EASTMAN KODAK CO
Form 10-Q
November 03, 2011

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

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

For the quarterly period ended September 30, 2011
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 October 28, 2011 |
|---|---|
| Common Stock, $2.50 par value | 269,954,791 |

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September 30, 2011

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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 September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| Net sales | | | | |
| Products | $1,253 | $1,332 | $3,648 | $3,847 |
| Services | 196 | 189 | 581 | 568 |
| Licensing & royalties | 13 | 235 | 40 | 810 |
| Total net sales | $1,462 | $1,756 | $4,269 | $5,225 |
| Cost of sales | | | | |
| Products | $1,108 | $1,132 | $3,278 | $3,217 |
| Services | 147 | 150 | 448 | 438 |
| Total cost of sales | $1,255 | $1,282 | $3,726 | $3,655 |
| Gross profit | $207 | $474 | $543 | $1,570 |
| Selling, general and administrative expenses | 284 | 313 | 884 | 935 |
| Research and development costs | 68 | 82 | 214 | 241 |
| Restructuring costs, rationalization and other | 17 | 24 | 79 | 48 |
| Other operating expenses (income), net | 12 | (3) | (59) | (1) |
| (Loss) earnings from continuing operations before interest expense, other income (charges), net and income taxes | (174) | 58 | (575) | 347 |
| Interest expense | 41 | 38 | 117 | 117 |
| Loss on early extinguishment of debt, net | - | - | - | 102 |
| Other income (charges), net | (7) | 8 | 2 | 4 |
| (Loss) earnings from continuing operations before income taxes | (222) | 28 | (690) | 132 |
| Provision (benefit) for income taxes | - | 71 | (40) | 223 |
| Loss from continuing operations | (222) | (43) | (650) | (91) |
| Earnings (loss) from discontinued operations, net of income taxes | - | - | 3 | (1) |
| NET LOSS ATTRIBUTABLE TO EASTMAN KODAK COMPANY | $(222) | $(43) | $(647) | $(92) |
| | | | | |
| Basic and diluted net (loss) earnings per share attributable to Eastman Kodak Company common shareholders: | | | | |
| Continuing operations | $(0.83) | $(0.16) | $(2.42) | $(0.34) |
| Discontinued operations | - | - | 0.01 | - |

| | | | | |
|---|---|---|---|---|
| Total | $(0.83) | $(0.16) | $(2.41) | $(0.34) |
| | | | | |
| Number of common shares used in basic and diluted net (loss) earnings per share | 268.9 | 268.5 | 268.9 | 268.4 |

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 September 30, 2011 | Three Months Ended September 30, 2010 | Nine Months Ended September 30, 2011 | Nine Months Ended September 30, 2010 |
|---|---|---|---|---|
| Retained earnings at beginning of period | $4,536 | $5,620 | $4,969 | $5,676 |
| Net loss | (222) | (43) | (647) | (92) |
| Loss from issuance of treasury stock | (41) | (12) | (49) | (19) |
| Retained earnings at end of period | $4,273 | $5,565 | $4,273 | $5,565 |

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

EASTMAN KODAK COMPANY
CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Unaudited)

| (in millions) | September 30, 2011 | December 31, 2010 |
|---|---|---|
| ASSETS | | |
| Current Assets | | |
| Cash and cash equivalents | $ 862 | $ 1,624 |
| Receivables, net | 1,052 | 1,196 |
| Inventories, net | 892 | 746 |
| Deferred income taxes | 59 | 120 |
| Other current assets | 85 | 100 |
| Total current assets | 2,950 | 3,786 |
| Property, plant and equipment, net of accumulated depreciation of $4,970 and $4,985, respectively | 948 | 1,037 |
| Goodwill | 285 | 294 |
| Other long-term assets | 919 | 1,109 |
| TOTAL ASSETS | $ 5,102 | $ 6,226 |
| LIABILITIES AND EQUITY (DEFICIT) | | |
| Current Liabilities | | |
| Accounts payable, trade | $ 673 | $ 959 |
| Short-term borrowings and current portion of long-term debt | 210 | 50 |
| Accrued income and other taxes | 37 | 343 |
| Other current liabilities | 1,397 | 1,468 |
| Total current liabilities | 2,317 | 2,820 |
| Long-term debt, net of current portion | 1,356 | 1,195 |
| Pension and other postretirement liabilities | 2,552 | 2,661 |
| Other long-term liabilities | 526 | 625 |
| Total liabilities | 6,751 | 7,301 |
| | | |
| Commitments and Contingencies (Note 7) | | |
| | | |
| Equity (Deficit) | | |
| Common stock, $2.50 par value | 978 | 978 |
| Additional paid in capital | 1,114 | 1,105 |
| Retained earnings | 4,273 | 4,969 |
| Accumulated other comprehensive loss | (2,079) | (2,135) |
| | 4,286 | 4,917 |
| Less: Treasury stock, at cost | (5,937) | (5,994) |
| Total Eastman Kodak Company shareholders' deficit | (1,651) | (1,077) |
| Noncontrolling interests | 2 | 2 |
| Total deficit | (1,649) | (1,075) |

| | | | | |
|---|---|---|---|---|
| TOTAL LIABILITIES AND DEFICIT | $ | 5,102 | $ | 6,226 |

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

EASTMAN KODAK COMPANY
CONSOLIDATED STATEMENT OF CASH FLOWS (Unaudited)

| (in millions) | Nine Months Ended September 30, 2011 | Nine Months Ended September 30, 2010 |
|---|---|---|
| Cash flows from operating activities: | | |
| Net loss | $(647) | $(92) |
| Adjustments to reconcile to net cash used in operating activities: | | |
| (Earnings) loss from discontinued operations, net of income taxes | (3) | 1 |
| Depreciation and amortization | 223 | 289 |
| (Gain) loss on sales of businesses/assets | (72) | 2 |
| Loss on early extinguishment of debt | - | 102 |
| Non-cash restructuring and rationalization costs, asset impairments and other charges | 15 | 2 |
| Provision for deferred income taxes | 112 | 37 |
| Decrease in receivables | 194 | 104 |
| Increase in inventories | (119) | (209) |
| Decrease in liabilities excluding borrowings | (735) | (668) |
| Other items, net | 4 | (72) |
| Total adjustments | (381) | (412) |
| Net cash used in continuing operations | (1,028) | (504) |
| Net cash used in discontinued operations | (10) | - |
| Net cash used in operating activities | (1,038) | (504) |
| Cash flows from investing activities: | | |
| Additions to properties | (88) | (87) |
| Proceeds from sales of businesses/assets | 94 | 17 |
| Business acquisitions, net of cash acquired | (27) | - |
| Funding of restricted cash and investment accounts | (22) | - |
| Marketable securities - sales | 58 | 65 |
| Marketable securities - purchases | (55) | (59) |
| Net cash used in investing activities | (40) | (64) |
| Cash flows from financing activities: | | |
| Proceeds from borrowings | 407 | 491 |
| Repayment of borrowings | (100) | (542) |
| Debt issuance costs | (6) | (12) |
| Net cash provided by (used in) financing activities | 301 | (63) |
| Effect of exchange rate changes on cash | 15 | 4 |
| Net decrease in cash and cash equivalents | (762) | (627) |
| Cash and cash equivalents, beginning of period | 1,624 | 2,024 |
| Cash and cash equivalents, end of period | $862 | $1,397 |

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 (U.S. GAAP) 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, 2010.

