EASTMAN KODAK CO
Form 10-Q
July 31, 2008

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

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

For the quarterly period ended June 30, 2008
or

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

For the transition period from ___ to ___

Commission File Number 1-87

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

NEW JERSEY (State of incorporation)	16-0417150 (IRS Employer Identification No.)
343 STATE STREET, ROCHESTER, NEW YORK (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 [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 25, 2008
Common Stock, $2.50 par value	288,193,433

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Part I. FINANCIAL INFORMATION

Item 1. Financial Statements

EASTMAN KODAK COMPANY
CONSOLIDATED STATEMENT OF OPERATIONS (Unaudited)
(in millions, except per share data)

	Three Months Ended June 30, 2008	Three Months Ended June 30, 2007	Six Months Ended June 30, 2008	Six Months Ended June 30, 2007
Net sales	$ 2,485	$ 2,468	$ 4,578	$ 4,548
Cost of goods sold	1,900	1,824	3,569	3,476
Gross profit	585	644	1,009	1,072
Selling, general and administrative expenses	435	435	820	829
Research and development costs	142	136	282	277
Restructuring costs (curtailment gains) and other	(3)	295	(13)	380
Other operating (income) expenses, net	(7)	(33)	(17)	(39)
Earnings (loss) from continuing operations before interest expense, other income (charges), net and income taxes	18	(189)	(63)	(375)
Interest expense	26	31	54	56
Other income (charges), net	(5)	23	30	41
Loss from continuing operations before income taxes	(13)	(197)	(87)	(390)
Benefit for income taxes	(213)	(43)	(173)	(61)
Earnings (loss) from continuing operations	200	(154)	86	(329)
Earnings from discontinued operations, net of income taxes	295	729	294	753
NET EARNINGS	$ 495	$ 575	$ 380	$ 424
Basic net earnings (loss) per share:				
Continuing operations	$ 0.69	$ (0.53)	$ 0.30	$ (1.14)
Discontinued operations	1.03	2.53	1.02	2.61
Total	$ 1.72	$ 2.00	$ 1.32	$ 1.47
Diluted net earnings (loss) per share:				
Continuing operations	$ 0.66	$ (0.53)	$ 0.30	$ (1.14)
Discontinued operations	0.96	2.53	1.01	2.61
Total	$ 1.62	$ 2.00	$ 1.31	$ 1.47
Number of common shares used in basic net earnings (loss) per share	288.2	287.6	288.2	287.5
Incremental shares from assumed issuance of unvested share-based awards	1.6	-	1.5	-
Convertible securities	18.5	-	-	-
Number of common shares used in diluted net earnings (loss) per share	308.3	287.6	289.7	287.5

Cash dividends declared per share	$	0.25	$	0.25	$	0.25	$	0.25

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

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

	Three Months Ended June 30, 2008	Three Months Ended June 30, 2007	Six Months Ended June 30, 2008	Six Months Ended June 30, 2007
Retained earnings at beginning of period	$ 6,348	$ 5,810	$ 6,474	$ 5,967
Net earnings	495	575	380	424
Cash dividends declared	(72)	(72)	(72)	(72)
Gain (loss) from issuance of treasury stock	1	(8)	(10)	(14)
Retained earnings at end of period	$ 6,772	$ 6,305	$ 6,772	$ 6,305

The accompanying notes are an integral part of these consolidated financial statements.
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EASTMAN KODAK COMPANY
CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Unaudited)

(in millions)	June 30, 2008	December 31, 2007
ASSETS		
Current Assets		
Cash and cash equivalents	$ 2,308	$ 2,947
Receivables, net	1,892	1,939
Inventories, net	1,087	943
Other current assets	222	224
Total current assets	5,509	6,053
Property, plant and equipment, net of accumulated depreciation of $5,572 and $5,516, respectively	1,712	1,811
Goodwill	1,726	1,657
Other long-term assets	4,085	4,138
TOTAL ASSETS	$ 13,032	$ 13,659
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Accounts payable and other current liabilities	$ 3,137	$ 3,794
Short-term borrowings	59	308
Accrued income and other taxes	242	344
Total current liabilities	3,438	4,446
Long-term debt, net of current portion	1,296	1,289
Pension and other postretirement liabilities	3,300	3,444
Other long-term liabilities	1,475	1,451
Total liabilities	9,509	10,630
Commitments and Contingencies (Note 6)		
Shareholders' Equity		
Common stock, $2.50 par value	978	978
Additional paid in capital	896	889
Retained earnings	6,772	6,474
Accumulated other comprehensive income	627	452
	9,273	8,793
Less: Treasury stock, at cost	5,750	5,764
Total shareholders' equity	3,523	3,029
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 13,032	$ 13,659

