EASTMAN KODAK CO
Form 10-Q
August 03, 2012

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, 2012
or
[ ] Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the transition period from ___ to ___

Commission File Number 1-87

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

NEW JERSEY (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 [X] No [ ]

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

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

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

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

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

Eastman Kodak Company
Form 10-Q
June 30, 2012

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Part I. FINANCIAL INFORMATION

Item 1. Financial Statements

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

	Three Months Ended June 30, 2012	Three Months Ended June 30, 2011	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011
Net sales				
Products	$ 896	$ 1,280	$ 1,737	$ 2,395
Services	178	193	360	385
Licensing & royalties (Note 8)	3	12	(55)	27
Total net sales	$ 1,077	$ 1,485	$ 2,042	$ 2,807
Cost of sales				
Products	$ 768	$ 1,127	$ 1,545	$ 2,170
Services	134	147	284	301
Total cost of sales	$ 902	$ 1,274	$ 1,829	$ 2,471
Gross profit	$ 175	$ 211	$ 213	$ 336
Selling, general and administrative expenses	216	289	443	600
Research and development costs	54	68	120	146
Restructuring costs and other	19	29	113	62
Other operating (income) expenses, net	(19)	(1)	(20)	(71)
Loss from continuing operations before interest expense, other income (charges), net, reorganization items, net and income taxes	(95)	(174)	(443)	(401)
Interest expense (contractual interest for the three and six months ended June 30, 2012 of $53 and $99, respectively)	41	38	77	76
Loss on early extinguishment of debt, net	-	-	7	-
Other income (charges), net	(4)	17	(1)	9
Reorganization items, net	160	-	248	-
Loss from continuing operations before income taxes	(300)	(195)	(776)	(468)
Benefit for income taxes	(1)	(16)	(111)	(40)
Loss from continuing operations	(299)	(179)	(665)	(428)
Earnings from discontinued operations, net of income taxes	-	-	-	3
NET LOSS ATTRIBUTABLE TO EASTMAN KODAK	$ (299)	$ (179)	$ (665)	$ (425)

COMPANY				
Basic and diluted net (loss) earnings per share attributable to Eastman Kodak Company common shareholders:				
Continuing operations	$ (1.10)	$ (0.67)	$ (2.45)	$ (1.59)
Discontinued operations	-	-	-	0.01
Total	$ (1.10)	$ (0.67)	$ (2.45)	$ (1.58)
Number of common shares used in basic and diluted net (loss) earnings per share	271.9	268.9	271.5	268.9

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

EASTMAN KODAK COMPANY
(DEBTOR-IN-POSSESSION)
CONSOLIDATED STATEMENT OF COMPREHENSIVE (LOSS) INCOME (Unaudited)

(in millions)	Three Months Ended June 30, 2012	Three Months Ended June 30, 2011	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011
NET LOSS ATTRIBUTABLE TO EASTMAN KODAK COMPANY	$ (299)	$ (179)	$ (665)	$ (425)
Other comprehensive income (loss), net of tax:				
Realized and unrealized gains from hedging activity, net of tax of $1 and $4 for the three months ended June 30, 2012 and 2011, and $2 and $1 for the six months ended June 30, 2012 and 2011, respectively	2	(7)	4	1
Unrealized gain from investment, net of tax of $0 for the three months ended June 30, 2012	(1)	-	-	-
Currency translation adjustments	11	20	(4)	18
Pension and other postretirement benefit plan obligation activity, net of tax of $6 and $5 for the three months ended June 30, 2012 and 2011, and $9 and $9 for the six months ended June 30, 2012 and 2011, respectively	33	15	61	51
Total comprehensive loss, net of tax	$ (254)	$ (151)	$ (604)	$ (355)

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

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EASTMAN KODAK COMPANY
(DEBTOR-IN-POSSESSION)
CONSOLIDATED STATEMENT OF RETAINED EARNINGS (Unaudited)

(in millions)	Three Months Ended June 30, 2012	Three Months Ended June 30, 2011	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011
Retained earnings at beginning of period	$ 3,645	$ 4,716	$ 4,071	$ 4,969
Net loss	(299)	(179)	(665)	(425)
Loss from issuance of treasury stock	-	(1)	(60)	(8)
Retained earnings at end of period	$ 3,346	$ 4,536	$ 3,346	$ 4,536

