# EASTMAN KODAK CO - 10-Q - Management's Discussion and Analysis of Financial Condition and Results of Operations

OCT. 30, 2012

(Edgar Glimpses Via Acquire Media NewsEdge) OVERVIEW 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 Bankruptcy Filing is intended to permit the Company to reorganize and increase liquidity in the U.S. and abroad, monetize non-strategic intellectual property and businesses, 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.

The Company is focusing its reorganization plan on its commercial imaging businesses; commercial, packaging, and functional printing solutions and enterprise services.

The Company exited its digital capture and devices business, including digital cameras, pocket video cameras, and digital picture frames and sold certain assets of its Kodak Gallery business. Both businesses ceased operations in the third quarter of 2012. Additionally, the Company has announced its decision to initiate sale processes for its Personalized Imaging and Document Imaging businesses. The Company has also announced a plan, starting in 2013, to focus its Consumer Inkjet business solely on the sale of ink to its installed printer base.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES The accompanying consolidated financial statements and notes to consolidated financial statements contain information that is pertinent to management's discussion and analysis of the financial condition and results of operations. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses, and the related disclosure of contingent assets and liabilities.

The Company believes that the critical accounting policies and estimates discussed below involve the most complex management judgments due to the sensitivity of the methods and assumptions necessary in determining the related asset, liability, revenue and expense amounts. Specific risks associated with these critical accounting policies are discussed throughout this MD&A, where such policies affect the Company's reported and expected financial results. For a detailed discussion of the application of these and other accounting policies, refer to the Notes to Financial Statements in Item 1.

The consolidated financial statements and related notes have been prepared assuming that the Company will continue as a going concern, although its Bankruptcy Filing raises substantial doubt about the Company's ability to continue as a going concern. The consolidated financial statements do not include any adjustments related to the recoverability and classification of recorded assets or to 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.

Revenue Recognition The Company's revenue transactions include sales of the following: products, equipment, software, services, integrated solutions, and intellectual property licensing. The Company recognizes revenue when it is realized or realizable and earned. The timing and the amount of revenue recognized from the licensing of intellectual property depend upon a variety of factors, including the specific terms of each agreement and the nature of the deliverables and obligations. For the sale of multiple-element arrangements, including whereby equipment or intellectual property is combined in a revenue generating transaction with other elements, the Company allocates to, and recognizes revenue from, the various elements based on their relative selling price. As of January 1, 2011, the Company allocates to, and recognizes revenue from, the various elements of multiple-element arrangements based on relative selling price of a deliverable, using: vendor-specific objective evidence, third-party evidence, and best estimated selling price in accordance with the selling price hierarchy.

-------------------------------------------------------------------------------- At the time revenue is recognized, the Company also records reductions to revenue for customer incentive programs. Such incentive programs include cash and volume discounts, price protection, promotional, cooperative and other advertising allowances. For those incentives that require the estimation of sales volumes or redemption rates, such as for volume rebates, the Company uses historical experience and both internal and customer data to estimate the sales incentive at the time revenue is recognized. In the event that the actual results of these items differ from the estimates, adjustments to the sales incentive accruals would be recorded.

Valuation and Useful Lives of Long-Lived Assets, Including Goodwill and Intangible Assets The Company tests goodwill for impairment annually on September 30, and 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. A reporting unit 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.

As a result of the change in segments that became effective as of September 30, 2012, the Company's reporting units changed. The Personalized and Document Imaging segment has three reporting units: Personalized Imaging, Document Imaging and Intellectual Property. The Graphics, Entertainment and Commercial Films segment has two reporting units: Graphics and Entertainment Imaging and Commercial Films. The Digital Printing and Enterprise Segment has four reporting units: Digital Printing, Packaging and Functional Printing, Enterprise Services and Solutions, and Consumer Inkjet Systems.

Prior to the September 30, 2012 change in reporting units, the only reporting units with goodwill remaining were the Consumer Digital Imaging Group ("CDG") and the Business Services and Solutions Group ("BSSG"). Consumer Inkjet Systems which was part of the CDG reporting unit was transferred to the Digital Printing and Enterprise segment. Personalized Imaging and Intellectual Property, which were part of the CDG reporting unit, are now included in the Personalized and Document Imaging Segment. Document Imaging, which was part of the BSSG reporting unit, was transferred to the Personalized and Document Imaging segment. Workflow software which was part of BSSG was transferred to the

Graphics, Entertainment and Commercial Films segment. Enterprise Services and Solutions which was part of BSSG is included in the Digital Printing and Enterprise Segment. Goodwill was reassigned to affected reporting units using a relative fair value allocation.

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 fair value of a reporting unit refers to the price that would be received to sell the unit as a whole in an orderly transaction between market participants at the measurement date. Quoted market prices in active markets are the best evidence of fair value, however the market price of an individual equity security may not be representative of the fair value of the reporting unit as a whole and, therefore need not be the sole measurement basis of the fair value of a reporting unit.

