EASTMAN KODAK CO
Form 10-Q
May 01, 2008

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

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

For the quarterly period ended March 31, 2008
or

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

For the transition period from ___ to ___

Commission File Number 1-87

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

NEW JERSEY	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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act.
Large accelerated filer [X] Accelerated filer [ ] Non-accelerated filer [ ] Smaller reporting company [ ]

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

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

Title of each Class	Number of shares Outstanding at April 25, 2008
Common Stock, $2.50 par value	288,213,714

Eastman Kodak Company
Form 10-Q
March 31, 2008

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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 March 31, 2008	2007
Net sales	$ 2,093	$ 2,080
Cost of goods sold	1,669	1,652
Gross profit	424	428
Selling, general and administrative expenses	385	394
Research and development costs	140	141
Restructuring costs (curtailment gains) and other	(10)	85
Other operating (income) expenses, net	(10)	(6)
Loss from continuing operations before interest, other income (charges), net and income taxes	(81)	(186)
Interest expense	28	25
Other income (charges), net	35	18
Loss from continuing operations before income taxes	(74)	(193)
Provision (benefit) for income taxes	40	(18)
Loss from continuing operations	(114)	(175)
(Loss) earnings from discontinued operations, net of income taxes	(1)	24
NET LOSS	$ (115)	$ (151)
Basic and diluted net (loss) earnings per share:		
Continuing operations	$ (0.40)	$ (0.61)
Discontinued operations	-	0.08
Total	$ (0.40)	$ (0.53)
Number of common shares used in basic net (loss) earnings per share	288.1	287.3
Incremental shares from assumed conversion of options	-	-
Number of common shares used in diluted net (loss) earnings per share	288.1	287.3

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

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

	Three Months Ended March 31,	
	2008	2007
Retained earnings at beginning of period	$ 6,474	$ 5,967
Net loss	(115)	(151)
Loss from issuance of treasury stock	(11)	(6)
Retained earnings at end of period	$ 6,348	$ 5,810

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

EASTMAN KODAK COMPANY
CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Unaudited)

(in millions)		March 31, 2008		December 31, 2007
ASSETS				
Current Assets				
Cash and cash equivalents	$	2,203	$	2,947
Receivables, net		1,760		1,939
Inventories, net		1,133		943
Deferred income taxes		124		120
Other current assets		129		104
Total current assets		5,349		6,053
Property, plant and equipment, net		1,755		1,811
Goodwill		1,691		1,657
Other long-term assets		4,069		4,138
TOTAL ASSETS	$	12,864	$	13,659
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current Liabilities				
Accounts payable and other current liabilities	$	3,031	$	3,794
Short-term borrowings		314		308
Accrued income and other taxes		323		344
Total current liabilities		3,668		4,446
Long-term debt, net of current portion		1,292		1,289
Pension and other postretirement liabilities		3,347		3,444
Other long-term liabilities		1,457		1,451
Total liabilities		9,764		10,630
Commitments and Contingencies (Note 6)				
Shareholders' Equity				
Common stock, $2.50 par value		978		978
Additional paid in capital		890		889
Retained earnings		6,348		6,474
Accumulated other comprehensive income		632		452
		8,848		8,793
Less: Treasury stock, at cost		5,748		5,764
Total shareholders' equity		3,100		3,029
TOTAL LIABILITIES ANDSHAREHOLDERS' EQUITY	$	12,864	$	13,659

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

EASTMAN KODAK COMPANY
CONSOLIDATED STATEMENT OF CASH FLOWS (Unaudited)

