EASTMAN KODAK CO
Form 10-Q
July 30, 2009

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

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

For the quarterly period ended June 30, 2009
or

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

For the transition period from ___ to ___

Commission File Number 1-87

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

NEW JERSEY (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 has submitted electronically and posted on its corporate Web site, if any,
every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months.
Yes [ ] No [ ]

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes [ ] No [X]

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

Title of each Class	Number of shares Outstanding at July 24, 2009
Common Stock, $2.50 par value	268,201,646

Eastman Kodak Company
Form 10-Q
June 30, 2009

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Part I. FINANCIAL INFORMATION

Item 1. Financial Statements

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

	Three Months Ended June 30, 2009	Three Months Ended June 30, 2008	Six Months Ended June 30, 2009	Six Months Ended June 30, 2008
Net sales	$1,766	$2,485	$3,243	$4,578
Cost of goods sold	1,440	1,899	2,723	3,568
Gross profit	326	586	520	1,010
Selling, general and administrative expenses	324	438	637	829
Research and development costs	84	135	189	269
Restructuring costs, rationalization and other	37	2	146	(8)
Other operating expenses (income), net	-	(7)	3	(17)
(Loss) earnings from continuing operations before interest expense, other income (charges), net and income taxes	(119)	18	(455)	(63)
Interest expense	23	26	48	54
Other income (charges), net	14	(5)	(1)	30
Loss from continuing operations before income taxes	(128)	(13)	(504)	(87)
Provision (benefit) for income taxes	63	(213)	47	(173)
(Loss) earnings from continuing operations	(191)	200	(551)	86
(Loss) earnings from discontinued operations, net of income taxes	(4)	295	3	294
Extraordinary item, net of tax	6	-	6	-
NET (LOSS) EARNINGS ATTRIBUTABLE TO EASTMAN KODAK COMPANY	$(189)	$495	$(542)	$380
Basic net (loss) earnings per share attributable to Eastman Kodak Company common shareholders:				
Continuing operations	$(0.71)	$0.69	$(2.05)	$0.30
Discontinued operations	(0.01)	1.03	0.01	1.02
Extraordinary item, net of tax	0.02	-	0.02	-
Total	$(0.70)	$1.72	$(2.02)	$1.32
Diluted net (loss) earnings per share attributable to Eastman Kodak Company common shareholders:				
Continuing operations	$(0.71)	$0.66	$(2.05)	$0.30
Discontinued operations	(0.01)	0.96	0.01	1.01
Extraordinary item, net of tax	0.02	-	0.02	-
Total	$(0.70)	$1.62	$(2.02)	$1.31

Number of common shares used in basic and diluted net (loss) earnings per share	268.2	288.2	268.2	288.2
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 (loss) earnings per share	268.2	308.3	268.2	289.7
Cash dividends declared per share	$-	$0.25	$-	$0.25

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

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

	Three Months Ended June 30, 2009	Three Months Ended June 30, 2008	Six Months Ended June 30, 2009	Six Months Ended June 30, 2008
Retained earnings at beginning of period	$5,525	$6,348	$5,879	$6,474
Net (loss) earnings	(189)	495	(542)	380
Cash dividends	-	(72)	-	(72)
(Loss) gain from issuance of treasury stock	(1)	1	(2)	(10)
Retained earnings at end of period	$5,335	$6,772	$5,335	$6,772

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

EASTMAN KODAK COMPANY
CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Unaudited)