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

EASTMAN KODAK COMPANY
(DEBTOR-IN-POSSESSION)
CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Unaudited)

(in millions)	June 30, 2012	December 31, 2011
ASSETS		
Current Assets		
Cash and cash equivalents	$ 1,257	$ 861
Receivables, net	824	1,103
Inventories, net	632	607
Deferred income taxes	58	58
Other current assets	66	74
Total current assets	2,837	2,703
Property, plant and equipment, net of accumulated depreciation of $4,518 and $4,590, respectively	786	895
Goodwill	276	277
Other long-term assets	719	803
TOTAL ASSETS	$ 4,618	$ 4,678
LIABILITIES AND EQUITY (DEFICIT)		
Current Liabilities		
Accounts payable, trade	$ 423	$ 706
Short-term borrowings and current portion of long-term debt	42	152
Accrued income and other taxes	5	40
Other current liabilities	934	1,252
Total current liabilities	1,404	2,150
Long-term debt, net of current portion	1,434	1,363
Pension and other postretirement liabilities	1,400	3,053
Other long-term liabilities	367	462
Liabilities subject to compromise	2,968	-
Total Liabilities	7,573	7,028
Commitments and Contingencies (Note 9)		
Equity (Deficit)		
Common stock, $2.50 par value	978	978
Additional paid in capital	1,106	1,108
Retained earnings	3,346	4,071
Accumulated other comprehensive loss	(2,605)	(2,666)
	2,825	3,491
Less: Treasury stock, at cost	(5,782)	(5,843)
Total Eastman Kodak Company shareholders' deficit	(2,957)	(2,352)
Noncontrolling interests	2	2
Total deficit	(2,955)	(2,350)
TOTAL LIABILITIES AND DEFICIT	$ 4,618	$ 4,678

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

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EASTMAN KODAK COMPANY
(DEBTOR-IN-POSSESSION)
CONSOLIDATED STATEMENT OF CASH FLOWS (Unaudited)

	Six Months Ended June 30,	
(in millions)	2012	2011
Cash flows from operating activities:		
Net loss	$ (665)	$ (425)
Adjustments to reconcile to net cash used in operating activities:		
Earnings from discontinued operations, net of income taxes	-	(3)
Depreciation and amortization	124	151
Gain on sales of businesses/assets	(20)	(72)
Loss on early extinguishment of debt	7	-
Non-cash restructuring costs, asset impairments and other charges	5	6
Non-cash and financing related reorganization items, net	205	-
Provision for deferred income taxes	16	38
Decrease in receivables	269	144
Increase in inventories	(38)	(62)
Decrease in liabilities excluding borrowings	(92)	(636)
Other items, net	37	22
Total adjustments	513	(412)
Net cash used in continuing operations	(152)	(837)
Net cash used in discontinued operations	-	(10)
Net cash used in operating activities	(152)	(847)
Cash flows from investing activities:		
Additions to properties	(26)	(56)
Proceeds from sales of businesses/assets	26	76
Business acquisitions, net of cash acquired	-	(27)
Funding of restricted cash and investment accounts	-	(22)
Marketable securities - sales	60	41
Marketable securities - purchases	(58)	(38)
Net cash provided by (used in) investing activities	2	(26)
Cash flows from financing activities:		
Proceeds from DIP credit agreement	686	-
Proceeds from other borrowings	-	247
Repayment of borrowings	(134)	(50)
Reorganization items	(40)	-
Debt issuance costs	-	(6)
Proceeds from sale and leaseback transaction	41	-
Net cash provided by financing activities	553	191
Effect of exchange rate changes on cash	(7)	15
Net increase (decrease) in cash and cash equivalents	396	(667)
Cash and cash equivalents, beginning of period	861	1,624

Cash and cash equivalents, end of period	$ 1,257	$ 957

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

EASTMAN KODAK COMPANY
(DEBTOR-IN-POSSESSION)
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, its wholly-owned subsidiaries, and its majority owned subsidiaries (collectively, 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, 2011.