(in millions)	Three Months Ended March 31, 2008	Three Months Ended March 31, 2007
Cash flows from operating activities:		
Net loss	$ (115)	$ (151)
Adjustments to reconcile to net cash used in operating activities:		
Loss (earnings) from discontinued operations, net of income taxes	1	(24)
Depreciation and amortization	127	248
Gain on sales of businesses/assets	(3)	(8)
Non-cash restructuring costs, asset impairments and other charges	1	11
Provision for deferred income taxes	33	14
Decrease in receivables	198	274
Increase in inventories	(177)	(152)
Decrease in liabilities excluding borrowings	(858)	(609)
Other items, net	26	-
Total adjustments	(652)	(246)
Net cash used in continuing operations	(767)	(397)
Net cash (used in) provided by discontinued operations	(1)	43
Net cash used in operating activities	(768)	(354)
Cash flows from investing activities:		
Additions to properties	(52)	(66)
Net proceeds from sales of businesses/assets	55	10
Acquisitions, net of cash acquired	-	(2)
Marketable securities - sales	40	36
Marketable securities - purchases	(43)	(41)
Net cash used in continuing operations	-	(63)
Net cash used in discontinued operations	-	(11)
Net cash used in investing activities	-	(74)
Cash flows from financing activities:		
Proceeds from other borrowings	26	6
Repayment of other borrowings	(15)	(25)
Net cash provided by (used in) financing activities	11	(19)
Effect of exchange rate changes on cash	13	4
Net decrease in cash and cash equivalents	(744)	(443)
Cash and cash equivalents, beginning of period	2,947	1,469
Cash and cash equivalents, end of period	$ 2,203	$ 1,026

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

EASTMAN KODAK COMPANY
NOTES TO FINANCIAL STATEMENTS (Unaudited)

NOTE 1: BASIS OF PRESENTATION

BASIS OF PRESENTATION

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

Certain amounts for prior periods have been reclassified to conform to the current period presentation. Prior period reclassifications relate to changes in the Company's segment reporting structure and cost allocation methodologies related to employee benefits and corporate expenses. Refer to Note 13, "Segment Information."

CHANGE IN ESTIMATE

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

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

The effect of this change in estimate for the three months ended March 31, 2008 was a reduction in depreciation expense of $28 million, $16 million of which has been recognized in cost of goods sold and is a benefit to loss from continuing operations, and $12 million of which is capitalized as a reduction in inventories at March 31, 2008. The net impact of this change is a decrease in fully-diluted loss per share of $.06.

RECENT ACCOUNTING PRONOUNCEMENTS

FASB Statement No. 157

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

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

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In February 2008, the FASB issued FSP 157-2, which delays the effective date of SFAS No. 157 for all nonfinancial assets and liabilities that are not recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually) until fiscal years beginning after November 15, 2008, and interim periods within those fiscal years.

The Company adopted the provisions of SFAS No. 157 for financial assets and liabilities as of January 1, 2008. There was no significant impact to the Company's Consolidated Financial Statements from the adoption of SFAS No. 157. The Company is currently evaluating the potential impact that the application of SFAS No. 157 to its nonfinancial assets and liabilities will have on its Consolidated Financial Statements.

The following table sets forth financial assets and liabilities measured at fair value in the Consolidated Statement of Financial Position and the respective levels to which the fair value measurements are classified within the fair value hierarchy as of March 31, 2008:

(in millions)	Fair Value Measurements at Reporting Date Using		
	As of	Quoted Prices in Active Markets for Identical Assets	Significant Other Observable Inputs
Description	March 31, 2008	(Level 1)	(Level 2)
Financial Assets			
Available-for-sale securities	$ 1	$ 1	$ -
Foreign currency forward contracts	29	-	29
Silver forward contracts	2	-	2
Total	$ 32	$ 1	$ 31
Financial Liabilities			
Foreign currency forward contracts	$ (76)	$ -	$ (76)
Silver forward contracts	(2)	-	(2)
Total	$ (78)	$ -	$ (78)

The Company values its available-for-sale securities using quoted prices in active markets. The Company's forward contracts are determined based on the present value of expected future cash flows considering the risks involved and using discount rates appropriate for the duration.