(in millions)	June 30, 2009	December 31, 2008
ASSETS		
Current Assets		
Cash and cash equivalents	$1,132	$2,145
Receivables, net	1,333	1,716
Inventories, net	918	948
Other current assets	216	195
Total current assets	3,599	5,004
Property, plant and equipment, net of accumulated depreciation of $5,201 and $5,254, respectively	1,407	1,551
Goodwill	901	896
Other long-term assets	1,199	1,728
TOTAL ASSETS	$7,106	$9,179
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Accounts payable and other current liabilities	$2,318	$3,267
Short-term borrowings and current portion of long-term debt	52	51
Accrued income and other taxes	128	144
Total current liabilities	2,498	3,462
Long-term debt, net of current portion	1,259	1,252
Pension and other postretirement liabilities	2,380	2,382
Other long-term liabilities	1,078	1,119
Total liabilities	7,215	8,215
Commitments and Contingencies (Note 9)		
Shareholders' Equity		
Common stock, $2.50 par value	978	978
Additional paid in capital	910	901
Retained earnings	5,335	5,879
Accumulated other comprehensive loss	(1,291)	(749)
	5,932	7,009
Less: Treasury stock, at cost	(6,044)	(6,048)
Total Eastman Kodak Company shareholders' equity	(112)	961
Noncontrolling interests	3	3
Total equity	(109)	964
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$7,106	$9,179

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

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EASTMAN KODAK COMPANY
CONSOLIDATED STATEMENT OF CASH FLOWS (Unaudited)

(in millions)	Six Months Ended June 30, 2009	2008
Cash flows from operating activities:		
Net (loss) earnings	$(542)	$380
Adjustments to reconcile to net cash used in operating activities:		
Earnings from discontinued operations, net of income taxes	(3)	(294)
Earnings from extraordinary item, net of income taxes	(6)	-
Depreciation and amortization	219	252
Gain on sales of businesses/assets	(2)	(5)
Non-cash restructuring and rationalization costs, asset impairments and other charges	11	1
(Benefit) provision for deferred income taxes	(15)	102
Decrease in receivables	409	55
Decrease (increase) in inventories	34	(130)
Decrease in liabilities excluding borrowings	(1,087)	(921)
Other items, net	40	(41)
Total adjustments	(400)	(981)
Net cash used in continuing operations	(942)	(601)
Net cash provided by discontinued operations	-	299
Net cash used in operating activities	(942)	(302)
Cash flows from investing activities:		
Additions to properties	(60)	(123)
Proceeds from sales of businesses/assets	6	57
Acquisitions, net of cash acquired	-	(35)
Marketable securities - sales	18	95
Marketable securities - purchases	(17)	(96)
Net cash used in investing activities	(53)	(102)
Cash flows from financing activities:		
Proceeds from borrowings	9	86
Repayment of borrowings	(11)	(331)
Debt issuance costs	(13)	-
Net cash used in financing activities	(15)	(245)
Effect of exchange rate changes on cash	(3)	10
Net decrease in cash and cash equivalents	(1,013)	(639)
Cash and cash equivalents, beginning of period	2,145	2,947
Cash and cash equivalents, end of period	$1,132	$2,308

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 AND RECENT ACCOUNTING PRONOUNCEMENTS

BASIS OF PRESENTATION

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

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

The Company has evaluated subsequent events for recognition or disclosure in the financial statements through the date of issuance, July 30, 2009.

Certain amounts for prior periods have been reclassified to conform to the current period classification.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

FASB Statement No. 168
In June 2009, the FASB issued SFAS No. 168, "The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles: a replacement of FASB Statement No. 162." This Statement establishes two levels of U.S. generally accepted accounting principles (GAAP) – authoritative and nonauthoritative. The FASB Accounting Standards Codification (ASC) will become the source of authoritative, nongovernmental GAAP, except for rules and interpretive releases of the Securities and Exchange Commission (SEC). SFAS No. 168 is effective for financial statements issued for interim and annual periods ending after September 15, 2009, and will be adopted by the Company in the third quarter of 2009. The adoption of SFAS No. 168 will not have any impact on the Company's Consolidated Financial Statements.

FASB Statement No. 167
In June 2009, the FASB issued SFAS No. 167, "Amendments to FASB Interpretation No. 46(R)." This Statement requires entities to perform a qualitative analysis to determine whether a variable interest gives the entity a controlling financial interest in a variable interest entity. This Statement also requires an ongoing reassessment of variable interests and eliminates the quantitative approach previously required for determining whether an entity is the primary beneficiary. SFAS No. 167 is effective as of the beginning of an entity's first annual reporting period that begins after November 15, 2009 (January 1, 2010 for the Company). The Company is currently evaluating the potential impact, if any, of the adoption of SFAS No. 167 on its Consolidated Financial Statements.