The Company estimates the fair value of its reporting units using an income approach and a market approach. To estimate fair value utilizing the market approach, the Company applies valuation multiples, derived from the operating data of publicly-traded benchmark companies, to the same operating data of the reporting units. The valuation multiples are based on a combination of the last twelve months ("LTM") financial measures of revenue, earnings before interest, taxes, depreciation and amortization ("EBITDA") and earnings before interest and taxes ("EBIT").

 Prior to 2011, the use of each of the income and market approaches provided corroboration for each other and the Company believed each methodology provided equally valuable information. For the 2011 annual goodwill test, the market approach was not utilized because reporting unit LTM EBIT and EBITDA results were negative, which would have only allowed the application of a revenue multiple in determining fair value under the market approach, and/or reporting units ranked below all the selected market participants for these financial measures. When using the market approach, multiples should be derived from companies that exhibit a high degree of comparability to the business being valued.

For the 2012 annual goodwill test, due to LTM EBIT and EBITDA results being negative for all reporting units except for Document Imaging, Entertainment and Commercial Films and the Graphics reporting units, the Company did not utilize the market approach. The Company ultimately gave 100% weighting to the income approach for the Entertainment and Commercial Films and Graphics reporting units due to the declining projections for these reporting units. The Company determined fair value of the Document Imagining reporting unit using 50% weighting of the income and market approach.

To estimate fair value utilizing the income approach, the Company establishes an estimate of future cash flows for each reporting unit and discounts those estimated future cash flows to present value. The discount rates are estimated based on an after-tax weighted average cost of capital ("WACC") for each reporting unit reflecting the rate of return that would be expected by a market participant. The WACC also takes into consideration a company specific risk premium for each reporting unit reflecting the risk associated with the overall uncertainty of the financial projections. Key assumptions used in the income approach for the September 30, 2012 goodwill impairment tests, except for the Intellectual Property reporting unit, were: (a) expected cash flows for the period from October 1, 2012 to December 31, 2019; and (b) discount rates of 22% to 28%, which were based on the Company's best estimates of the after-tax weighted-average cost of capital of each reporting unit.

A terminal value is included for all reporting units, except for the Intellectual Property and Consumer Inkjet Systems reporting units, at the end of the cash flow projection period to reflect the remaining value that the reporting unit is expected to generate. The terminal value is calculated using the constant growth method ("CGM") based on the cash flows of the final year of the discrete period. If significant growth is projected in the final year of the cash flow projection period, then the CGM is not applied to that year. Rather, the projection period is extended until the growth in the final year approaches a sustainable level. The expected cash flow forecasts for Digital Printing, Packaging and Functional Printing, and Enterprise Services and Solutions were extended by two years due to the rate of growth in the projections toward the end of the projection period. For all other reporting units, the number of periods utilized in the cash flow model for the 2012 goodwill impairment test was the same as the number used in the 2011 goodwill valuation (5+ years).

The Intellectual Property reporting unit includes licensing activities related to the Company's intellectual property ("IP") in digital imaging products and branded licensed products. In August 2012, the Bankruptcy Court approved the Company's motion of bidding procedures to auction its digital imaging patent portfolios. In September 2012, the Company filed a motion with the Bankruptcy Court to adjourn the sale of its digital imaging patent portfolios until further notice. The Company continues to explore strategic alternatives while the auction process continues, including licensing transactions, or retaining the patent portfolio and creating a newly formed licensing company as a source of recovery for creditors in the plan of reorganization. In order to estimate the fair value of the Intellectual Property reporting unit, the Company developed estimates of future cash flows both assuming a sale of the digital imaging patent portfolios (the "IP-Sale Scenario") and assuming no sale of the digital imaging patent portfolios but the continuation of the patent licensing program over the remaining life of the patent portfolio as a newly formed licensing company (the "No-IP Sale Scenario"). For purposes of the goodwill valuation, the IP-Sale Scenario and the No-IP Sale Scenario were weighted equally in estimating the fair value of the Intellectual Property reporting unit. A discount rate of 45% was utilized to discount the estimated future cash flows to present value.

On September 28, 2012, the Company announced a plan, starting in 2013, to focus its Consumer Inkjet business solely on the sale of ink to its installed printer. For purposes of the goodwill valuation, the Company did not include a terminal value at the end of the cash flow projection period.

Based upon the results of the Company's September 30, 2012 analysis, no impairment of goodwill was indicated.

Cash flows related to the Intellectual Property reporting unit could significantly change and materially impact the fair value of this reporting unit. In addition, the Company announced in August 2012, its decision to initiate sale processes for its Personalized Imaging and Document Imaging businesses. The cash flows related to these reporting units could significantly change and materially impact the fair value of these reporting units depending on the sale process or other factors. Total goodwill assigned to the Personalized and Document Imaging segment approximated $261 million as of September 30, 2012.

 A 20 percent change in estimated future cash flows or a 10 percentage point change in discount rate in the remaining reporting units would not have caused material goodwill impairment charges to be recognized by the Company as of September 30, 2012. 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.

The Company's long-lived assets other than goodwill are evaluated for impairment whenever events or changes in circumstances indicate the carrying value may not be recoverable.

