obligations pursuant to a mandatory prepayment.

The Company and each existing and future direct or indirect U.S. subsidiary of the Company (other than indirect U.S. subsidiaries held through foreign subsidiaries and certain immaterial subsidiaries (if any)) (the "U.S. Guarantors") have agreed to provide unconditional guarantees of the obligations of the Borrowers under the DIP Credit Agreement. In addition, the U.S. Guarantors, the Canadian Borrower and each existing and future direct and indirect Canadian subsidiary of the Canadian Borrower (other than certain immaterial subsidiaries (if any)) (the “Canadian Guarantors” and, together with the U.S. Guarantors, the “Guarantors”) have agreed to provide unconditional guarantees of the obligations of the Canadian Borrower under the DIP Credit Agreement. Under the terms of the DIP Credit Agreement, the Company will have the option to have interest on the loans provided thereunder accrue at a base rate or the then applicable LIBOR Rate (subject to certain adjustments and, in the case of the term loan facility, a floor of 1.00%), plus a margin, (x) in the case of the revolving loan facility, of 2.25% for a base rate revolving loan or 3.25% for a LIBOR rate revolving loan, and (y) in the case of the term loan facility, of 6.50% for a base rate loan and 7.50% for a LIBOR Rate loan. The obligations of the Borrowers and the Guarantors under the DIP Credit Agreement are secured by a first-priority security interest in and lien upon all of the existing and after-acquired personal property of the Company and the U.S. Guarantors, including pledges of all stock or other equity interest in direct subsidiaries owned by the Company or the U.S. Guarantors (but only up to 65% of the voting stock of each direct foreign subsidiary owned by the Company or any U.S. Guarantor in the case of pledges securing the Company’s and the U.S. Guarantors’ obligations under the DIP Credit Agreement). Assets of the type described in the preceding sentence of the Canadian Borrower or any Canadian subsidiary of the Canadian Borrower are similarly pledged to secure the obligations of the Canadian Borrower and Canadian Guarantor under the DIP Credit Agreement. The security and pledges are subject to certain exceptions.

The DIP Credit Agreement limits, among other things, the Borrowers' and the Subsidiary Guarantors' ability to (i) incur indebtedness, (ii) incur or create liens, (iii) dispose of assets, (iv) prepay subordinated indebtedness and make other restricted payments, (v) enter into sale and leaseback transactions and (vi) modify the terms of any organizational documents and certain material contracts of the Borrowers and the Subsidiary Guarantors. In addition to standard obligations, the DIP Credit Agreement provides for specific milestones that the Company must achieve by specific target dates. In addition, the Company and its subsidiaries are required to maintain consolidated Adjusted EBITDA (as defined in the DIP Credit Agreement) of not less than a specified level for certain periods, with the specified levels ranging from $(130) million to $175 million depending on the applicable period. The Company and its subsidiaries must also maintain minimum U.S. Liquidity (as defined in the DIP Credit Agreement) ranging from $100 million to $250 million depending on the applicable period. The Company was required to maintain U.S. Liquidity of $125 million and $250 million for the periods from January 20, 2012 to February 15, 2012 and February 16, 2012 to March 31, 2012, respectively. For the periods from April 1, 2012 to September 30, 2012 and October 1, 2012 through the termination of the DIP Credit Agreement, the Company must maintain U.S. Liquidity of $150 million and $100 million, respectively. The Company was in compliance with all covenants under the DIP Credit Agreement as of June 30, 2012.

The Borrowers drew $700 million in term loans under the DIP Credit Agreement during the first quarter of 2012 and issued approximately $114 million of letters of credit under the revolving credit facility. Under the DIP Credit Agreement borrowing base calculation, the Borrowers had approximately $68 million available under the revolving credit facility. Availability under the DIP Credit Agreement may be further subject to borrowing base availability, reserves and other limitations. The Company paid approximately $33 million to the Agent for arrangement, incentive, and customary agency administration fees in connection with the DIP Credit Agreement and will pay to the Lenders participation fees and an unused amount fee and commitment fee as set forth in the DIP Credit Agreement.

Second Lien Holders Agreement

On February 14, 2012, the Company reached an adequate protection agreement with a group representing at least 50.1% of the Second Lien Note Holders (2019 Senior Secured Note Holders and 2018 Senior Secured Note Holders), which was reflected in the Final DIP Order. The Company agreed, among other things, to provide all Second Lien Note Holders with a portion of the proceeds received from certain sales and settlements in respect of the Company's digital imaging patent portfolio subject to the following waterfall and the Company's right to retain a percentage of certain proceeds under the DIP Credit Agreement: first, to repay any outstanding obligations under the DIP Credit Agreement, including cash collateralizing letters of credit (unless certain parties otherwise agree); second, to pay 50% of accrued second lien interest at the non-default rate; third, the Company retains $250 million; fourth, to repay the remaining accrued and unpaid second lien interest at the non-default rate; fifth, any remaining proceeds after conditions one through four up to $2,250 million to be split 60% to the Company and 40% to repay outstanding second lien debt at par; and sixth, the Company agreed that any proceeds above $2,250 million will be split 50% to the Company and 50% to Second Lien Note Holders until second lien debt is fully paid. The Company also agreed to pay current interest to Second Lien Note Holders upon the receipt of $250 million noted above. Subject to the satisfaction of certain conditions, the Company also agreed to pay reasonable fees of certain advisors to the Second Lien Note Holders.

Contractual Obligations

Kodak Limited, a wholly owned subsidiary of the Company, has agreed with the Trustees of the Kodak Pension Plan (the "Plan" or "KPP") in the United Kingdom to make certain contributions to the Plan. Under the terms of this agreement, Kodak Limited is obligated to pay a minimum amount of $50 million to the KPP in each of the years 2012 through 2014, and a minimum amount of $90 million to the KPP in each of the years 2015 through 2022. The payment amounts for the years 2015 through 2022 could be lower, and the payment amounts for 2012 through 2022 could be higher by up to $5 million per year, based on the exchange rate between the U.S. dollar and British pound. The minimum amounts do not include certain potential contributions which could be required if Kodak Limited received a cash tax benefit as a result of the minimum contributed amount. EKC has requested deferral of the June 2012 payment in order to finance certain restructuring charges in Europe. There can be no assurances that any deferral proposal will be granted.

Other

Refer to Note 3, “Liabilities Subject to Compromise” in the Notes to Financial Statements for discussion regarding the Company’s reclassification of certain liabilities.

Refer to Note 9, “Commitments and Contingencies” in the Notes to Financial Statements for discussion regarding the Company’s undiscounted liabilities for environmental remediation costs, and other commitments and contingencies including legal matters.

Part II. Other Information

Item 6. Exhibits

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

SIGNATURES

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

EASTMAN KODAK COMPANY
(Registrant)

Date: August 7, 2012
/s/ Eric Samuels
Eric Samuels
Chief Accounting Officer and Corporate Controller
(Chief Accounting Officer and Authorized Signatory)

Eastman Kodak Company

Index to Exhibits

Exhibit Number	
(31.1)	Certification – filed herewith.
(31.2)	Certification – filed herewith.
(32.1)	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 – filed herewith.
(32.2)	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 – filed herewith.