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

The Company incurred a net loss for the years ended 2011, 2010 and, 2009, as well as the six months ended June 30, 2012, and had a shareholders' deficit as of June 30, 2012, December 31, 2011 and December 31, 2010. To improve the Company's performance and address competitive challenges, the Company is developing a strategic plan for the ongoing operation of the Company's business. Successful implementation of the Company's plan, however, is subject to numerous risks and uncertainties. In addition, the increasingly competitive industry conditions under which the Company operates have negatively impacted the Company's financial position, results of operations and cash flows and may continue to do so in the future. These factors raise substantial doubt about the Company's ability to continue as a going concern.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern and contemplate the realization of assets and the satisfaction of liabilities in the normal course of business. The Company's ability to continue as a going concern is contingent upon the Company's ability to comply with the financial and other covenants contained in its Debtor-in-Possession Credit Agreement (the "DIP Credit Agreement"), the Bankruptcy Court's approval of the Company's reorganization plan and the Company's ability to successfully implement the Company's plan and obtain exit financing, among other factors. As a result of the Bankruptcy Filing, the realization of assets and the satisfaction of liabilities are subject to uncertainty. While operating as debtors-in-possession under chapter 11, the Company may sell or otherwise dispose of or liquidate assets or settle liabilities, subject to the approval of the Bankruptcy Court or as otherwise permitted in the ordinary course of business (and subject to restrictions contained in the DIP Credit Agreement), for amounts other than those reflected in the accompanying consolidated financial statements. Further, the reorganization plan could materially change the amounts and classifications of assets and liabilities reported in the consolidated financial statements. The accompanying consolidated financial statements do not include any adjustments related to the recoverability and classification of assets or the amounts and classification of liabilities or any other adjustments that might be necessary should the Company be unable to continue as a going concern or as a consequence of the Bankruptcy Filing. Refer to Note 2, “Chapter 11 Filing” for additional information.

Certain amounts for prior periods have been reclassified to conform to the current period classification due to changes in the Company’s Segment Reporting structure. Refer to Note 16, “Segment Information” for additional information.

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RECENTLY ADOPTED ACCOUNTING PRONOUNCEMENTS

In September 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2011-08, "Intangibles-Goodwill and Other (Accounting Standards Codification (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 were effective prospectively for interim and annual periods beginning after December 15, 2011 (January 1, 2012 for the Company). The adoption of this guidance did not impact the Company's 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. Subsequently, the FASB issued ASU No. 2011-12, "Comprehensive Income (ASC Topic 220) – Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05." ASU 2011-12 defers indefinitely the provision within ASU 2011-05 requiring entities to present reclassification adjustments out of accumulated other comprehensive income by component in both the income statement and the statement in which other comprehensive income is presented. ASU 2011-12 does not change the other provisions instituted within ASU 2011-05. The amendments of both ASUs were effective retrospectively for fiscal years, and interim periods within those years, beginning after December 15, 2011 (January 1, 2012 for the Company). The adoption of this guidance required changes in presentation only and did not have an impact on the Company's Consolidated Financial Statements.

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 were effective prospectively for interim and annual periods beginning after December 15, 2011 (January 1, 2012 for the Company). The adoption of this guidance did not have a significant impact on the Company's Consolidated Financial Statements.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In December 2011, the FASB issued ASU No. 2011-11, "Balance Sheet (ASC Topic 210): Disclosures about Offsetting Assets and Liabilities." ASU No. 2011-11 creates new disclosure requirements about the nature of an entity's rights of setoff and related arrangements associated with its financial instruments and derivative instruments. The changes to the ASC as a result of this update are effective for periods beginning on or after January 1, 2013 (January 1, 2013 for the Company) and must be shown retrospectively for all comparative periods presented. This guidance requires new disclosures only, and will have no impact on the Company's Consolidated Financial Statements.

In December 2011, the FASB issued ASU No. 2011-10, "Derecognition of in Substance Real Estate – a Scope Clarification," which amends ASC Topic 360, "Property, Plant and Equipment." ASU No. 2011-10 states that when an investor ceases to have a controlling financial interest in an entity that is in-substance real estate as a result of a default on the entity's nonrecourse debt, the investor should apply the guidance under ASC Subtopic 360-20, Property, Plant and Equipment – Real Estate Sales to determine whether to derecognize the entity's assets (including real estate) and liabilities (including the nonrecourse debt). The changes to the ASC as a result of this update are effective prospectively for deconsolidation events occurring during fiscal years, and interim periods within those years, beginning on or after June 15, 2012 (January 1, 2013 for the Company). Adoption of this guidance will not impact the Company's Consolidated Financial Statements.