When evaluating long-lived assets for impairment, the Company compares the carrying value of an asset group to its estimated undiscounted future cash flows. An impairment is indicated if the estimated future cash flows are less than the carrying value of the asset group. The impairment is the excess of the carrying value over the fair value of the long-lived asset group.

In 2005, the Company shortened the useful lives of certain production machinery and equipment in the traditional film and paper businesses as a result of the anticipated acceleration of the decline in those businesses at that time. The result of that change was that the related production machinery and equipment was scheduled to be fully depreciated by mid-2010 for the traditional film and paper businesses. In 2008, and again in 2011, with the benefit of additional experience in the secular decline in these product groups, the Company assessed that overall film and paper demand had declined but at a slower rate than anticipated in previous analyses. Therefore, with respect to production machinery and equipment and buildings in film and paper manufacturing locations that were expected to continue production beyond the previously estimated useful life, the Company extended the useful lives.

The Company depreciates the cost of property, plant, and equipment over its expected useful life in such a way as to allocate it as equitably as possible to the periods during which services are obtained from their use, which aims to distribute the cost over the estimated useful life of the unit in a systematic and rational manner. An estimate of useful life not only considers the economic life of the asset, but also the remaining life of the asset to the entity. Because the film and paper businesses are experiencing industry related volume declines, changes in the estimated useful lives of production equipment for those businesses have been related to estimated industry demand, in addition to production capacity of the particular property.

Income Taxes The Company recognizes deferred tax liabilities and assets for the expected future tax consequences of operating losses, credit carryforwards and temporary differences between the carrying amounts and tax basis of the Company's assets and liabilities. The Company records a valuation allowance to reduce its net deferred tax assets to the amount that is more likely than not to be realized. The Company has considered forecasted earnings, future taxable income, the geographical mix of earnings in the jurisdictions in which the Company operates and prudent and feasible tax planning strategies in determining the need for these valuation allowances. As of September 30, 2012, the Company has net deferred tax assets before valuation allowances of approximately $3.4 billion and a valuation allowance related to those net deferred tax assets of approximately $3.0 billion, resulting in net deferred tax assets of approximately $0.4 billion. If the Company were to determine that it would not be able to realize a portion of its net deferred tax assets in the future, for which there is currently no valuation allowance, an adjustment to the net deferred tax assets would be charged to earnings in the period such determination was made. Conversely, if the Company were to make a determination that it is more likely than not that deferred tax assets, for which there is currently a valuation allowance, would be realized, the related valuation allowance would be reduced and a benefit to earnings would be recorded. The Company considers both positive and negative evidence, in determining whether a valuation allowance is needed by territory, including, but not limited to, whether particular entities are in three year cumulative income positions. During 2011 and the nine months ended September 30, 2012, the Company determined that it was more likely than not that a portion of the deferred tax assets outside the U.S. would not be realized due to reduced manufacturing volumes negatively impacting profitability in a location outside the U.S. and accordingly, recorded provisions of $53 and $20 million, respectively, associated with the establishment of a valuation allowances on those deferred tax assets.

During 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 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 greater flexibility in its cash management.

40 -------------------------------------------------------------------------------- The Company operates within multiple taxing jurisdictions worldwide and is subject to audit in these jurisdictions. These audits can involve complex issues, which may require an extended period of time for resolution. Management's ongoing assessments of the more-likely-than-not outcomes of these issues and related tax positions require judgment, and although management believes that adequate provisions have been made for such issues, there is the possibility that the ultimate resolution of such issues could have an adverse effect on the earnings of the Company. Conversely, if these issues are resolved favorably in the future, the related provisions would be reduced, thus having a positive impact on earnings.

Pension and Other Postretirement Benefits The Company's defined benefit pension and other postretirement benefit costs and obligations are estimated using several key assumptions. These assumptions, which are reviewed at least annually by the Company, include the discount rate, long-term expected rate of return on plan assets ("EROA"), salary growth, healthcare cost trend rate and other economic and demographic factors. Actual results that differ from the Company's assumptions are recorded as unrecognized gains and losses and are amortized to earnings over the estimated future service period of the active participants in the plan or, if almost all of a plan's participants are inactive, the average remaining lifetime expectancy of inactive participants, to the extent such total net unrecognized gains and losses exceed 10% of the greater of the plan's projected benefit obligation or the calculated value of plan assets. Significant differences in actual experience or significant changes in future assumptions would affect the Company's pension and other postretirement benefit costs and obligations.

Asset and liability modeling studies are utilized by the Company to adjust asset exposures and review a liability hedging program through the use of forward looking correlation, risk and return estimates. Those forward looking estimates of correlation, risk and return generated from the modeling studies are also used to estimate the EROA. The EROA is estimated utilizing a forward-looking building block model factoring in the expected risk of each asset category, return and correlation over a 5-7 year horizon, and weighting the exposures by the current asset allocation. Historical inputs are utilized in the forecasting model to frame the current market environment with adjustments made based on the forward looking view. The Company aggregates investments into major asset categories based on the underlying benchmark of the strategy. The Company's asset categories include broadly diversified exposure to U.S. and non-U.S.

equities, U.S. and non-U.S. government and corporate bonds, inflation-linked bonds, commodities and absolute return strategies. Each allocation to these major asset categories is determined within the overall asset allocation to accomplish unique objectives, including enhancing portfolio return, providing portfolio diversification, or hedging plan liabilities.