FASB Statement No. 159

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

FASB Statement No. 141R

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

FASB Statement No. 160

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

FASB Statement No. 161

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

NOTE 2: RECEIVABLES, NET

(in millions)	As of March 31, 2008	As of December 31, 2007
Trade receivables	$ 1,472	$ 1,697
Miscellaneous receivables	288	242
Total (net of allowances of $110 and $114 as of March 31, 2008 and December 31, 2007, respectively)	$ 1,760	$ 1,939

Of the total trade receivable amounts of $1,472 million and $1,697 million as of March 31, 2008 and December 31, 2007, respectively, approximately $191 million and $266 million, respectively, are expected to be settled through customer deductions in lieu of cash payments. Such deductions represent rebates owed to the customer and are included in accounts payable and other current liabilities in the accompanying Consolidated Statement of Financial Position at each respective balance sheet date.

NOTE 3: INVENTORIES, NET

(in millions)	As of March 31, 2008	As of December 31, 2007
Finished goods	$ 708	$ 537
Work in process	250	235
Raw materials	175	171
Total	$ 1,133	$ 943

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NOTE 4: GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill was $1,691 million and $1,657 million at March 31, 2008 and December 31, 2007, respectively. The changes in the carrying amount of goodwill by reportable segment for the three months ended March 31, 2008 were as follows:

(in millions)	As of March 31, 2008			
	Consumer Digital Imaging Group	Film, Photofinishing and Entertainment Group	Graphic Communications Group	Consolidated Total
Balance as of December 31, 2007	$ 204	$ 601	$ 852	$ 1,657
Currency translation adjustments	2	18	14	34
Balance as of March 31, 2008	$ 206	$ 619	$ 866	$ 1,691

Due to the realignment of the Kodak operating model and change in reporting structure, as described in Note 13, “Segment Information,” effective January 1, 2008, the Company reassigned goodwill to its reportable segments using a relative fair value approach as required under SFAS No. 142, "Goodwill and Other Intangible Assets." Prior period amounts have been restated to reflect this reassignment.

The gross carrying amount and accumulated amortization by major intangible asset category as of March 31, 2008 and December 31, 2007 were as follows:

(in millions)	As of March 31, 2008			
	Gross Carrying Amount	Accumulated Amortization	Net	Weighted-Average Amortization Period
Technology-based	$ 328	$ 178	$ 150	7 years
Customer-related	289	138	151	10 years
Other	58	38	20	9 years
Total	$ 675	$ 354	$ 321	8 years

(in millions)	As of December 31, 2007			
	Gross Carrying Amount	Accumulated Amortization	Net	Weighted-Average Amortization Period
Technology-based	$ 326	$ 166	$ 160	7 years
Customer-related	281	125	156	10 years
Other	82	36	46	8 years
Total	$ 689	$ 327	$ 362	8 years

During the first quarter of 2008, the Company sold its stake in Lucky Film Co., Ltd. including its rights under a manufacturing exclusivity agreement. An intangible asset related to the manufacturing exclusivity agreement was carried on the Company’s balance sheet as an other intangible asset with a net book value of approximately $25 million prior to the transaction.

Amortization expense related to purchased intangible assets for the three months ended March 31, 2008 and 2007 was $20 million and $28 million, respectively.

Estimated future amortization expense related to purchased intangible assets as of March 31, 2008 is as follows (in millions):

2008	$	60
2009		75
2010		64
2011		41
2012		26
2013 and thereafter		55
Total	$	321

NOTE 5: INCOME TAXES

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

(dollars in millions)	Three Months Ended March 31,			
	2008		2007	
Loss from continuing operations before income taxes	$	(74)	$	(193)
Provision (benefit) for income taxes		40		(18)
Effective tax rate		(54.1)%		9.3%
Benefit for income taxes @ 35%	$	(26)	$	(68)
Difference between tax at effective vs statutory rate	$	66	$	50

For the three months ended March 31, 2008, the difference between the Company's recorded provision and the benefit that would result from applying the U.S. statutory rate of 35.0% is primarily attributable to: (1) losses generated within the U.S. and in certain jurisdictions outside the U.S., which were not benefited, resulting from previously established valuation allowances, (2) the mix of earnings from operations in certain lower-taxed jurisdictions outside the U.S., and (3) discrete tax charges relating to the impacts from ongoing tax audits with respect to open tax years.