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

The Company has had net losses from 2008 through the nine months ended September 30, 2011. The Company has managed its liquidity needs during this time with cash on hand, cash received from intellectual property licensing, the sale of assets and businesses, and the issuance of debt. The Company faces a number of substantial challenges, including the level of investment necessary to support growth in its consumer and commercial inkjet businesses, aggressive price competition, secular decline in the Company's traditional film businesses, the cost to restructure the Company to enable sustainable profitability, and short-term uncertainty relating to certain of the Company's intellectual property licensing activities pending the outcome of the infringement litigation against Apple Inc. and Research in Motion Ltd. before the International Trade Commission. In July, 2011, the Company announced that it is exploring strategic alternatives, including a potential sale, related to its digital imaging patent portfolios. 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 slow its rate of investment in its consumer and commercial inkjet businesses and/or pursue the sale of certain of its cash generating businesses that have leading market positions in large markets. The Company's ability to continue its operations, including the Company's ability to fund working capital, capital investments, scheduled interest and debt repayments, restructuring payments, and employee benefit plan payments or required plan contributions, within the next twelve months is dependent upon the ability to monetize its digital imaging patent portfolio through a sale or licensing of the relevant patents and/or the successful execution of the alternative actions, which could also include the issuance of additional debt, listed above. There is uncertainty regarding whether the Company can, and the Company can provide no assurance that it will, successfully execute the actions listed above.

CHANGE IN ESTIMATE

In conjunction with the Company's goodwill impairment analysis in the fourth quarter of 2010, the Company reviewed its estimates of the remaining useful lives of its Film, Photofinishing and Entertainment Group segment's long-lived assets. This analysis indicated that overall these assets will continue to be used in these businesses for a longer period than anticipated in 2008, the last time that depreciable lives were adjusted for these assets. As a result, the Company revised the useful lives of certain existing production machinery and equipment, and manufacturing-related buildings effective January 1, 2011.  These assets, many of which were previously set to fully depreciate by 2012 to 2013, were changed to depreciate with estimated useful lives ending from 2014 to 2017.  This change in useful lives reflects the Company's current estimate of future periods to be benefited from the use of the property, plant, and equipment.

The effect of this change in estimate for the three months ended September 30, 2011 was a reduction in depreciation expense of $10 million, $4 million of which has been recognized in Cost of sales and is a benefit to earnings from continuing operations.  In addition, $6 million of the reduction in depreciation expense is capitalized as a reduction of inventories at September 30, 2011.  The net impact of the change to earnings from continuing operations for the three months ended September 30, 2011 is an increase of $10 million, or $.04 on a fully-diluted earnings per share basis.  This includes the $4 million of current quarter depreciation recognized in Cost of sales, plus $6 million of depreciation from the previous quarter which was capitalized as a reduction of inventories at June 30, 2011, but was recognized in Cost of sales in the current quarter.

The effect of this change in estimate for the nine months ended September 30, 2011 was a reduction in depreciation expense of $28 million, $22 million of which has been recognized in Cost of sales, and $6 million of which is capitalized as a reduction of inventories at September 30, 2011.  The net impact of this change is an increase in earnings from continuing operations for the nine months ended September 30, 2011 of $22 million, or $.08 on a fully-diluted earnings per share basis.

RECENTLY ADOPTED ACCOUNTING PRONOUNCEMENTS

In December 2010, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2010-28, “When to Perform Step 2 of the Goodwill Impairment Test for Reporting Units with Zero or Negative Carrying Amounts,” which amends Accounting Standards Codification (ASC) Topic 350, “Intangibles – Goodwill and Other.” ASU No. 2010-28 amends the ASC to require entities that have a reporting unit with a zero or negative carrying value to assess whether qualitative factors indicate that it is more likely than not that an impairment of goodwill exists, and if an entity concludes that it is more likely than not that an impairment exists, the entity must measure the goodwill impairment. The changes to the ASC as a result of this update were effective for annual and interim reporting periods beginning after December 15, 2010 (January 1, 2011 for the Company). The adoption of this guidance did not impact the Company’s Consolidated Financial Statements.

In October 2009, the FASB issued ASU No. 2009-13, “Multiple-Deliverable Revenue Arrangements,” which amends ASC Topic 605, “Revenue Recognition.” ASU No. 2009-13 amends the ASC to eliminate the residual method of allocation for multiple-deliverable revenue arrangements, and requires that arrangement consideration be allocated at the inception of an arrangement to all deliverables using the relative selling price method. The ASU also establishes a selling price hierarchy for determining the selling price of a deliverable, which includes: (1) vendor-specific objective evidence if available, (2) third-party evidence if vendor-specific objective evidence is not available, and (3) estimated selling price if neither vendor-specific nor third-party evidence is available. Additionally, ASU No. 2009-13 expands the disclosure requirements related to a vendor's multiple-deliverable revenue arrangements. The changes to the ASC as a result of this update were effective prospectively for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010 (January 1, 2011 for the Company). The adoption of this guidance did not have a material impact on the Company’s Consolidated Financial Statements.

In October 2009, the FASB issued ASU No. 2009-14, “Certain Revenue Arrangements That Include Software Elements,” which amends ASC Topic 985, “Software.” ASU No. 2009-14 amends the ASC to change the accounting model for revenue arrangements that include both tangible products and software elements, such that tangible products containing both software and non-software components that function together to deliver the tangible product's essential functionality are no longer within the scope of software revenue guidance. The changes to the ASC as a result of this update were effective prospectively for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010 (January 1, 2011 for the Company). The adoption of this guidance did not have a material impact on the Company’s Consolidated Financial Statements.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In September 2011, the FASB issued ASU No. 2011-08, “Intangibles-Goodwill and Other (ASC Topic 350) – Testing Goodwill for Impairment.” ASU No. 2011-08 amends the impairment test for goodwill by allowing companies to first assess qualitative factors to determine if it is more likely than not that goodwill might be impaired and whether it is necessary to perform the current two-step goodwill impairment test. The changes to the ASC as a result of this update are effective prospectively for interim and annual periods beginning after December 15, 2011 (January 1, 2012 for the Company). The Company does not expect that the adoption of this guidance will have a significant impact on its Consolidated Financial Statements.

In June 2011, the FASB issued ASU No. 2011-05, “Comprehensive Income (ASC Topic 220) - Presentation of Comprehensive Income.” ASU No. 2011-05 eliminates the option to present the components of other comprehensive income as part of the statement of equity and requires an entity to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. The amendments are effective retrospectively for fiscal years, and interim periods within those years, beginning after December 15, 2011 (January 1, 2012 for the Company). The guidance requires changes in presentation only and will have no significant impact on the Company's Consolidated Financial Statements.

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In May 2011, the FASB issued ASU No. 2011-04, "Fair Value Measurement (ASC Topic 820) - Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs." ASU No. 2011-04 amends current fair value measurement and disclosure guidance to include increased transparency around valuation inputs and investment categorization. The changes to the ASC as a result of this update are effective prospectively for interim and annual periods beginning after December 15, 2011 (January 1, 2012 for the Company). The Company does not expect that the adoption of this guidance will have a significant impact on its Consolidated Financial Statements.

NOTE 2: RECEIVABLES, NET

| (in millions) | As of September 30, 2011 | | As of December 31, 2010 | |
|---|---|---|---|---|
| Trade receivables | $ | 943 | $ | 1,074 |
| Miscellaneous receivables | | 109 | | 122 |
| Total (net of allowances of $63 and $77 as of September 30, 2011 and December 31, 2010, respectively) | $ | 1,052 | $ | 1,196 |

Of the total trade receivable amounts of $943 million and $1,074 million as of September 30, 2011 and December 31, 2010, respectively, approximately $176 million and $224 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 Other current liabilities in the accompanying Consolidated Statement of Financial Position at each respective balance sheet date.