The EROA, once set, is applied to the calculated value of plan assets in the determination of the expected return component of the Company's pension income or expense. The Company uses a calculated value of plan assets, which recognizes changes in the fair value of assets over a four-year period, to calculate expected return on assets. At December 31, 2011, the calculated value of the assets of the Company's major U.S. and Non-U.S. defined benefit pension plans was approximately $7.3 billion and the fair value was approximately $7.2 billion. Asset gains and losses that are not yet reflected in the calculated value of plan assets are not included in amortization of unrecognized gains and losses.

The Company reviews its EROA assumption annually. To facilitate this review, every three years, or when market conditions change materially, the Company's larger plans will undertake asset allocation or asset and liability modeling studies. The weighted average EROA for major U.S. and non-U.S. defined benefit pension plans used to determine net pension expense was 8.09% and 7.79%, respectively, for the year ended December 31, 2011.

Generally, the Company bases the discount rate assumption for its significant plans on high quality corporate bond yields in the respective countries as of the measurement date. Specifically, for its U.S. and Canadian plans, the Company determines a discount rate using a cash flow model to incorporate the expected timing of benefit payments and an AA-rated corporate bond yield curve. For the Company's U.S. plans, the Citigroup Above Median Pension Discount Curve is used. For the Company's other non-U.S. plans, the discount rates are determined by comparison to published local high quality bond yields or indices considering estimated plan duration and removing any outlying bonds, as warranted.

The salary growth assumptions are determined based on the Company's long-term actual experience and future and near-term outlook. The healthcare cost trend rate assumptions are based on historical cost and payment data, the near-term outlook and an assessment of the likely long-term trends.

41 -------------------------------------------------------------------------------- The following table illustrates the sensitivity to a change to certain key assumptions used in the calculation of expense for the year ending December 31, 2012 and the projected benefit obligation ("PBO") at December 31, 2011 for the Company's major U.S. and non-U.S. defined benefit pension plans: Impact on 2012 Impact on PBO Pre-Tax Pension Expense Increase December 31, 2011 Increase (in millions) (Decrease) (Decrease) U.S. Non-U.S. U.S. Non-U.S.

Change in assumption: 25 basis point decrease in discount rate $ 6 $ 3 $ 128 $ 125 25 basis point increase in discount rate (6 ) (3 ) (122 ) (119 ) 25 basis point decrease in EROA 11 6 N/A N/A 25 basis point increase in EROA (11 ) 6 N/A N/A Total pension cost from continuing operations before special termination benefits, curtailments, and settlements for the major funded and unfunded defined benefit pension plans in the U.S. is expected to change from income of $61 million in 2011 to expense of approximately $40 million in 2012, due primarily to an expected increase in amortization of actuarial losses. Pension expense from continuing operations before special termination benefits, curtailments and settlements for the major funded and unfunded non-U.S. defined benefit pension plans is projected to increase from $43 million in 2011 to approximately $69 million in 2012.

Additionally, the Company expects the expense, before curtailment and settlement gains and losses of its major other postretirement benefit plans, to be approximately $5 million in 2012 as compared with expense of $20 million for 2011. The decrease is due primarily to an expected decrease in interest expense.

Environmental Commitments Environmental liabilities are accrued based on undiscounted estimates of known environmental remediation responsibilities. The liabilities include accruals for sites owned or leased by the Company, sites formerly owned or leased by the Company, and other third party sites where the Company was designated as a potentially responsible party ("PRP"). The amounts accrued for such sites are based on these estimates, which are determined using the ASTM Standard E 2137-06, "Standard Guide for Estimating Monetary Costs and Liabilities for Environmental Matters." The overall method includes the use of a probabilistic model that forecasts a range of cost estimates for the remediation required at individual sites. The Company's estimate includes equipment and operating costs for investigations, remediation and long-term monitoring of the sites. Such estimates may be affected by changing determinations of what constitutes an environmental liability or an acceptable level of remediation. The Company's estimate of its environmental liabilities may also change if the proposals to regulatory agencies for desired methods and outcomes of remediation are viewed as not acceptable, or additional exposures are identified. The Company has an ongoing monitoring process to assess how activities, with respect to the known exposures, are progressing against the accrued cost estimates.

Additionally, 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. 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.

42 --------------------------------------------------------------------------------CURRENT KODAK OPERATING MODEL AND REPORTING STRUCTURE As of September 30, 2012, the Company has three reportable segments; the Graphics, Entertainment and Commercial Films Segment, the Digital Printing and Enterprise Segment, and the Personalized and Document Imaging Segment. Within each of the Company's reportable segments are various components, or Strategic Product Groups (SPGs). Throughout the remainder of this document, references to the segments' SPGs are indicated in italics. A description of the segments is as follows: Graphics, Entertainment and Commercial Films Segment: The Graphics, Entertainment and Commercial Films Segment provides commercial digital and traditional product and service offerings. The Graphics, Entertainment and Commercial Films Segment encompasses the following SPGs. Products and services included within each SPG are identified below.