NOTE 2: CHAPTER 11 FILING

The Bankruptcy Filing is intended to permit the Company to reorganize and increase liquidity in the U.S. and abroad, monetize non-strategic intellectual property, fairly resolve legacy liabilities, and focus on the most valuable business lines to enable sustainable profitability. The Company's goal is to develop and implement a reorganization plan that meets the standards for confirmation under the Bankruptcy Code. Confirmation of a reorganization plan could materially alter the classifications and amounts reported in the Company's consolidated financial statements, which do not give effect to any adjustments to the carrying values of assets or amounts of liabilities that might be necessary as a consequence of a confirmation of a reorganization plan or other arrangement or the effect of any operational changes that may be implemented.

Operation and Implication of the Bankruptcy Filing

Under Section 362 of the Bankruptcy Code, the filing of voluntary bankruptcy petitions by the Debtors automatically stayed most actions against the Debtors, including most actions to collect indebtedness incurred prior to the Petition Date or to exercise control over the Company's property. Accordingly, although the Bankruptcy Filing triggered defaults for certain of the Debtors' debt obligations, creditors are stayed from taking any actions as a result of such defaults. Absent an order of the Bankruptcy Court, substantially all of the Company's pre-petition liabilities are subject to settlement under a reorganization plan. As a result of the Bankruptcy Filing the realization of assets and the satisfaction of liabilities are subject to uncertainty. The Debtors, operating as debtors-in-possession under the Bankruptcy Code, may, subject to approval of the Bankruptcy Court, sell or otherwise dispose of assets and liquidate or settle liabilities for amounts other than those reflected in the consolidated financial statements. Further, a confirmed reorganization plan or other arrangement may materially change the amounts and classifications in the Company's consolidated financial statements.

The Debtors may assume, assume and assign, or reject certain executory contracts and unexpired leases subject to the approval of the Bankruptcy Court and certain other conditions. In general, rejection of an executory contract or unexpired lease is treated as a pre-petition breach of the executory contract or unexpired lease in question and, subject to certain exceptions, relieves the Debtors from performing their future obligations under such executory contract or unexpired lease but entitles the contract counter-party or lessor to a pre-petition general unsecured claim for damages caused by such deemed breach. Generally, the assumption of an executory contract or unexpired lease requires the Debtors to cure any existing defaults under such executory contract or unexpired lease.

Subsequent to the Petition Date, the Company received approval from the Bankruptcy Court to pay or otherwise honor certain pre-petition obligations generally designed to stabilize the Company's operations. These obligations related to certain employee wages, salaries and benefits, and the payment of vendors and other providers in the ordinary course for goods and services received after the Petition Date. The Company has retained, pursuant to Bankruptcy Court approval, legal and financial professionals to advise the Company in connection with the Bankruptcy Filing and certain other professionals to provide services and advice in the ordinary course of business. From time to time, the Company may seek Bankruptcy Court approval to retain additional professionals.

The U.S. Trustee for the Southern District of New York (the "U.S. Trustee") has appointed an official committee of unsecured creditors (the "UCC"). The UCC and its legal representatives have a right to be heard on all matters affecting the Debtors that come before the Bankruptcy Court. There can be no assurance that the UCC will support the Company's positions on matters to be presented to the Bankruptcy Court in the future or on any reorganization plan, once proposed.

On May 3, 2012, the U.S. Trustee appointed an official committee of retired employees of the Debtor entities.

Reorganization Plan

In order for the Company to emerge successfully from chapter 11, the Company must obtain the Bankruptcy Court's approval of a reorganization plan, which will enable the Company to transition from chapter 11 into ordinary course operations outside of bankruptcy. In connection with a reorganization plan, the Company also may require a new credit facility, or "exit financing." The Company's ability to obtain such approval and financing will depend on, among other things, the timing and outcome of various ongoing matters related to the Bankruptcy Filing. A reorganization plan determines the rights and satisfaction of claims of various creditors and security holders, and is subject to the ultimate outcome of negotiations and Bankruptcy Court decisions ongoing through the date on which the reorganization plan is confirmed.