NOTE 3: INVENTORIES, NET

| (in millions) | As of September 30, 2011 | | As of December 31, 2010 | |
|---|---|---|---|---|
| Finished goods | $ | 581 | $ | 471 |
| Work in process | | 179 | | 154 |
| Raw materials | | 132 | | 121 |
| Total | $ | 892 | $ | 746 |

NOTE 4: GOODWILL

The carrying value of goodwill by reportable segments is as follows:

| (in millions) | Consumer Digital Imaging Group | Graphic Communications Group | Film, Photofinishing and Entertainment Group | Consolidated Total |
|---|---|---|---|---|
| Balance as of December 31, 2010: | | | | |
| Goodwill | $ 201 | $ 870 | $ 626 | $ 1,697 |
| Accumulated impairment losses | - | (777 ) | (626 ) | (1,403 ) |
| | $ 201 | $ 93 | $ - | $ 294 |
| | | | | |
| Impairment | - | (8 ) | - | (8 ) |
| Divestiture | - | (4 ) | - | (4 ) |
| Currency translation adjustments | 3 | - | - | 3 |
| Balance as of September 30, 2011: | | | | |
| Goodwill | 204 | 866 | 626 | 1,696 |
| Accumulated impairment losses | - | (785 ) | (626 ) | (1,411 ) |
| | $ 204 | $ 81 | $ - | $ 285 |

The Company tests goodwill for impairment annually on September 30, or 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, which 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.

The components of the Film, Photofinishing and Entertainment Group (FPEG) operating segment are similar and, therefore, the segment meets the definition of a reporting unit. Likewise, the components of the Consumer Digital Imaging Group (CDG) are similar and, therefore, the segment meets the definition of a reporting unit. The Graphic Communications Group (GCG) operating segment has 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 consists of components that have similar economic characteristics and, therefore, have been 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 Company estimates the fair value of its reporting units utilizing an income approach. To estimate fair value utilizing the income approach, the Company established an estimate of future cash flows for each reporting unit and discounted those estimated future cash flows to present value. Key assumptions used in the income approach 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.

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 due to an increase in the reporting unit's carrying values and the impact of continued pricing pressures and higher commodity costs within Prepress Solutions, as well as higher start-up costs associated with the commercialization and placement of Prosper printing systems.  The Company recorded a pre-tax impairment charge of $8 million during the three month period ended September 30, 2011 that was included in Other operating expenses (income), net in the Consolidated Statement of Operations.  For the Company's other reporting units with remaining goodwill balances (CDG and BSSG), no impairment of goodwill was indicated.

A 20 percent change in estimated future cash flows or a 10 percentage point change in discount rate would not have caused a goodwill impairment 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.  In the case of a sale of the Company's digital imaging patent portfolios, licensing revenue related to those portfolios, which are included within the CDG reporting unit, could decline significantly and materially impact the fair value of this reporting unit.

NOTE 5: SHORT-TERM BORROWINGS AND LONG-TERM DEBT

Long-term debt and related maturities and interest rates were as follows at September 30, 2011 and December 31, 2010:

| (in millions) | | | | As of September 30, 2011 | As of December 31, 2010 |
|---|---|---|---|---|---|
| Country | Type | Maturity | Weighted-Average Effective Interest Rate | Carrying Value | Carrying Value |
| U.S. | Term note | 2011-2013 | 6.16 % | $ 18 | $ 27 |
| Germany | Term note | 2011-2013 | 6.16 % | 74 | 109 |
| U.S. | Term note | 2013 | 7.25 % | 250 | 300 |
| U.S. | Revolver | 2013 | 4.75 % | 160 | - |
| U.S. | Convertible | 2017 | 12.75 % | 313 | 305 |
| U.S. | Secured term note | 2018 | 10.11 % | 491 | 491 |
| U.S. | Term note | 2018 | 9.95 % | 3 | 3 |
| U.S | Secured term note | 2019 | 10.87 % | 247 | - |
| U.S. | Term note | 2021 | 9.20 % | 10 | 10 |
| | | | | 1,566 | 1,245 |
| Current portion of long-term debt | | | | (210 ) | (50 ) |
| Long-term debt, net of current portion | | | | $ 1,356 | $ 1,195 |

Annual maturities (in millions) of debt outstanding at September 30, 2011 were as follows:

| | Carrying Value | Maturity Value |
|---|---|---|
| 2011 | $ - | $ - |
| 2012 | 50 | 50 |
| 2013 | 454 | 460 |
| 2014 | - | - |
| 2015 | - | - |
| 2016 and thereafter | 1,062 | 1,163 |
| Total | $ 1,566 | $ 1,673 |

Issuance of Senior Secured Notes due 2019

On March 15, 2011, the Company issued $250 million of aggregate principal amount of 10.625% senior secured notes due March 15, 2019 (2019 Senior Secured Notes). The Company will pay interest at an annual rate of 10.625% of the principal amount at issuance, payable semi-annually in arrears on March 15 and September 15 of each year, beginning on September 15, 2011.

Upon issuance of the 2019 Senior Secured Notes, the Company received proceeds of approximately $247 million ($250 million aggregate principal less $3 million stated discount). The proceeds were used to repurchase $50 million of the 7.25% Senior Notes due 2013 with the remaining amount being used for other general corporate purposes.

In connection with the issuance of the 2019 Senior Secured Notes, the Company and the subsidiary guarantors (as defined below) entered into an indenture, dated as of March 15, 2011, with Bank of New York Mellon as trustee and second lien collateral agent (Indenture).

At any time prior to March 15, 2015, the Company will be entitled at its option to redeem some or all of the 2019 Senior Secured Notes at a redemption price of 100% of the principal plus accrued and unpaid interest and a "make-whole" premium (as defined in the Indenture).  On and after March 15, 2015, the Company may redeem some or all of the 2019 Senior Secured Notes at certain redemption prices expressed as percentages of the principal plus accrued and unpaid interest.  In addition, prior to March 15, 2014, the Company may redeem up to 35% of the 2019 Senior Secured Notes at a redemption price of 110.625% of the principal plus accrued and unpaid interest using proceeds from certain equity offerings, provided the redemption takes place within 120 days after the closing of the related equity offering and not less than 65% of the original aggregate principal remains outstanding immediately thereafter.

Upon the occurrence of a change of control, each holder of the 2019 Senior Secured Notes has the right to require the Company to repurchase some or all of such holder's 2019 Senior Secured Notes at a purchase price in cash equal to 101% of the principal amount thereof, plus accrued and unpaid interest, if any, to the repurchase date.

The Indenture contains covenants limiting, among other things, the Company's ability and the ability of the Company's restricted subsidiaries (as defined in the Indenture) to (subject to certain exceptions and qualifications): incur additional debt or issue certain preferred stock; pay dividends or make distributions in respect of capital stock or make other restricted payments; make principal payments on, or purchase or redeem subordinated indebtedness prior to any scheduled principal payment or maturity; make certain investments; sell certain assets; create liens on assets; consolidate, merge, sell or otherwise dispose of all or substantially all of the Company's and its subsidiaries' assets; enter into certain transactions with affiliates; and designate the Company's subsidiaries as unrestricted subsidiaries.  The Company was in compliance with these covenants as of September 30, 2011.