For the three months ended March 31, 2007, 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 in certain jurisdictions outside the U.S., which were not benefited, resulting from previously established valuation allowances, (2) the mix of earnings from operations in certain lower-taxed jurisdictions outside the U.S., and (3) a benefit as a result of the Company reaching a settlement with a taxing authority in a location outside the U.S.

As previously reported, on October 3, 2006, the Company filed a claim for a federal tax refund related to a 1994 loss recognized on the sale of a subsidiary's stock that was disallowed at that time under Internal Revenue Service (IRS) regulations. Since that time, the IRS has issued new regulations that serve as the basis for this refund claim. As of March 31, 2008, the claim had been brought to the Joint Committee of Taxation and is pending further review. Based on information available at this time, and in accordance with FIN 48, the Company has not recorded a tax benefit due to the uncertainty of the resolution. Successful resolution of the claim could have a significant impact on the Company's effective tax rate and operating results.

NOTE 6: COMMITMENTS AND CONTINGENCIES

Environmental

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

(in millions)	March 31, 2008	As of December 31, 2007
Kodak Park site, Rochester, NY	$ 65	$ 63
Other operating sites	19	19
Former operating sites	23	23
Sites associated with the non-imaging health business sold in 1994	20	20
Total	$ 127	$ 125

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

Cash expenditures for the aforementioned investigation, remediation and monitoring activities are expected to be incurred over the next twenty-eight years for many 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 2137-01, "Standard Guide for Estimating Monetary Costs and Liabilities for Environmental Matters," and have not been reduced by possible recoveries from third parties. The overall method includes the use of a probabilistic model which forecasts a range of cost estimates for the remediation required at individual sites. The projects are closely monitored and the models are reviewed as significant events occur or at least once per year. The Company's estimate includes investigations, equipment and operating costs for remediation and long-term monitoring of the sites. The Company does not believe it is reasonably possible that the losses for the known exposures could exceed the current accruals by material amounts.

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

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

Asset Retirement Obligations

The Company has asset retirement obligations which primarily relate to asbestos contained in buildings owned by the Company. In many of the countries in which the Company operates, environmental regulations exist that require the Company to handle and dispose of asbestos in a special manner if a building undergoes major renovations or is demolished. Otherwise, the Company is not required to remove the asbestos from its buildings. The Company records a liability equal to the estimated fair value of its obligation to perform asset retirement activities related to the asbestos, computed using an expected present value technique, when sufficient information exists to calculate the fair value. The Company does not have a liability recorded related to each building that contains asbestos because the Company cannot estimate the fair value of its obligation for certain buildings due to a lack of sufficient information about the range of time over which the obligation may be settled through demolition, renovation or sale of the building. The Company’s asset retirement obligations are included within other long-term liabilities in the accompanying Consolidated Statement of Financial Position.

The change in the Company's asset retirement obligations from December 31, 2007 to March 31, 2008 was as follows:

(in millions)

Asset retirement obligations as of December 31, 2007	$	64
Liabilities incurred in the current period		3
Liabilities settled in the current period		(6)
Accretion expense		-
Revisions in estimated cash flows		3
Foreign exchange		1
Asset retirement obligations as of March 31, 2008	$	65

Other Commitments and Contingencies

As of March 31, 2008, the Company had outstanding letters of credit totaling $140 million and surety bonds in the amount of $82 million primarily to ensure the payment of possible casualty and workers' compensation claims, environmental liabilities, and to support various customs, tax and trade activities.

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

The Company 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.

NOTE 7: 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 product and equipment from the Company. As of March 31, 2008, the following customer guarantees were in place:

(in millions)	As of March 31, 2008			
	Maximum Amount		Amount Outstanding	
Customer amounts due to banks and leasing companies	$	148	$	100
Other third-parties		2		-

Total guarantees of customer debt and other obligations	$	150	$	100

The guarantees for the third party debt, presented in the table above, mature between 2008 and 2013. The customer financing agreements and related guarantees 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.