Entertainment Imaging & Commercial Films includes entertainment imaging products and services; aerial and industrial film products; and film for the production of printed circuit boards.

Graphics includes prepress solutions, which includes equipment, plates, chemistry, media and related services, and workflow software and digital controllers.

Digital Printing and Enterprise Segment: The Digital Printing and Enterprise Segment serves a variety of customers in the creative, in-plant, data center, consumer printing, commercial printing, packaging, newspaper and digital service bureau market segments with a range of software, media and hardware products that provide customers with a variety of solutions. The Digital Printing and Enterprise Segment encompasses the following SPGs. Products and services included within each SPG are identified below.

Digital Printing includes high-speed, high-volume commercial inkjet, and color and black-and-white electrophotographic printing equipment, and related consumables and services.

Packaging and Functional Printing includes packaging printing equipment and related consumables and services, as well as functionally printed materials and components.

Enterprise Services and Solutions includes business solutions and consulting services.

Consumer Inkjet Systems includes consumer inkjet printers and related ink and media consumables. On September 28, 2012, the Company announced a plan, starting in 2013, to focus its Consumer Inkjet business solely on the sale of ink to its installed printer base.

Personalized and Document Imaging Segment: The Personalized and Document Imaging Segment provides consumer digital and traditional imaging products and service offerings. The Personalized and Document Imaging Segment encompasses the following SPGs. Products and services included within each SPG are identified below.

Intellectual Property includes the licensing activities related to digital imaging products and branded licensed products.

Personalized Imaging includes retail systems solutions, paper and output systems, event imaging solutions and consumer film.

Document Imaging includes document scanning products and services and related maintenance offerings.

43 --------------------------------------------------------------------------Net Sales from Continuing Operations by Reportable Segment Three Months Ended September 30, Nine Months Ended September 30, (dollars in millions) % Foreign Currency Foreign Currency 2012 2011 Change Impact* 2012 2011 Change Impact* Graphics, Entertainment and Commercial Films Inside the U.S. $ 104 $ 119 -13 % 0 % $ 340 $ 374 -9 % 0 % Outside the U.S. 302 429 -30 -4 954 1,286 -26 -3 Total Graphics, Entertainment and Commercial Films 406 548 -26 -3 1,294 1,660 -22 -2 Digital Printing and Enterprise Inside the U.S. 103 123 -16 0 314 364 -14 0 Outside the U.S. 127 144 -12 -5 357 400 -11 -4 Total Digital Printing and Enterprise 230 267 -14 -3 671 764 -12 -2 Personalized and Document Imaging Inside the U.S. 130 144 -10 0 301 402 -25 0 Outside the U.S. 252 302 -17 -6 728 851 -14 -5 Total Personalized and Document Imaging 382 446 -14 -4 1,029 1,253 -18 -3 Consolidated Inside the U.S. 337 386 -13 0 955 1,140 -16 0 Outside the U.S. 681 875 -22 -5 2,039 2,537 -20 -4 Consolidated Total $ 1,018 $ 1,261 -19 % -3 % $ 2,994 $ 3,677 -19 % -3 % * Represents the percentage change in segment net sales for the period that is attributable to foreign currency fluctuations.