The 2019 Senior Secured Notes are fully and unconditionally guaranteed (Guarantees) on a senior secured basis by each of the Company's existing and future direct or indirect 100% owned domestic subsidiaries, subject to certain exceptions (Subsidiary Guarantors).  The 2019 Senior Secured Notes and Guarantees are secured by second-priority liens, subject to permitted liens, on substantially all of the Company's domestic assets and substantially all of the domestic assets of the Subsidiary Guarantors pursuant to a supplement, dated March 15, 2011, to the security agreement, dated March 5, 2010, entered into with Bank of New York Mellon as second lien collateral agent.  The carrying value of the assets pledged as collateral at September 30, 2011 was approximately $1.4 billion.

The 2019 Senior Secured Notes are the Company's senior secured obligations and rank senior in right of payment to any future subordinated indebtedness; rank equally in right of payment with all of the Company's existing and future senior indebtedness; are effectively senior in right of payment to the Company's existing and future unsecured indebtedness, are effectively subordinated in right of payment to indebtedness under the Company's Second Amended Credit Agreement (as defined below) to the extent of the collateral securing such indebtedness on a first-priority basis; and effectively are subordinated in right of payment to all existing and future indebtedness and other liabilities of the Company's non-guarantor subsidiaries.

Certain events are considered events of default and may result in the acceleration of the maturity of the 2019 Senior Secured Notes, including, but not limited to (subject to applicable grace and cure periods): default in the payment of principal or interest when it becomes due and payable; failure to purchase Senior Secured Notes tendered when and as required; events of bankruptcy; and non-compliance with other provisions and covenants and the acceleration or default in the payment of principal of certain other forms of debt.  If an event of default occurs, the aggregate principal amount and accrued and unpaid interest may become due and payable immediately.

Repurchase of Senior Notes due 2013
On March 15, 2011, the Company repurchased $50 million aggregate principal amount of Senior Notes due 2013 (2013 Notes) at par using proceeds from the issuance of the 2019 Senior Secured Notes. As of September 30, 2011, $250 million of the 2013 Notes remain outstanding.

Second Amended and Restated Credit Agreement
On April 26, 2011, the Company and its subsidiary, Kodak Canada, Inc. (together the "Borrowers"), together with the Company's U.S. subsidiaries as guarantors (Guarantors), entered into a Second Amended and Restated Credit Agreement (Second Amended Credit Agreement), with the named lenders (Lenders) and Bank of America, N.A. as administrative agent, in order to amend and extend its Amended and Restated Credit Agreement dated as of March 31, 2009, as amended (Amended Credit Agreement).

The Second Amended Credit Agreement provides for an asset-based Canadian and U.S. revolving credit facility (Credit Facility) of $400 million ($370 million in the U.S. and $30 million in Canada), as further described below, with the ability to increase the aggregate amount. Additionally, up to $125 million of the Company's and its subsidiaries' obligations to Lenders under treasury management services, hedge or other agreements or arrangements can be secured by the collateral under the Credit Facility. The Credit Facility can be used for ongoing working capital and other general corporate purposes. The termination date of the Credit Facility is the earlier of (a) April 26, 2016 or (b) August 17, 2013, to the extent that the 2013 Notes have not been redeemed, defeased, or otherwise satisfied by that date.

On September 23, 2011, the Company initiated a draw of $160 million under the Second Amended Credit Agreement for general corporate purposes. The revolving credit advance bears interest at applicable margins over the Base Rate, as defined in the Second Amended Credit Agreement. The borrowing will bear interest initially at 1.5% (the applicable margin) plus the Base Rate, which fluctuates daily based on the highest of the following reference rates: the Federal Funds Rate plus 0.5%, Bank of America's prime rate, and a one-month Eurodollar rate plus 1.0%. The Company may repay the advances at any time without penalty, subject to certain conditions if the advances have been converted to a Eurodollar rate.

Advances under the Second Amended Credit Agreement are 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, and machinery and equipment, subject to applicable reserves. As of September 30, 2011, based on this borrowing base calculation and after deducting $160 million of outstanding borrowings under the agreement, the face amount of letters of credit outstanding of $96 million and $66 million of collateral to secure other banking arrangements, the Company had $126 million available to borrow under the Second Amended Credit Agreement.

Under the terms of the Credit Facility, 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 Credit Facility borrowing base formula falls below the greater of (a) $40 million or (b) 12.5% of the commitments under the Credit Facility at any time (Trigger), 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 the Trigger for 30 consecutive days. As of September 30, 2011, the Company's fixed charge coverage ratio was less than 1.1 to 1.0; however as of September 30, 2011, excess availability was greater than the Trigger. It is the Company's intent to repay its borrowings as necessary to avoid falling below the required threshold. The $160 million principal outstanding as of September 30, 2011 is recorded within short-term borrowings and current portion of long-term debt within the Company's Consolidated Statement of Financial Position. 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 Second Amended Credit Agreement. The Company was in compliance with all covenants under the Credit Facility as of September 30, 2011.

In addition to the Second Amended Credit Agreement, the Company has other committed and uncommitted lines of credit as of September 30, 2011 totaling $14 million and $79 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 September 30, 2011, usage under these lines was approximately $25 million all of which were supporting non-debt related obligations.

The Credit Facility contains events of default customary in similar asset based lending facilities.  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 Credit Facility immediately due and payable, and require cash collateralization or similar arrangements for outstanding letters of credit.

NOTE 6:  INCOME TAXES

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

| (dollars in millions) | Three Months Ended September 30, 2011 | Three Months Ended September 30, 2010 | Nine Months Ended September 30, 2011 | Nine Months Ended September 30, 2010 |
|---|---|---|---|---|
| (Loss) earnings from continuing operations before income taxes | $(222) | $28 | $(690) | $132 |
| Effective tax rate | 0.0% | 253.6% | 5.8% | 168.9% |
| Provision (benefit) for income taxes | $0 | $71 | $(40) | $223 |
| (Benefit) provision for income taxes @ 35% | $(78) | $10 | $(242) | $46 |
| Difference between tax at effective vs. statutory rate | $78 | $61 | $202 | $177 |

For the three months ended September 30, 2011, the difference between the Company’s recorded benefit and the benefit that would result from applying the U.S. statutory rate of 35.0% is primarily attributable to: (1) losses generated within 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, (2) a provision associated with legislative tax rate changes in a jurisdiction outside the U.S., (3) a provision related to withholding taxes on undistributed earnings, and (4) a benefit as a result of the Company reaching a settlement with a taxing authority in a location outside the U.S.

During the third quarter of 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 the 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 for greater flexibility in its cash management.

As a result of the change in its assertion the Company recorded an estimated deferred tax liability (net of related foreign tax credits) of $373 million on the foreign subsidiaries’ undistributed earnings.  This deferred tax liability was fully offset by a corresponding decrease in the Company’s U.S. valuation allowance, which resulted in no net impact on the tax provision.  The Company also recorded a provision of $35 million for the potential foreign withholding taxes on the undistributed earnings.

During the three months ended September 30, 2011, the Company agreed to terms with an outside U.S. tax authority and settled audits for calendar years 2001 through 2002.  For these years, the Company originally recorded liabilities for uncertain tax positions (UTP) totaling $56 million (plus interest of approximately $43 million). The settlement resulted in a net reduction in Accrued income and other taxes and the recognition of a $94 million tax benefit.

For the nine months ended September 30, 2011, the difference between the Company's recorded benefit and the benefit that would result from applying the U.S. statutory rate of 35.0% is primarily attributable to: (1) losses generated within 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, (2) a provision associated with the establishment of a deferred tax asset valuation allowance outside the U.S., (3) a provision associated with legislative tax rate changes in a jurisdiction outside the U.S., (4) a provision related to withholding taxes on undistributed earnings, (5) a benefit associated with the release of a deferred tax asset valuation allowance in a certain jurisdiction outside the U.S., (6) tax accounting impacts related to items reported in Accumulated other comprehensive loss, and (7) changes in audit reserves and settlements.