Although the Company's goal is to file a plan of reorganization, the Company may determine that it is in the best interests of the Debtors' estates to seek Bankruptcy Court approval of a sale of all or a portion of the Company's assets pursuant to Section 363 of the Bankruptcy Code or seek confirmation of a reorganization plan providing for such a sale or other arrangement.

On May 2, 2012, the Bankruptcy Court approved the Company's motion to extend the period of time that the court gives the Company the exclusive right to file a plan of reorganization. The extension concerns only the length of time in which the Company has the sole right to file a plan of reorganization, not the duration of the case. The date until which the Debtors have to file a plan of reorganization has been extended through and includes October 15, 2012. The DIP Credit Agreement stipulates that a draft of an acceptable reorganization plan is to be provided to the DIP agent on or prior to January 15, 2013 and further requires the filing of an acceptable reorganization plan and disclosure statement with the court on or prior to February 15, 2013. The Company presently expects that any proposed reorganization plan will provide, among other things, settlement of the obligations under the DIP Credit agreement, mechanisms for settlement of claims against the Debtors' estates, treatment of the Company's existing equity and debt holders, and certain corporate governance and administrative matters pertaining to the reorganized Company. Any proposed reorganization plan will be subject to revision prior to submission to the Bankruptcy Court based upon discussions with the Company's creditors and other interested parties, and thereafter in response to creditor claims and objections and the requirements of the Bankruptcy Code or the Bankruptcy Court. There can be no assurance that the Company will be able to secure approval for the Company's proposed reorganization plan from the Bankruptcy Court or that the Company's proposed plan will be accepted by the lenders under the DIP Credit Agreement. In the event the Company does not secure approval of the reorganization plan, the outstanding DIP Credit Agreement principal and interest could become immediately due and payable.

Pre-Petition Claims

On April 18, 2012, as amended on May 16, 2012, the Debtors filed schedules of assets and liabilities and statements of financial affairs with the Bankruptcy Court. On May 10, 2012, the Bankruptcy Court entered an order establishing July 17, 2012 as the bar date for potential creditors to file proofs of claims and establishing the required procedures with respect to filing such claims. A bar date is the date by which pre-petition claims against the Debtors must be filed if the claimants wish to receive any distribution in the chapter 11 proceedings.

As of August 2, 2012, the Debtors have received approximately 5,900 proofs of claim, a portion of which assert, in part or in whole, unliquidated claims. In the aggregate, total liquidated proofs of claim of approximately $20.5 billion have been filed against the Debtors. New and amended claims may be filed in the future, including claims amended to assign values to claims originally filed with no designated value. The Company is now in the process of reconciling such claims to the amounts listed by the Debtors in their schedule of assets and liabilities (as amended). Differences in liability amounts estimated by the Company and claims filed by creditors will be investigated and resolved, including through the filing of objections with the Bankruptcy Court, where appropriate. The Company may ask the Court to disallow claims that the Company believes are duplicative, have been later amended or superseded, are without merit, are overstated or should be disallowed for other reasons. In addition, as a result of this process, the Company may identify additional liabilities that will need to be recorded or reclassified to liabilities subject to compromise. In light of the substantial number of claims filed, the claims resolution process may take considerable time to complete. The resolution of such claims could result in material adjustments to the Company's financial statements. The determination of how liabilities will ultimately be treated cannot be made until the Bankruptcy Court approves a plan of reorganization. Accordingly, the ultimate amount or treatment of such liabilities is not determinable at this time.

Financial Reporting in Reorganization

Expenses, gains and losses directly associated with reorganization proceedings are reported as Reorganization items, net in the accompanying Consolidated Statement of Operations. In addition, liabilities subject to compromise in the chapter 11 proceedings are distinguished from liabilities of Non-Filing Entities, fully secured liabilities not expected to be compromised and from post-petition liabilities in the accompanying Consolidated Statement of Financial Position as of June 30, 2012. Where there is uncertainty about whether a secured claim will be paid or impaired under the chapter 11 proceedings, the Company has classified the entire amount of the claim as a liability subject to compromise. The amount of liabilities subject to compromise represents the Company's estimate, where an estimate is determinable, of known or potential pre-petition claims to be addressed in connection with the bankruptcy proceedings. Such liabilities are reported at the Company's current estimate, where an estimate is determinable, of the allowed claim amount, even though they may settle for lesser amounts. These claims remain subject to future adjustments, which may result from: negotiations; actions of the Bankruptcy Court; disputed claims; rejection of contracts and unexpired leases; the determination as to the value of any collateral securing claims; proofs of claims; or other events.