FSP FAS 132(R)-1

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

RECENTLY ADOPTED ACCOUNTING PRONOUNCEMENTS

FASB Statement No. 165
In May 2009, the FASB issued SFAS No. 165, "Subsequent Events." This Statement establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued. SFAS No. 165 was effective for interim or annual financial periods ending after June 15, 2009, and the adoption did not have any impact on the Company's Consolidated Financial Statements.

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

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

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

FASB Statement No. 161
In March 2008, the FASB issued SFAS No. 161, "Disclosures about Derivative Instruments and Hedging Activities – an amendment of FASB Statement No. 133." This Statement amends and expands the disclosure requirements for derivative instruments and hedging activities, with the intent to provide users of financial statements with an enhanced understanding of how and why an entity uses derivative instruments, how derivative instruments and related hedged items are accounted for, and how derivative instruments and related hedged items affect an entity's financial statements. The Company adopted SFAS No. 161 as of January 1, 2009; see Note 17, "Financial Instruments."

FASB Statement No. 160
In December 2007, the FASB issued SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements – an amendment of ARB No. 51." This Statement establishes accounting and reporting standards for ownership interests in subsidiaries held by parties other than the parent. Specifically, SFAS No. 160 requires the presentation of noncontrolling interests as equity in the Consolidated Statement of Financial Position, and separate identification and presentation in the Consolidated Statement of Operations of net income attributable to the entity and the noncontrolling interest. The Company adopted SFAS No. 160 as of January 1, 2009, and, as required, applied this standard to the prior period's financial statements. SFAS No. 160 also establishes accounting and reporting standards

regarding deconsolidation and changes in a parent’s ownership interest, and these standards will be applied prospectively to any such transactions in 2009 onward. The adoption of SFAS No. 160 did not have a material impact on the Company’s Consolidated Financial Statements.

FASB Statement No. 141(R)

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

NOTE 2: RECEIVABLES, NET

(in millions)	June 30, 2009	As of December 31, 2008
Trade receivables	$1,167	$1,330
Miscellaneous receivables	166	386
Total (net of allowances of $106 and $113 as of June 30, 2009 and December 31, 2008, respectively)	$1,333	$1,716

Of the total trade receivable amounts of $1,167 million and $1,330 million as of June 30, 2009 and December 31, 2008, respectively, approximately $136 million and $218 million, respectively, are expected to be settled through customer deductions in lieu of cash payments. Such deductions represent rebates owed to customers and are included in Accounts payable and other current liabilities in the accompanying Consolidated Statement of Financial Position at each respective balance sheet date. The majority of the decrease in Miscellaneous receivables was the result of payments received in the first two quarters of 2009 related to an intellectual property licensing agreement for which the associated revenue was recognized in 2008.

NOTE 3: INVENTORIES, NET

(in millions)	June 30, 2009	As of December 31, 2008
Finished goods	$577	$610
Work in process	195	193
Raw materials	146	145
Total	$918	$948

NOTE 4: GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill was $901 million and $896 million at June 30, 2009 and December 31, 2008, respectively. The changes in the carrying amount of goodwill by reportable segment for the six months ended June 30, 2009 were as follows:

(in millions)	As of June 30, 2009			
	Consumer Digital Imaging Group	Film, Photofinishing and Entertainment Group	Graphic Communications Group	Consolidated Total
Balance as of December 31, 2008	$195	$ 613	$ 88	$ 896
Currency translation adjustments	-	2	3	5
Balance as of June 30, 2009	$195	$ 615	$ 91	$ 901

The gross carrying amount and accumulated amortization by major intangible asset category as of June 30, 2009 and December 31, 2008 were as follows:

(in millions)	As of June 30, 2009			
	Gross Carrying Amount	Accumulated Amortization	Net	Weighted-Average Amortization Period
Technology-based	$304	$ 218	$86	7 years
Customer-related	263	155	108	10 years
Other	63	46	17	11 years
Total	$630	$ 419	$211	9 years