During the nine months ended September 30, 2011, the Company agreed to terms with the U.S. Internal Revenue Service and settled federal audits for calendar years 2001 through 2005. For these years, the Company originally recorded federal and related state liabilities for UTP totaling $115 million (plus interest of approximately $25 million). The settlement resulted in a reduction in Accrued income and other taxes (including the UTP previously noted) of $296 million, the recognition of a $50 million tax benefit, and a reduction in net deferred tax assets of $246 million. The Company will receive a net federal refund of approximately $2 million and estimates that it will pay $23 million over the next several months to satisfy state obligations as amended state returns are filed.

During the nine months ended September 30, 2011, the Company determined that it is more likely than not that a portion of the deferred tax assets outside the U.S. would not be realized and accordingly, recorded a tax provision of $22 million associated with the establishment of a valuation allowance on those deferred tax assets.

For the three and nine months ended September 30, 2010, 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) withholding taxes related to licensing revenue, (2) losses generated within 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 mix of earnings from operations in certain lower-taxed jurisdictions outside the U.S., and (4) changes in audit settlements and reserves.

NOTE 7: COMMITMENTS AND CONTINGENCIES

Environmental

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

| | As of | |
|---|---|---|
| (in millions) | September 30, 2011 | December 31, 2010 |
| Eastman Business Park site, Rochester, NY | $ 50 | $ 53 |
| Other operating sites | 11 | 11 |
| Sites associated with former operations | 19 | 20 |
| Sites associated with the non-imaging health businesses sold in 1994 | 18 | 19 |
| Total | $ 98 | $ 103 |

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 thirty years for most 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 and a single most probable cost estimate for the remediation required at individual sites. For the purposes of establishing Company-level environmental reserves, the single most probable cost estimate for each site is used. All 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 is presently designated as a potentially responsible party (PRP) under the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended (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 seven Superfund sites. Numerous other PRPs have also been designated at all of 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.

Among these matters is a case in which the Company has been named by the U.S. Environmental Protection Agency as a PRP with potential liability for the study and remediation of the Lower Passaic River Study Area portion of the Diamond Alkali Superfund Site. Additionally, the Company has been named as a third-party defendant (along with approximately 300 other entities) in an action initially brought by the New Jersey Department of Environmental Protection in the Supreme Court of New Jersey, Essex County seeking recovery of all costs associated with the investigation, removal, cleanup and damage to natural resources resulting from the disposal of various forms of chemicals in the Passaic River. The total costs (for all parties involved) to clean up the Passaic River could potentially be as high as several billions of dollars. Based on currently available information, the Company is unable to determine the likelihood or reasonably estimate a range of loss pertaining to this matter at this time.

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 on information presently available, the Company does not believe it is reasonably possible that losses for known exposures could exceed current accruals by material amounts, although costs could be material to a particular quarter or year, with the possible exception of matters related to the Passaic River which are described above.

Other Commitments and Contingencies

As of September 30, 2011, the Company had outstanding letters of credit of $96 million issued under the Second Amended Credit Agreement, as well as bank guarantees and letters of credit of $17 million, surety bonds in the amount of $14 million, and cash and investments in trust of $32 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 restricted cash and investment amounts are recorded within Other long-term assets in the Consolidated Statement of Financial Position.

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 and current reserves already recorded for those matters deemed probable of loss, management does not believe that the ultimate resolution of these matters will materially impact the Company's results of operations or financial position. 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. As of September 30, 2011, the unreserved portion of these contingencies, inclusive of any related interest and penalties, for which there was at least a reasonable possibility that a loss may be incurred, amounted to approximately $70 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 8: GUARANTEES

The Company guarantees debt and other obligations of certain customers. The debt and other obligations are primarily due to banks and leasing companies in connection with financing of customers’ purchases of equipment and product from the Company. At September 30, 2011, the maximum potential amount of future payments (undiscounted) that the Company could be required to make under these customer-related guarantees was $21 million. At September 30, 2011, the carrying amount of any liability related to these customer guarantees was not material.

The customer financing agreements and related guarantees, which mature between the fourth quarter of 2011 and 2016, 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 would not cover the maximum potential loss under these guarantees.

The Company also guarantees potential indebtedness to banks and other third parties for some of its consolidated subsidiaries. The maximum amount guaranteed is $186 million, and the outstanding amount for those guarantees is $162 million with $74 million recorded within the Short-term borrowings and current portion of long-term debt, and Long-term debt, net of current portion and $12 million recorded within the Other current liabilities and Other long-term liabilities components in the accompanying Consolidated Statement of Financial Position. These guarantees expire in 2011 through 2019. Pursuant to the terms of the Company's Second Amended and Restated Credit Agreement, obligations of the Borrowers to the Lenders under the Second Amended and Restated Credit Agreement, as well as secured agreements in an amount not to exceed $125 million, are guaranteed by the Company and the Company’s U.S. subsidiaries and included in the above amounts. These secured agreements totaled $66 million as of September 30, 2011.

Warranty Costs

The Company has warranty obligations in connection with the sale of its products and equipment. The original warranty period is generally one year or less. The costs incurred to provide for these warranty obligations are estimated and recorded as an accrued liability at the time of sale. The Company estimates its warranty cost at the point of sale for a given product based on historical failure rates and related costs to repair. The change in the Company's accrued warranty obligations balance, which is reflected in Other current liabilities in the accompanying Consolidated Statement of Financial Position, was as follows:

(in millions)

| | |
|---|---|
| Accrued warranty obligations as of December 31, 2010 | $43 |
| Actual warranty experience during 2011 | (65) |
| 2011 warranty provisions | 58 |
| Accrued warranty obligations as of September 30, 2011 | $36 |

The Company also offers its customers extended warranty arrangements that are generally one year, but may range from three months to three years after the original warranty period. The Company provides repair services and routine maintenance under these arrangements. The Company has not separated the extended warranty revenues and costs from the routine maintenance service revenues and costs, as it is not practicable to do so. Therefore, these revenues and costs have been aggregated in the discussion that follows. Costs incurred under these arrangements for the nine months ended September 30, 2011 amounted to $225 million. The change in the Company's deferred revenue balance in relation to these extended warranty and maintenance arrangements from December 31, 2010 to September 30, 2011, which is reflected in Other current liabilities in the accompanying Consolidated Statement of Financial Position, was as follows:

(in millions)

| | |
|---|---|
| Deferred revenue on extended warranties as of December 31, 2010 | $130 |
| New extended warranty and maintenance arrangements in 2011 | 322 |
| Recognition of extended warranty and maintenance arrangement revenue in 2011 | (330) |
| Deferred revenue on extended warranties as of September 30, 2011 | $122 |

NOTE 9: RESTRUCTURING AND RATIONALIZATION LIABILITIES

The Company recognizes the need to continually rationalize its workforce and streamline its operations in the face of ongoing business and economic changes. Charges for restructuring and ongoing rationalization initiatives are recorded in the period in which the Company commits to a formalized restructuring or ongoing rationalization plan, or executes the specific actions contemplated by the plans and all criteria for liability recognition under the applicable accounting guidance have been met.