Management believes the likelihood is remote that material payments will be required under any of the guarantees disclosed above.

The Company also guarantees debt owed to banks and other third parties for some of its consolidated subsidiaries. The maximum amount guaranteed is $613 million, and the outstanding debt under those guarantees, which is recorded within the short-term borrowings and long-term debt, net of current portion components in the accompanying Consolidated Statement of Financial Position, is $223 million. These guarantees expire in 2008 through 2013. Pursuant to the terms of the Company's $2.7 billion Senior Secured Credit Agreement dated October 18, 2005, obligations under the $2.7 billion Secured Credit Facilities and other obligations of the Company and its subsidiaries to the $2.7 billion Secured Credit Facilities lenders are guaranteed.

During the fourth quarter of 2007, the Eastman Kodak Company issued a guarantee to Kodak Limited (the “Subsidiary”) and the Trustees of the Kodak Pension Plan of the United Kingdom (the “Trustees”). Under this arrangement, the Company guarantees to the Subsidiary and the Trustees the ability of the Subsidiary, only to the extent it becomes necessary to do so, to (1) make contributions to the Plan to ensure sufficient assets exist to make plan benefit payments, and (2) make contributions to the Plan such that it will achieve full funded status by the funding valuation for the period ending December 31, 2015. The guarantee expires upon the conclusion of the funding valuation for the period ending December 31, 2015 whereby the Plan achieves full funded status or earlier, in the event that the Plan achieves full funded status for two consecutive funding valuation cycles which are typically performed at least every three years.

The limit of potential future payments is dependent on the funding status of the Plan as it fluctuates over the term of the guarantee. However, as of March 31, 2008 management believes that performance under this guarantee by Eastman Kodak Company is unlikely. The funding status of the Plan is included in Pension and other postretirement liabilities presented in the Consolidated Statement of Financial Position.

Indemnifications

The Company issues indemnifications in certain instances when it sells businesses and real estate, and in the ordinary course of business with its customers, suppliers, service providers and business partners. Further, the Company indemnifies its directors and officers who are, or were, serving at the Company's request in such capacities. Historically, costs incurred to settle claims related to these indemnifications have not been material to the Company’s financial position, results of operations or cash flows. Additionally, the fair value of the indemnifications that the Company issued during the quarter ended March 31, 2008 was not material to the Company’s financial position, results of operations or cash flows.

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 accounts payable and other current liabilities in the accompanying Consolidated Statement of Financial Position, was as follows:

(in millions)

Accrued warranty obligations as of December 31, 2007	$	44

Actual warranty experience during 2008		(5)
2008 warranty provisions		4
Accrued warranty obligations as of March 31, 2008	$	43

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 three months ended March 31, 2008 amounted to $44 million. The change in the Company's deferred revenue balance in relation to these extended warranty and maintenance arrangements from December 31, 2007 to March 31, 2008, which is reflected in accounts payable and other current liabilities in the accompanying Consolidated Statement of Financial Position, was as follows:

(in millions)

Deferred revenue as of December 31, 2007	$	148
New extended warranty and maintenance arrangements in 2008		95
Recognition of extended warranty and maintenance arrangement revenue in 2008		(82)
Deferred revenue as of March 31, 2008	$	161

NOTE 8: RESTRUCTURING AND RATIONALIZATION LIABILITIES

The Company has substantially completed the cost reduction program that was initially announced in January 2004, which was referred to as the "2004–2007 Restructuring Program." This program was initially expected to result in total charges of $1.3 billion to $1.7 billion over a three-year period. Overall, Kodak's worldwide facility square footage was expected to be reduced by approximately one-third, and approximately 12,000 to 15,000 positions worldwide were expected to be eliminated, primarily in global manufacturing, selected traditional businesses, and corporate administration.