(Loss) Earnings from Continuing Operations Before Interest Expense, Other Income (Charges), Net, Reorganization Items, Net, and Income Taxes by Reportable Segment Three Months Ended Nine Months Ended September 30, September 30, (dollars in millions) 2012 2011 Change 2012 2011 Change Graphics, Entertainment and Commercial Films $ (4 ) $ (2 ) -100 % $ (22 ) $ (23 ) +4 % Digital Printing and Enterprise (43 ) (137 ) +69 % (171 ) (419 ) +59 % Personalized and Document Imaging 10 15 -33 % (57 ) (24 ) -138 % Total $ (37 ) $ (124 ) +70 % $ (250 ) $ (466 ) +46 % Percent of Sales (4 )% (10 )% (8 )% (13 )% Restructuring costs and other (126 ) (18 ) (218 ) (86 ) Corporate components of pension and OPEB expense (34 ) (13 ) (100 ) (25 ) Other operating income (expenses), net 4 (12 ) 5 59 Legal contingencies, settlements and other - - (1 ) - Loss on early extinguishment of debt, net - - (7 ) - Interest expense (41 ) (41 ) (117 ) (116 ) Other income (charges), net 6 (7 ) 5 1 Reorganization items, net (56 ) - (304 ) - Consolidated loss from continuing operations before income taxes $ (284 ) $ (215 ) -32 % $ (987 ) $ (633 ) -56 % 44--------------------------------------------------------------------------------2012 COMPARED WITH 2011 Third Quarter and Year to Date RESULTS OF OPERATIONS - CONTINUING OPERATIONS CONSOLIDATED (dollars in millions) Three Months Ended Nine Months Ended September 30, September 30, 2012 % of Sales 2011 % of Sales % Change 2012 % of Sales 2011 % of Sales % Change Net sales $ 1,018 $ 1,261 -19 % $ 2,994 $ 3,677 -19 % Cost of sales 858 1,081 -21 % 2,590 3,194 -19 % Gross profit 160 16 % 180 14 % -11 % 404 14 % 483 13 % -16 % Selling, general and administrative expenses 196 19 % 259 21 % -24 % 608 20 % 800 22 % -24 % Research and development costs 44 4 % 59 5 % -25 % 158 5 % 183 5 % -14 % Restructuring costs and other 117 17 -588 % 206 77 -168 % Other operating (income) expenses, net (4 ) 12 133 % (4 ) (59 ) -93 % Loss from continuing operations before interest expense, other income (charges), net, reorganization items, net and income taxes (193 ) -19 % (167 ) -13 % -16 % (564 ) -19 % (518 ) -14 % -9 % Interest expense 41 41 0 % 117 116 -1 % Loss on early extinguishment of debt, net - - 7 - Other income (charges), net 6 (7 ) 5 1 Reorganization items, net 56 - 304 - Loss from continuing operations before income taxes (284 ) (215 ) -32 % (987 ) (633 ) -56 % Provision (benefit) for income taxes 23 (1 ) (84 ) (41 ) Loss from continuing operations (308 ) -30 % (214 ) -17 % -43 % (903 ) -30 % (590 ) -16 % -53 % Loss from discontinued operations, net of income taxes (5 ) (8 ) (74 ) (55 ) NET LOSS ATTRIBUTABLE TO EASTMAN KODAK COMPANY $ (312 ) $ (222 ) -41 % $ (977 ) $ (647 ) -51 % Three Months Ended September 30, Percent Change vs. 2011 Manufacturing and 2012 Amount Change vs. 2011 Volume Price/Mix Foreign Exchange Other Costs Net sales $ 1,018 -19 % -16 % 0 % -3 % n/a Gross profit margin 16 % 2pp n/a 4pp -1pp -1pp Nine Months Ended September 30, Percent Change vs. 2011 Manufacturing and 2012 Amount Change vs. 2011 Volume Price/Mix Foreign Exchange Other Costs Net sales $ 2,994 -19 % -14 % -2 % -3 % n/a Gross profit margin 14 % 1pp n/a 2pp -1pp 0pp 45-------------------------------------------------------------------------------- Revenues Current Quarter For the three months ended September 30, 2012, net sales decreased approximately 19% compared with the same period in 2011 primarily due to volume declines across all segments. See segment discussions below for additional information.

Year to Date For the nine months ended September 30, 2012, net sales decreased approximately 19% compared with the same period in 2011 primarily due to volume declines across all segments. Included in the total decline was the $61 million license revenue reduction reflecting sharing, with licensees, of the withholding tax refund received in the first quarter of 2012 (refer to Note 9, "Income Taxes" for additional information). See segment discussions below for additional information.

Gross Profit Current Quarter The increase in gross profit percent for the three months ended September 30, 2012 as compared with the prior year quarter was primarily due to favorable price/mix within the Digital Printing and Enterprise Segment driven by the focus on profitability in Consumer Inkjet Systems (+4pp). See segment discussions below for additional details.

Year to Date Gross profit percent for the nine months ended September 30, 2012 as compared with the prior year quarter increased, despite the $61 million licensing revenue reduction in the first quarter of 2012 (refer to Note 9 "Income Taxes" for additional information), due to the focus on profitability within Consumer Inkjet Systems (+3pp). See segment discussions below for additional details.

Selling, General and Administrative Expenses The decreases in consolidated selling, general and administrative expenses (SG&A) for the three and nine months ended September 30, 2012 as compared with the prior year periods were the result of cost reduction actions impacting the current quarter and year to date periods.

Research and Development Costs The decrease in research and development costs (R&D) for the three and nine months ended September 30, 2012 as compared with the prior year periods was primarily attributable to cost reduction actions.

Restructuring Costs and Other These costs, as well as the restructuring costs reported in Cost of sales, are discussed under the "RESTRUCTURING COSTS AND OTHER" section.

Other Operating (Income) Expenses, Net For details, refer to Note 14, "Other Operating (Income) Expenses, Net." Reorganization Items, Net For details, refer to Note 4, "Reorganization Items, Net." 46 ---------------------------------------------------------------------------------Income Tax Provision (Benefit) (dollars in millions) Three Months Ended Nine Months Ended September 30, September 30, 2012 2011 2012 2011Loss from continuing operations before income taxes $ (284 ) $ (215 ) $ (987 ) $ (633 ) Provision (benefit) for income taxes $ 24 $ (1 ) $ (84 ) $ (43 ) Effective tax rate (8.5 )% 0.5 % 8.5 % 6.8 % Current Quarter The change in the Company's effective tax rate from continuing operations for the quarter is primarily attributable to: (1) a benefit as a result of the Company reaching a settlement with a taxing authority in a location outside the U.S. in the three months ended September 30, 2011, (2) an increase as a result of foreign withholding taxes on undistributed earnings, (3) an increase as a result of tax accounting impacts related to items reported in Accumulated other comprehensive loss in the Consolidated Statement of Financial Position (4) an increase as a result of losses generated in 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, (5) a decrease as a result of the establishment of a deferred tax asset valuation allowance in certain jurisdictions outside the U.S. and (6) an increase as a result of other changes in audit reserves.