Restructuring and Ongoing Rationalization Reserve Activity

The activity in the accrued balances and the non-cash charges and credits incurred in relation to restructuring initiatives and ongoing rationalization activities for the three and nine months ended September 30, 2011 were as follows:

| (in millions) | Severance Reserve | Exit Costs Reserve | Long-lived Asset Impairments and Inventory Write-downs | Accelerated Depreciation | Total |
|---|---|---|---|---|---|
| Balance as of December 31, 2010 | $22 | $20 | $ - | $ - | 42 |
| | | | | | |
| Q1 2011 charges | 30 | 2 | 1 | 2 | 35 |
| Q1 2011 utilization/cash payments | (14) | (3) | (1) | (2) | (20) |
| Q1 2011 other adjustments & reclasses (1) | (11) | 1 | - | - | (10) |
| Balance as of March 31, 2011 | 27 | 20 | - | - | 47 |
| | | | | | |
| Q2 2011 charges | 22 | 7 | 1 | 6 | 36 |
| Q2 2011 utilization/cash payments | (17) | (2) | (1) | (6) | (26) |
| Q2 2011 other adjustments & reclasses (2) | (5) | - | - | - | (5) |
| Balance as of June 30, 2011 | 27 | 25 | - | - | 52 |
| | | | | | |
| Q3 2011 charges | 14 | 3 | - | 1 | 18 |
| Q3 2011 utilization/cash payments | (12) | (4) | - | (1) | (17) |
| Q3 2011 other adjustments & reclasses (3) | (4) | - | - | - | (4) |
| Balance as of September 30, 2011 | $25 | $24 | $ - | $ - | $49 |

(1) The $(10) million includes $(12) million for severance-related charges for pension plan curtailments, settlements, and special termination benefits, which are reflected in Pension and other postretirement liabilities and Other long-term assets in the Consolidated Statement of Financial Position. The remaining $2 million reflects foreign currency translation adjustments.

(2) The $(5) million includes $(6) million for severance-related charges for pension plan curtailments, settlements, and special termination benefits, which are reflected in Pension and other postretirement liabilities and Other long-term assets in the Consolidated Statement of Financial Position. The remaining $1 million reflects foreign currency translation adjustments.

(3) The $(4) million includes $(3) million for severance-related charges for pension plan curtailments, settlements, and special termination benefits, which are reflected in Pension and other postretirement liabilities and Other long-term assets in the Consolidated Statement of Financial Position. The remaining $(1) million reflects foreign currency translation adjustments.

For the three months ended September 30, 2011, the $18 million of charges include $1 million for accelerated depreciation which was reported in Cost of sales in the accompanying Consolidated Statement of Operations. The remaining costs incurred of $17 million were reported as Restructuring costs, rationalization and other in the accompanying Consolidated Statement of Operations for the three months ended September 30, 2011. The severance and exit costs reserves require the outlay of cash, while long-lived asset impairments, accelerated depreciation and inventory write-downs represent non-cash items.

The third quarter 2011 severance costs related to the elimination of approximately 175 positions, including approximately 125 manufacturing/service positions, and 50 administrative positions.  The geographic composition of these positions includes approximately 100 in the United States and Canada, and 75 throughout the rest of the world.

The charges of $18 million recorded in the third quarter of 2011 included $10 million applicable to FPEG, $4 million applicable to GCG, $1 million applicable to CDG, and $3 million that was applicable to manufacturing, research and development, and administrative functions, which are shared across all segments.

For the nine months ended September 30, 2011, the $89 million of charges include $9 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. The remaining costs incurred of $79 million were reported as Restructuring costs, rationalization and other in the accompanying Consolidated Statement of Operations for the nine months ended September 30, 2011. The severance and exit costs reserves require the outlay of cash, while long-lived asset impairments, accelerated depreciation and inventory write-downs represent non-cash items.

The severance costs for the nine months ended September 30, 2011 related to the elimination of approximately 950 positions, including approximately 550 manufacturing/service positions, 325 administrative positions, and 75 research and development positions. The geographic composition of these positions includes approximately 600 in the United States and Canada, and 350 throughout the rest of the world.

The charges of $89 million recorded in the first three quarters of 2011 included $39 million applicable to FPEG, $19 million applicable to GCG, $5 million applicable to CDG, and $26 million that was applicable to manufacturing, research and development, and administrative functions, which are shared across all segments.

As a result of these initiatives, the majority of the severance will be paid during periods through the end of 2012 since, in some instances, the employees whose positions were eliminated can elect or are required to receive their payments over an extended period of time. In addition, certain exit costs, such as long-term lease payments, will be paid over periods throughout 2012 and beyond.

NOTE 10: RETIREMENT PLANS AND OTHER POSTRETIREMENT BENEFITS

Components of the net periodic benefit cost for all major funded and unfunded U.S. and Non-U.S. defined benefit plans for the three and nine months ended September 30 are as follows:

| | Three Months Ended September 30, | | | | Nine Months Ended September 30, | | | |
|---|---|---|---|---|---|---|---|---|
| (in millions) | 2011 | | 2010 | | 2011 | | 2010 | |
| | U.S. | Non-U.S. | U.S. | Non-U.S. | U.S. | Non-U.S. | U.S. | Non-U.S. |
| Major defined benefit plans: | | | | | | | | |
| Service cost | $13 | $4 | $12 | $4 | $38 | $12 | $36 | $12 |
| Interest cost | 63 | 46 | 66 | 43 | 190 | 137 | 198 | 131 |
| Expected return on plan assets | (109) | (54) | (118) | (52) | (327) | (159) | (356) | (156) |
| Amortization of: | | | | | | | | |
| Recognized prior service cost | - | 1 | - | - | 1 | 3 | - | - |
| Recognized net actuarial loss | 18 | 13 | 1 | 10 | 52 | 39 | 3 | 27 |
| Pension (income) expense before special termination benefits, curtailments, and settlements | (15) | 10 | (39) | 5 | (46) | 32 | (119) | 14 |
| Special termination benefits | 2 | - | 15 | - | 19 | 1 | 21 | 1 |
| Curtailment gain | - | - | - | - | - | - | - | (1) |
| Settlement loss | - | 10 | - | - | - | 10 | - | 1 |
| Net pension (income) expense | (13) | 20 | (24) | 5 | (27) | 43 | (98) | 15 |
| Other plans including unfunded plans | - | 3 | - | 2 | - | 9 | - | 8 |
| Total net pension (income) expense from continuing operations | $(13) | $23 | $(24) | $7 | $(27) | $52 | $(98) | $23 |

For the three months ended September 30, 2011 and 2010, $2 million and $15 million, respectively, of special termination benefits charges were incurred as a result of the Company's restructuring actions. For the nine months ended September 30, 2011 and 2010, $20 million and $22 million, respectively, of special termination benefits charges were incurred as a result of the Company's restructuring actions. These charges have been included in Restructuring costs, rationalization and other in the Consolidated Statement of Operations. In addition, of the $10 million in settlement losses for the major funded and unfunded U.S. and Non-U.S. defined benefit plans for the nine months ended September 30, 2011, $1 million was incurred as a result of the Company’s restructuring actions and is included in Restructuring costs, rationalization and other in the Consolidated Statement of Operations.

The Company made contributions (funded plans) or paid benefits (unfunded plans) totaling approximately $94 million relating to its major U.S. and non-U.S. defined benefit pension plans for the nine months ended September 30, 2011. The Company expects its contribution (funded plans) and benefit payment (unfunded plans) requirements for its major U.S. and non-U.S. defined benefit pension plans for the balance of 2011 to be approximately $18 million.