(in millions)	As of December 31, 2008			
	Gross Carrying Amount	Accumulated Amortization	Net	Weighted-Average Amortization Period
Technology-based	$300	$ 190	$110	7 years
Customer-related	276	156	120	10 years
Other	57	40	17	9 years
Total	$633	$ 386	$247	8 years

Amortization expense related to purchased intangible assets for the three months ended June 30, 2009 and 2008 was $19 million and $20 million, respectively. Amortization expense related to purchased intangible assets for the six months ended June 30, 2009 and 2008 was $36 million and $40 million, respectively.

Estimated future amortization expense related to purchased intangible assets as of June 30, 2009 is as follows (in millions):

2009	$34

2010	58
2011	39
2012	24
2013	6
2014 and thereafter	50
Total	$211

NOTE 5: OTHER LONG-TERM ASSETS

(in millions)	June 30, 2009	As of December 31, 2008
Overfunded pension plans	$255	$773
Deferred income taxes, net of valuation allowance	498	506
Intangible assets	211	247
Other	235	202
Total	$1,199	$1,728

NOTE 6: ACCOUNTS PAYABLE AND OTHER CURRENT LIABILITIES

(in millions)	June 30, 2009	As of December 31, 2008
Accounts payable, trade	$681	$1,288
Other current liabilities	1,637	1,979
Total	$2,318	$3,267

NOTE 7: SHORT-TERM BORROWINGS AND LONG-TERM DEBT

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

The Amended Credit Agreement provides for an asset-based revolving credit facility of up to $500 million, as further described below. The letters of credit previously issued under the former Secured Credit Agreement continue under the Amended Credit Agreement. Additionally, up to $100 million of the Company’s and its subsidiaries’ obligations to various Lenders under treasury management services, hedge or other agreements or arrangements are secured by the asset-based collateral under the Amended Credit Agreement. The Amended Credit Agreement can be used for general corporate purposes, other than prepaying or redeeming the Company’s outstanding 3.375% Senior Convertible Notes due 2033. The termination date of the Amended Credit Agreement with respect to the Lenders who agreed to the extension, and any future lenders, is March 31, 2012, and with respect to the other Lenders continues to be October 18, 2010. As of June 30, 2009, approximately 75% of the facility amount has been extended to the 2012 termination date, and additional lenders may be added to increase this amount.

Advances under the Amended Credit Agreement will be available based on the Borrowers’ respective borrowing base from time to time. The borrowing base is calculated based on designated percentages of eligible accounts receivable, inventory, machinery and equipment and, once mortgages are recorded, certain real property, subject to applicable reserves. The Amended Credit Agreement provides that advances made from time to time will bear interest at applicable margins over the Base Rate, as defined, or the Eurodollar Rate. The Company pays, on a quarterly basis, an annual fee ranging from 0.50% to 1.00% to the Lenders based on the unused commitments.

The obligations of the Borrowers are secured by liens on substantially all of their non-real estate assets and by a pledge of 65% of the stock of certain of the Company’s material non-U.S. subsidiaries, pursuant to Amended and Restated U.S. and Canadian Security Agreements. In addition, the Company expects to mortgage certain U.S. real property for inclusion in the borrowing base for advances under the Amended Credit Agreement. The security interests are limited to the extent necessary so that they do not trigger the cross-collateralization requirements under the Company’s indenture with Bank of New York as trustee, dated as of January 1, 1988, as amended by various supplemental indentures.

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

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

As of June 30, 2009, the Company had no debt for borrowed money outstanding under the Amended Credit Agreement, but had outstanding letters of credit of $131 million. In addition to the amounts outstanding under the Amended Credit Agreement, there were bank guarantees of $33 million and surety bonds of $31 million outstanding primarily to ensure the payment of possible casualty and workers' compensation claims, environmental liabilities, legal contingencies, rental payments, and to support various customs and trade activities.