Year to Date The change in the Company's effective tax rate from continuing operations for the nine months ended September 30, 2012 is primarily attributable to: (1) a benefit as a result of the Company reaching a settlement of a competent authority claim in the nine months ended September 30, 2012, (2) a benefit as a result of the U.S. Internal Revenue Service federal audit settlement for calendar years 2001 through 2005 in the nine months ended September 30, 2011, (3) a benefit as a result of the Company reaching a settlement with a taxing authority in a location outside the U.S. in the nine months ended September 30, 2011, (4) a decrease as a result of losses generated in 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, (5) a benefit as a result of the release of a deferred tax asset valuation allowance in a certain jurisdiction outside the U.S. in the nine months ended September 30, 2011, (6) an increase as a result of tax accounting impacts related to items reported in Accumulated other comprehensive loss in the Consolidated Statement of Financial Position and (7) an increase associated with foreign withholding taxes on undistributed earnings.

47 --------------------------------------------------------------------------------GRAPHICS, ENTERTAINMENT AND COMMERICAL FILMS SEGMENT (dollars in millions) Three Months Ended Nine Months Ended September 30, September 30, 2012 % of Sales 2011 % of Sales % Change 2012 % of Sales 2011 % of Sales % Change Net sales $ 406 $ 548 -26 % $ 1,294 $ 1,660 -22 % Cost of sales 344 450 -24 % 1,091 1,368 -20 % Gross profit 62 15 % 98 18 % -37 % 203 16 % 292 18 % -30 % Selling, general and administrative expenses 57 14 % 83 15 % -31 % 191 15 % 261 16 % -27 % Research and development costs 9 2 % 17 3 % -47 % 34 3 % 54 3 % -37 % Loss from continuing operations before interest expense, other income (charges), net and income taxes $ (4 ) -1 % $ (2 ) 0 % -100 % $ (22 ) -2 % $ (23 ) -1 % 4 % Three Months Ended September 30, Percent Change vs. 2011 Manufacturing and 2012 Amount Change vs. 2011 Volume Price/Mix Foreign Exchange Other Costs Net sales $ 406 -26 % -22 % -1 % -3 % n/a Gross profit margin 15 % -3pp n/a -1pp -1pp -1pp Nine Months Ended September 30, Percent Change vs. 2011

Manufacturing and 2012 Amount Change vs. 2011 Volume Price/Mix Foreign Exchange Other Costs Net sales $ 1,294 -22 % -19 % -1 % -2 % n/a Gross profit margin 16 % -2pp n/a 0pp 0pp -2pp Revenues Current Quarter The decrease in the Graphics, Entertainment and Commercial Films Segment net sales of approximately 26% for the quarter was primarily driven by volume declines within Entertainment Imaging & Commercial Films (-12%), largely attributable to reduced demand primarily due to secular decline, and within Graphics, largely attributable to lower demand for digital plates (-3%) and output devices (-2%) and the exit of analog plates (-2%) in most geographies.

Year to Date The decrease in the Graphics, Entertainment and Commercial Films Segment net sales of approximately 22% for the nine months ended September 30, 2012 was primarily attributable to volume declines within Entertainment Imaging & Commercial Films (-11%), largely attributable to reduced demand primarily due to secular decline in the industry and within Graphics, largely attributable to lower demand for digital plates (-2%) and the exit of analog plates (-2%) in most geographies.

Gross Profit Current Quarter The decrease in the Graphics, Entertainment and Commercial Films Segment gross profit percent for the three months ended September 30, 2012 was partially due to increased costs within Entertainment Imaging & Commercial Films (-2pp) driven by lower production volumes.

Year to Date The decrease in the gross profit percent in the Graphics, Entertainment and Commercial Films Segment for the nine months ended September 30, 2012 as compared with the prior year period was due to increased costs within Entertainment Imaging & Commercial Films (-2pp) driven by lower production volumes.

Selling, General and Administrative Expenses The decrease in SG&A for the three and nine months ended September 30, 2012 as compared with the prior year period was primarily attributable to cost reduction actions.

48--------------------------------------------------------------------------------Research and Development Costs The decrease in R&D for the three and nine months ended September 30, 2012 as compared with the prior year period was primarily attributable to cost reduction actions.