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

| (in millions) | Three Months Ended September 30, 2011 | 2010 | Nine Months Ended September 30, 2011 | 2010 |
|---|---|---|---|---|
| Service cost | $- | $- | $1 | $- |
| Interest cost | 16 | 18 | 49 | 54 |
| Amortization of: | | | | |
| Prior service credit | (20 ) | (19 ) | (59 ) | (57 ) |
| Recognized net actuarial loss | 8 | 7 | 24 | 21 |
| Total net postretirement benefit expense | $4 | $6 | $15 | $18 |

The Company paid benefits totaling approximately $88 million relating to its U.S., United Kingdom and Canada postretirement benefit plans for the nine months ended September 30, 2011. The Company expects to pay benefits of approximately $32 million for these postretirement plans for the balance of 2011.

Certain of the Company's retirement plans were remeasured during the first three quarters of 2011. The remeasurement of the funded status of those plans increased the Company's recognized defined benefit and other postretirement benefit plan obligation by $9 million.

NOTE 11: OTHER OPERATING EXPENSES (INCOME), NET

| (in millions) | Three Months Ended September 30, 2011 | 2010 | Nine Months Ended September 30, 2011 | 2010 |
|---|---|---|---|---|
| Expenses (income): | | | | |
| Gain on sale of certain image sensor patents | $- | $- | $(62 ) | $- |
| Goodwill impairment (1) | 8 | - | 8 | - |
| Other | 4 | (3 ) | (5 ) | (1 ) |
| Total | $12 | $(3 ) | $(59 ) | $(1 ) |

(1) Refer to Note 4, “Goodwill”, in the Notes to Financial Statements.

On March 31, 2011, the Company sold patents and patent applications related to CMOS image sensors to OmniVision Technologies Inc. for $65 million. The Company recognized a gain, net of transaction costs, of $62 million from this transaction.

NOTE 12: EARNINGS PER SHARE

Basic earnings per share computations are based on the weighted-average number of shares of common stock outstanding during the year. As a result of the net loss from continuing operations presented for the three and nine months ended September 30, 2011 and September 30, 2010, respectively, the Company calculated diluted earnings per share using weighted-average basic shares outstanding for those periods, as utilizing diluted shares would be anti-dilutive to loss per share. Weighted-average basic shares outstanding for the three and nine months ended September 30, 2011 were 268.9 million. Weighted-average basic shares outstanding for the three and nine months ended September 30, 2010 were 268.5 million and 268.4 million, respectively.

If the Company had reported earnings from continuing operations for the quarter ended September 30, 2011, approximately 3.6 million potential shares of the Company’s common stock from unvested share-based awards would have been included in the computation of diluted earnings per share. However, potential shares of the Company's common stock related to the assumed conversion of

(1) approximately 17.3 million outstanding employee stock options, (2) approximately 40.0 million outstanding detachable warrants to purchase common shares, and (3) approximately $313 million of convertible senior notes due 2017 would still have been excluded from the computation of diluted earnings per share, as these securities were anti-dilutive.

If the Company had reported earnings from continuing operations for the quarter ended September 30, 2010, approximately 2.0 million potential shares of the Company's common stock from unvested share-based awards would have been included in the computation of diluted earnings per share. However, potential shares of the Company's common stock related to the assumed conversion of (1) approximately 18.7 million outstanding employee stock options, (2) approximately 40.0 million outstanding detachable warrants to purchase common shares, and (3) approximately $313 million of convertible senior notes due 2017 would still have been excluded from the computation of diluted earnings per share, as these securities were anti-dilutive.

NOTE 13: SHAREHOLDERS' EQUITY

The Company has 950 million shares of authorized common stock with a par value of $2.50 per share, of which 391 million shares had been issued as of September 30, 2011 and December 31, 2010. Treasury stock at cost consisted of approximately 121 million and 122 million shares as of September 30, 2011 and December 31, 2010, respectively.

Net Operating Loss Rights Agreement

On August 1, 2011, the Company entered into a Net Operating Loss (NOL) Rights Agreement (NOL Rights Agreement) designed to preserve stockholder value and tax assets. The Company's ability to use its tax attributes to offset tax on U.S. taxable income would be substantially limited if there were an "ownership change" as defined under Section 382 of the U.S. Internal Revenue Code. In general, an ownership change would occur if "5-percent shareholders," as defined under Section 382, collectively increase their ownership in the Company by more than 50 percentage points over a rolling three-year period.

In connection with the adoption of the NOL Rights Agreement, the Company's Board of Directors declared a dividend of one preferred share purchase right for each outstanding share of the Company's common stock. The preferred share purchase rights were distributed to stockholders of record as of August 11, 2011, but would only be activated if triggered by the NOL Rights Agreement.

Under the NOL Rights Agreement, preferred share purchase rights will work to impose significant dilution upon any person or group which acquires beneficial ownership of 4.9% or more of the outstanding common stock, without the approval of the Company's Board of Directors, from and after August 1, 2011. Stockholders that own 4.9% or more of the outstanding common stock as of the opening of business on August 1, 2011, will not trigger the preferred share purchase rights so long as they do not (i) acquire additional shares of common stock representing one one-thousandth of one percent (0.001%) or more of the shares of common stock then outstanding or (ii) fall under 4.9% ownership of common stock and then re-acquire shares that in the aggregate equal 4.9% or more of the common stock.

The NOL Rights Agreement has a three-year term, although the Company's Board of Directors will review the plan periodically.

Comprehensive Loss

| (in millions) | Three Months Ended September 30, 2011 | Three Months Ended September 30, 2010 | Nine Months Ended September 30, 2011 | Nine Months Ended September 30, 2010 |
|---|---|---|---|---|
| Net loss | $(222) | $(43) | $(647) | $(92) |
| Realized and unrealized loss from hedging activity, net of tax and reclassifications | (8) | (3) | (7) | (5) |
| Currency translation adjustments | (7) | 39 | 11 | 55 |
| Pension and other postretirement benefit plan obligation activity, net of tax | 1 | (3) | 52 | (154) |
| Total comprehensive loss, net of tax | $(236) | $(10) | $(591) | $(196) |

NOTE 14: SEGMENT INFORMATION

Current Segment Reporting Structure

The Company has three reportable segments: Consumer Digital Imaging Group (CDG), Graphic Communications Group (GCG), and Film, Photofinishing and Entertainment Group (FPEG). The balance of the Company's continuing operations, which individually and in the aggregate do not meet the criteria of a reportable segment, are reported in All Other. A description of the segments follows.

Consumer Digital Imaging Group Segment (CDG): CDG encompasses digital still and video cameras, digital devices such as picture frames, kiosks, APEX drylab systems, and related consumables and services, consumer inkjet printing systems, Kodak Gallery products and services, and imaging sensors. CDG also includes the licensing activities related to the Company's intellectual property in digital imaging products.

Graphic Communications Group Segment (GCG): GCG encompasses workflow software and digital controllers; digital printing, which includes commercial inkjet and electrophotographic products, including equipment, consumables and service; prepress consumables; prepress equipment and packaging solutions; business solutions and consulting services; and document scanners.

Film, Photofinishing and Entertainment Group Segment (FPEG): FPEG encompasses consumer and professional film, one-time-use cameras, aerial and industrial materials, and entertainment imaging products and services. In addition, this segment also includes paper and output systems, and photofinishing services.

Change in Segment Measure of Profit and Loss

During the first quarter of 2011, the Company changed its segment measure of profit and loss to exclude certain components of pension and other postretirement obligations (OPEB). As a result of this change, the operating segment results exclude the interest cost, expected return on plan assets, amortization of actuarial gains and losses, and special termination benefit, curtailment and settlement components of pension and OPEB expense. The service cost and amortization of prior service cost components will continue to be reported as part of operating segment results.

Prior period segment results have been revised to reflect this change.