Effective as of January 19, 2012, the Company ceased recording interest expense on outstanding pre-petition debt classified as liabilities subject to compromise. Contractual interest expense represents amounts due under the contractual terms of outstanding debt, including debt subject to compromise. For the period from January 19, 2012 through June 30, 2012 contractual interest expense related to liabilities subject to compromise of approximately $22 million has not been recorded, as it is not expected to be an allowed claim under the chapter 11 case.

Section 363 Asset Sales

On March 1, 2012, the Company entered into an agreement with Shutterfly, Inc. related to the proposed sale of certain assets of Kodak Gallery on-line photo services business for $23.8 million (the "Stalking Horse Purchase Agreement"). On May 1, 2012, the Bankruptcy Court approved the Stalking Horse Purchase Agreement. The Company received cash proceeds of approximately $19 million on the closing date, May 2, 2012. The remaining proceeds will be received upon the successful transfer of the assets to Shutterfly, Inc. Approximately 75% of the net proceeds from the sale were used to repay term debt under the DIP Credit Agreement.

On June 11, 2012, the Company filed a motion with the Bankruptcy Court seeking approval of bidding procedures to auction its Digital Capture and Kodak Imaging Systems and Services patent portfolios. On July 2, 2012, the Bankruptcy Court approved the Company's motion. The final date for designation of the successful bidder(s) under the approved bidding procedures is August 13, 2012.

Eastman Kodak Company Guarantee

Eastman Kodak Company ("EKC") has previously issued (pre-petition) a guarantee to Kodak Limited ("Subsidiary") and the Trustee ("Trustee") of the Kodak Pension Plan ("Plan") in the United Kingdom. Under that arrangement, EKC guaranteed to the Subsidiary and the Trustee 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, as they become due, if the Plan otherwise would not have sufficient assets and (2) make contributions to the Plan such that it will achieve fully funded status by the funding valuation for the period ending December 31, 2022.

The Subsidiary agreed to make certain contributions to the Plan as determined by a funding plan agreed to by the Trustee. Under the terms of this agreement, the Subsidiary is obligated to pay a minimum amount of $50 million to the Plan in each of the years 2011 through 2014, and a minimum amount of $90 million to the Plan in each of the years 2015 through 2022. Future funding beyond 2022 would be required if the Plan is still not fully funded as determined by the funding valuation for the period ending December 31, 2022. Under the terms of this agreement, these payment amounts for the years 2015 through 2022 could be lower, and the payment amounts for all years noted could be higher by up to $5 million, based on the exchange rate between the U.S. dollar and British pound. These minimum amounts do not include potential contributions related to tax benefits received by the Subsidiary. EKC has requested deferral of the June 2012 payment in order to finance certain restructuring charges in Europe. There can be no assurances that any deferral proposal will be granted.

The underfunded position of the Plan of $1.1 billion (calculated in accordance with U.S. GAAP) is included in Pension and other postretirement liabilities presented in the Consolidated Statement of Financial Position as of June 30, 2012. The underfunded obligation relates to a non-debtor entity. The Trustee has asserted an unsecured claim of approximately $2.8 billion under the guarantee. Kodak Limited has also asserted an unsecured claim under the guarantee for an unliquidated amount. The ultimate treatment of the Trustee's and Kodak Limited's claims is not determinable at this time.

NOTE 3: LIABILITIES SUBJECT TO COMPROMISE

The following table reflects pre-petition liabilities that are subject to compromise.