As the 2004-2007 Restructuring Program underpinned a dramatic transformation of the Company, the underlying business model necessarily evolved. This required broader and more costly manufacturing infrastructure reductions (primarily non-cash charges) than originally anticipated, as well as similarly broader rationalization of selling, administrative and other business resources (primarily severance charges). In addition, the divestiture of the Health Group further increased the amount of reductions necessary to appropriately scale the corporate infrastructure. As a result, the Company expanded the program and increased the expected employment reductions to 28,000 to 30,000 positions and total charges to $3.6 billion to $3.8 billion.

In the third quarter of 2007, the Company revised its expectations for total employment reductions to be in the range of 27,000 to 28,000 positions and total charges in the range of $3.4 billion to $3.6 billion. These new estimates reflected greater efficiencies in manufacturing infrastructure projects as well as the Company's ability to outsource or sell certain operations, which reduced involuntary severance charges.

The actual charges for initiatives under this program were recorded in the period in which the Company committed to formalized restructuring plans or executed the specific actions contemplated by the program and all criteria for restructuring charge recognition under the applicable accounting guidance were met.

Restructuring Program Summary

The activity in the accrued restructuring balances and the non-cash charges and credits incurred in relation to the 2004-2007 Restructuring Program were as follows for the first quarter of 2008:

	Balance December 31,	Costs	Cash	Other Adjustments and	Balance March 31,

(in millions)	2007	Incurred (1)	Payments (2)	Reclasses (3)	2008
Severance and curtailments	$ 129	$ (12)	$ (44)	$ 7	$ 80
Exit costs	30	2	(6)	-	26
Total reserve	$ 159	$ (10)	$ (50)	$ 7	$ 106

(1) The costs incurred include a $10 million curtailment gain, a $2 million net credit related to severance true-ups, and $2 million in exit costs.

(2) During the three months ended March 31, 2008, the Company made cash payments of approximately $60 million related to restructuring. Of this amount, $50 million was paid out of restructuring liabilities, while $10 million was paid out of pension and other postretirement liabilities.

(3) The Other Adjustments and Reclasses of $7 million represent adjustments to the restructuring reserve including (1) net curtailment, settlement and special termination gains of $3 million, (2) costs associated with ongoing rationalization activities of $1 million (3) long-term liabilities associated with lease exit costs of $(1) million, and (4) foreign currency translation of $4 million.

The net credit of $10 million was reported as restructuring costs (curtailment gains) and other in the accompanying Consolidated Statement of Operations for the three months ended March 31, 2008. This credit consisted mainly of net curtailment gains which are primarily non-cash items.

The Company implemented certain actions related to the 2004-2007 Restructuring Program during the first quarter of 2008. As a result of these actions, the Company recorded a net credit of $10 million in the first quarter of 2008, which was composed of net curtailment gains of $10 million, severance credits of $2 million, and exit costs of $2 million. The $2 million of severance credits related to the cancellation of 25 position eliminations due to staffing realignment. These positions were primarily related to R&D in the U.S.

Under this program, on a life-to-date basis as of March 31, 2008, the Company has recorded charges of $3,387 million, which was composed of severance, long-lived asset impairments, exit costs, inventory write-downs and accelerated depreciation of $1,386 million, $620 million, $387 million, $80 million and $935 million, respectively, less reversals of $(21) million. The severance costs related to the elimination of approximately 27,625 positions, including approximately 6,750 photofinishing, 13,125 manufacturing, 1,550 research and development and 6,200 administrative positions.

The following table summarizes the activity with respect to the focused cost reduction actions that the Company committed to under the program and the remaining balances in the related reserves as of March 31, 2008:

(dollars in millions)	Severance Reserve	Exit Costs Reserve	Total	Long-lived Asset Impairments and Inventory Write-downs	Accelerated Depreciation
2004 charges - continuing operations	$ 405	$ 95	$ 500	$ 156	$ 152
2004 charges - discontinued operations	13	4	17	1	-