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Segment financial information is shown below:

| (in millions) | Three Months Ended September 30, 2011 | 2010 | Nine Months Ended September 30, 2011 | 2010 |
|---|---|---|---|---|
| Net sales from continuing operations: | | | | |
| Consumer Digital Imaging Group | $408 | $664 | $1,142 | $1,986 |
| Graphic Communications Group | 665 | 659 | 1,975 | 1,916 |
| Film, Photofinishing and Entertainment Group | 389 | 433 | 1,152 | 1,323 |
| Consolidated total | $1,462 | $1,756 | $4,269 | $5,225 |

| (in millions) | Three Months Ended September 30, 2011 | 2010 | Nine Months Ended September 30, 2011 | 2010 |
|---|---|---|---|---|
| (Loss) earnings from continuing operations before interest expense, other income (charges), net and income taxes: | | | | |
| Consumer Digital Imaging Group | $(90) | $67 | $(350) | $345 |
| Graphic Communications Group | (55) | (35) | (171) | (92) |
| Film, Photofinishing and Entertainment Group | 15 | 28 | 2 | 86 |
| All Other | (1) | (1) | (1) | (2) |
| Total of reportable segments | (131) | 59 | (520) | 337 |
| Restructuring costs, rationalization and other | (18) | (29) | (89) | (54) |
| Corporate components of pension and OPEB (expense) income | (13) | 25 | (25) | 73 |
| Other operating (expenses) income, net | (12) | 3 | 59 | 1 |
| Legal contingencies and settlements | - | - | - | (10) |
| Loss on early extinguishment of debt, net | - | - | - | (102) |
| Interest expense | (41) | (38) | (117) | (117) |
| Other income (charges), net | (7) | 8 | 2 | 4 |
| Consolidated (loss) earnings from continuing operations before income taxes | $(222) | $28 | $(690) | $132 |

| (in millions) | As of September 30, 2011 | As of December 31, 2010 |
|---|---|---|
| Segment total assets: | | |
| Consumer Digital Imaging Group | $ 1,063 | $ 1,126 |
| Graphic Communications Group | 1,625 | 1,566 |
| Film, Photofinishing and Entertainment Group | 1,070 | 1,090 |
| Total of reportable segments | 3,758 | 3,782 |
| Cash and marketable securities | 865 | 1,628 |
| Deferred income tax assets | 479 | 815 |
| All Other/corporate items | - | 1 |
| Consolidated total assets | $ 5,102 | $ 6,226 |

NOTE 15: FINANCIAL INSTRUMENTS

The following table presents the carrying amounts, estimated fair values, and location in the Consolidated Statement of Financial Position for the Company's financial instruments:

| (in millions) | | Assets | | | |
|---|---|---|---|---|---|
| | | September 30, 2011 | | December 31, 2010 | |
| | Balance Sheet Location | Carrying Amount | Fair Value | Carrying Amount | Fair Value |
| Marketable securities: | | | | | |
| Available-for-sale (1) | Other current assets and Other long-term assets | $8 | $8 | $10 | $10 |
| Held-to-maturity (2) | Other current assets and Other long-term assets | 30 | 30 | 8 | 8 |
| Derivatives designated as hedging instruments: | | | | | |
| Commodity contracts (1) | Receivables, net | - | - | 2 | 2 |
| Derivatives not designated as hedging instruments: | | | | | |
| Foreign exchange contracts (1) | Receivables, net | 4 | 4 | 11 | 11 |
| Foreign exchange contracts (1) | Other long-term assets | - | - | 1 | 1 |

| (in millions) | | Liabilities | | | |
|---|---|---|---|---|---|
| | | September 30, 2011 | | December 31, 2010 | |
| | Balance Sheet Location | Carrying Amount | Fair Value | Carrying Amount | Fair Value |
| Short-term borrowings and current portion of long-term debt (2) | Short-term borrowings and current portion of long-term debt | $210 | $187 | $50 | $51 |
| Long-term borrowings, net of current portion (2) | Long-term debt, net of current portion | 1,356 | 836 | 1,195 | 1,242 |
| Derivatives designated as hedging instruments: | | | | | |
| Commodity contracts (1) | Other current liabilities | 7 | 7 | - | - |
| Derivatives not designated as hedging instruments: | | | | | |
| Foreign exchange contracts (1) | Other current liabilities | 10 | 10 | 8 | 8 |

(1) Recorded at fair value.
(2) Recorded at historical cost.

The Company does not utilize financial instruments for trading or other speculative purposes.

Fair value

The fair values of marketable securities are determined using quoted prices in active markets for identical assets (Level 1 fair value measurements). Fair values of the Company's forward contracts are determined using other observable inputs (Level 2 fair value measurements), and are based on the present value of expected future cash flows (an income approach valuation technique) considering the risks involved and using discount rates appropriate for the duration of the contracts. Transfers between levels of the fair value hierarchy are recognized based on the actual date of the event or change in circumstances that caused the transfer. There were no transfers between levels of the fair value hierarchy during the three and nine months ended September 30, 2011.

Fair values of long-term borrowings are determined by reference to quoted market prices, if available, or by pricing models based on the value of related cash flows discounted at current market interest rates. The carrying values of cash and cash equivalents, trade receivables, and payables (which are not shown in the table above) approximate their fair values.

Foreign exchange

Foreign exchange gains and losses arising from transactions denominated in a currency other than the functional currency of the entity involved are included in Other income (charges), net in the accompanying Consolidated Statement of Operations. The net effects of foreign currency transactions, including changes in the fair value of foreign exchange contracts, are shown below:

| (in millions) | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| Net (loss) gain | $(7) | $5 | $- | $(6) |

Derivative financial instruments

The Company, as a result of its global operating and financing activities, is exposed to changes in foreign currency exchange rates, commodity prices, and interest rates, which may adversely affect its results of operations and financial position. The Company manages such exposures, in part, with derivative financial instruments.

Foreign currency forward contracts are used to mitigate currency risk related to foreign currency denominated assets and liabilities, especially those of the Company's International Treasury Center. Silver forward contracts are used to mitigate the Company's risk to fluctuating silver prices. The Company's exposure to changes in interest rates results from its investing and borrowing activities used to meet its liquidity needs.

The Company's financial instrument counterparties are high-quality investment or commercial banks with significant experience with such instruments. The Company manages exposure to counterparty credit risk by requiring specific minimum credit standards and diversification of counterparties. The Company has procedures to monitor the credit exposure amounts. The maximum credit exposure at September 30, 2011 was not significant to the Company.

In the event of a default under the Company's Second Amended and Restated Credit Agreement, or one of the Company's Indentures, or a default under any derivative contract or similar obligation of the Company, the derivative counterparties would have the right, although not the obligation, to require immediate settlement of some or all open derivative contracts at their then-current fair value, but with liability positions netted against asset positions with the same counterparty.  At September 30, 2011, the Company had open derivative contracts in liability positions with a total fair value of $17 million.

The location and amounts of pre-tax gains and losses related to derivatives reported in the Consolidated Statement of Operations are shown in the following tables:

| Derivatives in Cash Flow Hedging Relationships (in millions) | Gain (Loss) Recognized in OCI on Derivative (Effective Portion) For the three months ended September 30, | | Gain (Loss) Reclassified from Accumulated OCI Into Cost of Sales (Effective Portion) For the three months ended September 30, | | Gain (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing) For the three months ended September 30, | |
|---|---|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 | 2011 | 2010 |
| Commodity contracts | $(4 ) | $- | $5 | $1 | $- | $- |
| Foreign exchange contract | | | | | | |