In addition to the Amended Credit Agreement, the Company has other committed and uncommitted lines of credit as of June 30, 2009 totaling $28 million and $315 million, respectively. These lines primarily support operational and borrowing needs of the Company's subsidiaries, which include term loans, overdraft coverage, revolving credit lines, letters of credit, bank guarantees and vendor financing programs. Interest rates and other terms of borrowing under these lines of credit vary from country to country, depending on local market conditions. As of June 30, 2009, usage under these lines was approximately $58 million, with $2 million reflected in Short-term borrowings and current portion of long-term debt on the accompanying Consolidated Statement of Financial Position, and the balance supporting non-debt related obligations.

NOTE 8: INCOME TAXES

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

(dollars in millions)	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
Loss from continuing operations before income taxes	$(128)	$(13)	$(504)	$(87)
Provision (benefit) for income taxes	$63	$(213)	$47	$(173)
Effective tax rate	(49.2)%	1638.5%	(9.3)%	198.9%
Benefit for income taxes @ 35%	$(45)	$(5)	$(176)	$(30)
Difference between tax at effective vs. statutory rate	$108	$(208)	$223	$(143)

For the three months ended June 30, 2009, the difference between the Company's recorded provision and the benefit that would result from applying the U.S. statutory rate of 35.0% is primarily attributable to: (1) losses generated within the U.S. and certain jurisdictions outside the U.S. that were not benefited due to management's conclusion that it was not more likely than not that the tax benefits would be realized; (2) the impact of previously established valuation allowances in jurisdictions with current earnings; (3) the mix of earnings from operations in certain lower-taxed jurisdictions outside the U.S.; (4) tax accounting impacts related to items reported in Accumulated other comprehensive income; and (5) adjustments for uncertain tax positions and tax audits.

For the six months ended June 30, 2009, the difference between the Company's recorded provision and the benefit that would result from applying the U.S. statutory rate of 35.0% is primarily attributable to: (1) losses generated within the U.S. and certain jurisdictions outside the U.S. that were not benefited due to management's conclusion that it was not more likely than not that the tax benefits would be realized; (2) the impact of previously established valuation allowances in jurisdictions with current earnings; (3) the mix of earnings from operations in certain lower-taxed jurisdictions outside the U.S.; and (4) adjustments for uncertain tax positions and tax audits.

In June 2008, the Company received a tax refund from the U.S. Internal Revenue Service (IRS). The refund is related to the audit of certain claims filed for tax years 1993-1998. The refund had a positive impact on the Company's net earnings of $565 million for the three and six months ended June 30, 2008, of which $295 million of the refund is reflected in earnings from discontinued operations. The balance of $270 million, which represents interest, is reflected in earnings from continuing operations.

For the three and six months ended June 30, 2008, the difference between the Company's recorded benefit and the benefit that would result from applying the U.S. statutory rate of 35.0% is primarily attributable to: (1) interest earned on the IRS tax refund, partially offset by (2) losses generated within the U.S. and certain jurisdictions outside the U.S. that were not benefited due to previously established valuation allowances, (3) the impact of previously established valuation allowances in jurisdictions with current earnings, (4) the mix of earnings from operations in certain lower-taxed jurisdictions outside the U.S., and (5) adjustments for uncertain tax positions and tax audits.

NOTE 9: COMMITMENTS AND CONTINGENCIES

Environmental

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

	As of	
(in millions)	June 30, 2009	December 31, 2008
Eastman Business Park site, Rochester, NY	$58	$63
Other operating sites	11	12
Sites associated with former operations	21	21
Sites associated with the non-imaging health business sold in 1994	21	19
Total	$111	$115

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

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

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

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

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

Other Commitments and Contingencies

As of June 30, 2009, the Company had outstanding letters of credit of $131 million issued under the Amended Credit Agreement, as well as bank guarantees of $33 million and surety bonds in the amount of $31 million primarily to ensure the payment of possible casualty and workers' compensation claims, environmental liabilities, legal contingencies, rental payments, and to support various customs, tax and trade activities.