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

EASTMAN KODAK COMPANY
CONSOLIDATED STATEMENT OF CASH FLOWS (Unaudited)

(in millions)	Six Months Ended June 30, 2008	2007
Cash flows from operating activities:		
Net earnings	$ 380	$ 424
Adjustments to reconcile to net cash used in operating activities:		
Earnings from discontinued operations, net of income taxes	(294)	(753)
Depreciation and amortization	252	446
Gain on sales of businesses/assets	(5)	(48)
Non-cash restructuring costs, asset impairments and other charges	1	274
Provision for deferred income taxes	102	80
Decrease in receivables	55	49
Increase in inventories	(130)	(149)
Decrease in liabilities excluding borrowings	(921)	(937)
Other items, net	(49)	(81)
Total adjustments	(989)	(1,119)
Net cash used in continuing operations	(609)	(695)
Net cash provided by (used in) discontinued operations	299	(30)
Net cash used in operating activities	(310)	(725)
Cash flows from investing activities:		
Additions to properties	(123)	(125)
Net proceeds from sales of businesses/assets	57	116
Acquisitions, net of cash acquired	(35)	(2)
Marketable securities - sales	95	77
Marketable securities - purchases	(96)	(85)
Net cash used in continuing operations	(102)	(19)
Net cash provided by discontinued operations	-	2,335
Net cash (used in) provided by investing activities	(102)	2,316
Cash flows from financing activities:		
Proceeds from other borrowings	92	16
Repayment of other borrowings	(329)	(1,166)
Exercise of employee stock options	-	5
Net cash used in financing activities	(237)	(1,145)
Effect of exchange rate changes on cash	10	10
Net (decrease) increase in cash and cash equivalents	(639)	456
Cash and cash equivalents, beginning of period	2,947	1,469
Cash and cash equivalents, end of period	$ 2,308	$ 1,925

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

EASTMAN KODAK COMPANY
NOTES TO FINANCIAL STATEMENTS (Unaudited)

NOTE 1: BASIS OF PRESENTATION

BASIS OF PRESENTATION

The consolidated interim financial statements are unaudited, and certain information and footnote disclosures related thereto normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been omitted in accordance with Rule 10-01 of Regulation S-X. In the opinion of management, the accompanying unaudited consolidated financial statements were prepared following the same policies and procedures used in the preparation of the audited financial statements and reflect all adjustments (consisting of normal recurring adjustments) necessary to present fairly the results of operations, financial position and cash flows of Eastman Kodak Company and its subsidiaries (the Company). The results of operations for the interim periods are not necessarily indicative of the results for the entire fiscal year. These consolidated financial statements should be read in conjunction with the Company's Annual Report on Form 10-K for the year ended December 31, 2007.

Certain amounts for prior periods have been reclassified to conform to the current period presentation. Prior period reclassifications relate to changes in the Company's segment reporting structure and cost allocation methodologies related to employee benefits and corporate expenses. Refer to Note 12, "Segment Information."

CHANGE IN ESTIMATE

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

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

The effect of this change in estimate for the three months ended June 30, 2008 was a reduction in depreciation expense of $27 million, $15 million of which has been recognized in cost of goods sold and is a benefit to earnings from continuing operations. In addition, $12 million of the reduction in depreciation is capitalized as a reduction in inventories at June 30, 2008. The net impact of the change to earnings from continuing operations for the three months ended June 30, 2008 is an increase of $27 million, or $.09 on a fully-diluted earnings per share basis. This includes the $15 million of current quarter depreciation recognized in cost of goods sold, plus $12 million of depreciation from the previous quarter which was capitalized as a reduction in inventories at March 31, 2008, but was recognized in cost of goods sold in the current quarter.

The effect of this change in estimate for the six months ended June 30, 2008 was a reduction in depreciation expense of $55 million, $43 million of which has been recognized in cost of goods sold, and $12 million of which is capitalized as a reduction in inventories at June 30, 2008. The net impact of this change is an increase in earnings from continuing operations for the six months ended June 30, 2008 of $43 million, or $.15 on a fully-diluted earnings per share basis.