(in millions)	As of June 30, 2012
Accounts payable	$ 299
Debt	683
Pension and postretirement obligations	1,733
Other liabilities subject to compromise	253
Liabilities subject to compromise	$ 2,968

The Bankruptcy Filing constituted an event of default with respect to certain of the Company's debt instruments. Refer to Note 7, "Short-Term Borrowings and Long-Term Debt" for additional information. Other liabilities subject to compromise include accrued liabilities for customer programs, deferred compensation, environmental, taxes, and contract and lease rejections. The amount of liabilities subject to compromise represents the Company's estimate, where an estimate is determinable, of known or potential pre-petition claims to be addressed in connection with the bankruptcy proceedings. Such liabilities are reported at the Company's current estimate, where an estimate is determinable, of the allowed claim amount, even though they may settle for lesser amounts. These claims remain subject to future adjustments, which may result from: negotiations; actions of the Bankruptcy Court; disputed claims; rejection of contracts and unexpired leases; the determination as to the value of any collateral securing claims; proofs of claims; or other events. Refer to Note 2, "Chapter 11 Filing" for additional information.

NOTE 4: REORGANIZATION ITEMS, NET

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

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

For the three and six months ended June 30, 2012, the Company paid approximately $38 million and $83 million, respectively, for reorganization items.

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NOTE 5: RECEIVABLES, NET

(in millions)	June 30, 2012	As of December 31, 2011
Trade receivables	$ 708	$ 996
Miscellaneous receivables	116	107
Total (net of allowances of $55 and $51 as of June 30, 2012 and December 31, 2011, respectively)	$ 824	$ 1,103

Approximately $124 million and $191 million of the total trade receivable amounts as of June 30, 2012 and December 31, 2011, respectively, will potentially 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 as of December 31, 2011 and Other current liabilities and Liabilities subject to compromise as of June 30, 2012 in the accompanying Consolidated Statement of Financial Position.

NOTE 6: INVENTORIES, NET

(in millions)	June 30, 2012	As of December 31, 2011
Finished goods	$ 372	$ 379
Work in process	139	123
Raw materials	121	105
Total	$ 632	$ 607

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

Debt and related maturities and interest rates were as follows at June 30, 2012 and December 31, 2011:

(in millions)					As of June 30, 2012	As of December 31, 2011
Country	Type	Maturity	Weighted-Average Effective Interest Rate		Carrying Value	Carrying Value
Current portion:						
U.S.	Revolver	2013	4.75	%	$ -	$ 100
Germany	Term note	2012-2013	6.16	%	40	40
Brazil	Term note	2012-2013	19.80	%	2	2
					42	142
Non-current portion:						
U.S.	DIP Credit Agreement	2013	8.74	%	657	-
Germany	Term note	2013	6.16	%	36	35
Brazil	Term note	2013	19.80	%	2	3
U.S.	Secured term note	2018	10.11	%	492	491
U.S	Secured term note	2019	10.87	%	247	247
					1,434	776
Liabilities subject to compromise:						
U.S.	Term note	2013	6.16	%	20	19
U.S.	Term note	2013	7.25	%	250	250
U.S.	Convertible	2017	12.75	%	400	315
U.S.	Term note	2018	9.95	%	3	3
U.S.	Term note	2021	9.20	%	10	10
					683	597
					$ 2,159	$ 1,515

The carrying value of the 2017 Convertible Senior Notes was increased during the quarter ended June 30, 2012 to reflect the stated principal amount of the notes. When the notes were initially issued, $107 million of the principal amount of the debt was allocated to reflect the equity component of the notes. The remaining carrying value of the debt was originally being accreted to the $400 million stated principal amount using the effective interest method. The second quarter of 2012 increase in the carrying value of the debt resulted in a $90 million provision for expected allowed claims reflected in Reorganization items, net in the accompanying Consolidated Statement of Operations.

No portion of the carrying value of the Company's debt was considered Liabilities subject to compromise in the Statement of Financial Position as of December 31, 2011, as the Company filed for chapter 11 bankruptcy protection on January 19, 2012. The amounts shown as Liabilities subject to compromise as of December 31, 2011 in the table above were classified as long-term debt as of December 31, 2011 and are reflected as liabilities subject to compromise above only for presentation purposes.

Annual maturities of debt outstanding at June 30, 2012, excluding debt classified as liabilities subject to compromise, were as follows:

(in millions)	Carrying Value	Maturity Value
2012	$ 42	$ 42
2013	695	709
2014	-	-
2015	-	-
2016	-	-
2017 and thereafter	739	750
Total	$ 1,476	$ 1,501

Debtor-in-Possession Credit Agreement

In connection with the Bankruptcy Filing, on January&#16