The Company's Brazilian operations are involved in governmental assessments of indirect and other taxes in various stages of litigation, primarily related to federal and state value-added taxes. The Company is disputing these matters and intends to vigorously defend its position. Based on the opinion of legal counsel, management does not believe that the ultimate resolution of these matters will materially impact the Company's results of operations, financial position or cash flows. The Company routinely assesses all these matters as to the probability of ultimately incurring a liability in its Brazilian operations, and records its best estimate of the ultimate loss in situations where it assesses the likelihood of loss as probable.

The Company recorded a contingency accrual of $21 million in the fourth quarter of 2008 related to employment litigation matters. The employment litigation matters related to a number of cases, which had similar fact patterns related to legacy equal employment opportunity issues. On April 27, 2009, the plaintiffs filed an unopposed motion for preliminary approval of a settlement in this action pursuant to which the Company will establish a settlement fund in the amount of $21 million that will be used for payments to plaintiffs and class members, as well as attorneys' fees, litigation costs, and claims administration costs. The settlement is subject to court approval.

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

The Company and its subsidiaries are involved in various lawsuits, claims, investigations and proceedings, including commercial, customs, employment, environmental, and health and safety matters, which are being handled and defended in the ordinary course of business. In addition, the Company is subject to various assertions, claims, proceedings and requests for indemnification concerning intellectual property, including patent infringement suits involving technologies that are incorporated in a broad spectrum of the Company's products. These matters are in various stages of investigation and litigation and are being vigorously defended. Although the Company does not expect that the outcome in any of these matters, individually or collectively, will have a material adverse effect on its financial condition or results of operations, litigation is inherently unpredictable. Therefore, judgments could be rendered or settlements entered, that could adversely affect the Company's operating results or cash flow in a particular period. The Company routinely assesses all its litigation and threatened litigation as to the probability of ultimately incurring a liability, and records its best estimate of the ultimate loss in situations where it assesses the likelihood of loss as probable.

NOTE 10: GUARANTEES

The Company guarantees debt and other obligations of certain customers. The debt and other obligations are primarily due to banks and leasing companies in connection with financing of customers' purchases of equipment and product from the Company. At June 30, 2009, the maximum potential amount of future payments (undiscounted) that the Company could be required to make under these customer-related guarantees was $63 million. At June 30, 2009, the carrying amount of any liability related to these customer guarantees was not material.

The customer financing agreements and related guarantees, which mature between 2009 and 2014, typically have a term of 90 days for product and short-term equipment financing arrangements, and up to five years for long-term equipment financing arrangements. These guarantees would require payment from the Company only in the event of default on payment by the respective debtor. In some cases, particularly for guarantees related to equipment financing, the Company has collateral or recourse provisions to recover and sell the equipment to reduce any losses that might be incurred in connection with the guarantees. However, any proceeds received from the liquidation of these assets may not cover the maximum potential loss under these guarantees.

Eastman Kodak Company (“EKC”) also guarantees potential indebtedness to banks and other third parties for some of its consolidated subsidiaries. The maximum amount guaranteed is $282 million, and the outstanding amount for those guarantees is $194 million with $177 million recorded within the Short-term borrowings and current portion of long-term debt, and Long-term debt, net of current portion components in the accompanying Consolidated Statement of Financial Position. These guarantees expire in 2009 through 2014. Pursuant to the terms of the Company's Amended Credit Agreement, obligations of the Borrowers to the Lenders under the Amended Credit Agreement, as well as secured agreements in an amount not to exceed $100 million, are guaranteed by the Company and the Company’s U.S. subsidiaries and included in the above amounts.

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

Indemnifications

The Company issues indemnifications in certain instances when it sells businesses and real estate, and in the ordinary course of business with its customers, suppliers, service providers and business partners. Further, the Company indemnifies its directors and officers who are, or were, serving at the Company's request in such capacities. Historically, costs incurred to settle claims related to these indemnifications have not been material to the

Company's financial position, results of operations or cash flows. Additionally, the fair value of the indemnifications that the Company issued during the quarter ended June 30, 2009 was not material to the Company's financial position, results of operations or cash flows.

Warranty Costs