RECENT ACCOUNTING PRONOUNCEMENTS

FASB Statement No. 157

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

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

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

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

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

(in millions)	Fair Value Measurements at Reporting Date Using	
Description	Total Financial Assets & Liabilities As of June 30, 2008	Significant Other Observable Inputs (Level 2)
Financial Assets		
Foreign currency forward contracts	$ 16	$ 16
Total	$ 16	$ 16
Financial Liabilities		
Foreign currency forward contracts	$ (62)	$ (62)
Silver forward contracts	(2)	(2)
Total	$ (64)	$ (64)

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

FASB Statement No. 159

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities," which permits entities to choose to measure, on an item-by-item basis, specified financial instruments and certain other items at fair value. Unrealized gains and losses on items for which the fair value option has been elected are required to be reported in earnings at each reporting date. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. The provisions of this statement are required to be applied prospectively. The Company adopted SFAS No. 159 in the first quarter of 2008. There was no significant impact to the Company's Consolidated Financial Statements from the adoption of SFAS No. 159.

FASB Statement No. 141R

In December 2007, the FASB issued SFAS No. 141R, "Business Combinations," a revision to SFAS No. 141, "Business Combinations." SFAS No. 141R provides revised guidance for recognition and measurement of identifiable assets and goodwill acquired, liabilities assumed, and any noncontrolling interest in the acquiree at fair value. The Statement also establishes disclosure requirements to enable the evaluation of the nature and financial effects of a business combination. SFAS No. 141R is required to be applied prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008 (January 1, 2009 for the Company). The Company is currently evaluating the potential impact, if any, of the adoption of SFAS No. 141R on its Consolidated Financial Statements.

FASB Statement No. 160

In December 2007, the FASB issued SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements – an amendment of ARB No. 51." This Statement establishes accounting and reporting standards for ownership interests in subsidiaries held by parties other than the parent. Specifically, SFAS No. 160 requires the presentation of noncontrolling interests as equity in the Consolidated Statement of Financial Position, and separate identification and presentation in the Consolidated Statement of Operations of net income attributable to the entity and the noncontrolling interest. It also establishes accounting and reporting standards regarding deconsolidation and changes in a parent's ownership interest. SFAS No. 160 is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008 (January 1, 2009 for the Company). The provisions of SFAS No. 160 are generally required to be applied prospectively, except for the presentation and disclosure requirements, which must be applied retrospectively. The Company is currently evaluating the potential impact, if any, of the adoption of SFAS No. 160 on its Consolidated Financial Statements.

FASB Statement No. 161

In March 2008, the FASB issued SFAS No. 161, "Disclosures about Derivative Instruments and Hedging Activities – an amendment of FASB Statement No. 133." This Statement amends and expands the disclosure requirements for derivative instruments and hedging activities, with the intent to provide users of financial statements with an enhanced understanding of how and why an entity uses derivative instruments, how derivative instruments and related hedged items are accounted for, and how derivative instruments and related hedged items affect an entity's financial statements. SFAS No. 161 is effective for fiscal years and interim periods beginning after November 15, 2008. The Company will comply with the disclosure requirements of SFAS No. 161 beginning in the first quarter of 2009.

NOTE 2: RECEIVABLES, NET

(in millions)		June 30, 2008		As of December 31, 2007
Trade receivables	$	1,627	$	1,697
Miscellaneous receivables		265		242
Total (net of allowances of $107 and $114 as of June 30, 2008 and December 31, 2007, respectively)	$	1,892	$	1,939

Of the total trade receivable amounts of $1,627 million and $1,697 million as of June 30, 2008 and December 31, 2007, respectively, approximately $173 million and $266 million, respectively, are expected to be settled through customer deductions in lieu of cash payments. Such deductions represent rebates owed to the customer and are included in accounts payable and other current liabilities in the accompanying Consolidated Statement of Financial Position at each respective balance sheet date.

NOTE 3: INVENTORIES, NET

(in millions)		June 30, 2008		As of December 31, 2007
Finished goods	$	668	$	537
Work in process		237		235
Raw materials		182		171
Total	$	1,087	$	943

NOTE 4: GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill was $1,726 million and $1,657 million at June 30, 2008 and December 31, 2007, respectively. The changes in the carrying amount of goodwill by reportable segment for the six months ended June 30, 2008 were as follows:

(in millions) As of June 30, 2008

Film,