DIGITAL PRINTING AND ENTERPRISE SEGMENT (dollars in millions) Three Months Ended Nine Months Ended September 30, September 30, 2012 % of Sales 2011 % of Sales % Change 2012 % of Sales 2011 % of Sales % Change Net sales $ 230 $ 267 -14 % $ 671 $ 764 -12 % Cost of sales 194 283 -31 % 583 800 -27 % Gross profit 36 16 % (16 ) -6 % 325 % 88 13 % (36 ) -5 % 344 % Selling, general and administrative expenses 58 25 % 92 34 % -37 % 182 27 % 290 38 % -37 % Research and development costs 21 9 % 29 11 % -28 % 77 11 % 93 12 % -17 % Loss from continuing operations before interest expense, other income (charges), net and income taxes $ (43 ) -19 % $ (137 ) -51 % 69 % $ (171 ) -25 % $ (419 ) -55 % 59 % Three Months Ended September 30, Percent Change vs. 2011 Manufacturing and 2012 Amount Change vs. 2011 Volume Price/Mix Foreign Exchange Other Costs Net sales $ 230 -14 % -15 % 4 % -3 % n/a Gross profit margin 16 % 22pp n/a 17pp -1pp 6pp Nine Months Ended September 30, Percent Change vs. 2011 Manufacturing and 2012 Amount Change vs. 2011 Volume Price/Mix Foreign Exchange Other Costs Net sales $ 671 -12 % -12 % 2 % -2 % n/a Gross profit margin 13 % 18pp n/a 16pp -1pp 3pp Revenues Current Quarter The decrease in the Digital Printing and Enterprise Segment net sales of approximately 14% for the quarter was driven by volume declines within Digital Printing attributable to lower placements of commercial equipment (-6%), and within Consumer Inkjet Systems (-8%) driven by lower consumer printer sales. Partially offsetting these declines was favorable price/mix within Consumer Inkjet Systems (+4%) due to pricing actions in the current year period.

Year to Date The decrease in Digital Printing and Enterprise Segment net sales of approximately 12% for the nine months ended September 30, 2012 was attributable to volume declines within Digital Printing attributable to lower placements of commercial equipment (-7%), and within Consumer Inkjet Systems (-5%) driven by lower consumer printer sales. Partially offsetting these declines was favorable price/mix within Consumer Inkjet Systems (+3%) due to pricing actions in the current year period.

Gross Profit Current Quarter The increase in the Digital Printing and Enterprise Segment gross profit percent for the three months ended September 30, 2012 was primarily due to favorable price/mix within Consumer Inkjet Systems (+17pp), due to a greater proportion of consumer ink sales and pricing actions in the current year period. Also contributing to the increase in gross profit percent were cost reductions within Digital Printing (+5pp), driven by improved inventory management as the Company focuses on liquidity, and cost reductions within Packaging & Functional Printing (+3pp), driven by manufacturing productivity improvements.

Year to Date Gross profit percent in the Digital Printing and Enterprise Segment for the nine months ended September 30, 2012 as compared with the prior year period increased due to favorable price/mix within Consumer Inkjet Systems (+14pp), due to a greater proportion of consumer ink sales and pricing actions in the current year period. Also contributing to the increase in gross profit percent were cost reductions within Digital Printing (+3pp), driven by improved inventory management as the Company focuses on liquidity.

Selling, General and Administrative Expenses The decrease in SG&A for the three and nine months ended September 30, 2012 as compared with the prior year period was primarily attributable to cost reduction actions.

Research and Development Costs The decrease in R&D for the three and nine months ended September 30, 2012 as compared with the prior year period was primarily attributable to cost reduction actions.

49--------------------------------------------------------------------------------PERSONALIZED AND DOCUMENT IMAGING SEGMENT (dollars in millions) Three Months Ended Nine Months Ended September 30, September 30, 2012 % of Sales 2011 % of Sales % Change 2012 % of Sales 2011 % of Sales % Change Net sales $ 382 $ 446 -14 % $ 1,029 $ 1,253 -18 % Cost of sales 290 335 -13 % 841 984 -15 % Gross profit 92 24 % 111 25 % -17 % 188 18 % 269 21 % -30 % Selling, general and administrative expenses 70 18 % 79 18 % -11 % 202 20 % 244 19 % -17 % Research and development costs 12 3 % 17 4 % -29 % 43 4 % 49 4 % -12 % Earnings (loss) from continuing operations before interest expense, other income (charges), net and income taxes $ 10 3 % $ 15 3 % -33 % $ (57 ) -6 % $ (24 ) -2 % -138 % Three Months Ended September 30, Percent Change vs. 2011 Manufacturing and 2012 Amount Change vs. 2011 Volume Price/Mix Foreign Exchange Other Costs Net sales $ 382 -14 % -9 % -2 % -3 % n/a Gross profit margin 24 % -1pp n/a 1pp -1pp -1pp Nine Months Ended September 30, Percent Change vs. 2011 Manufacturing and 2012 Amount Change vs. 2011 Volume Price/Mix Foreign Exchange Other Costs Net sales $ 1,029 -18 % -10 % -4 % -4 % n/a Gross profit margin 18 % -3pp n/a -2pp -1pp 0pp Revenues Current Quarter The Personalized and Document Imaging Segment second quarter revenue decline of approximately 14% was primarily attributable to volume declines within Personalized Imaging largely due to reduced demand for paper and output systems (-9%) and consumer film (-3%). Partially offsetting these declines were volume improvements for retail systems solutions (+2%) within Personalized Imaging due to increased demand.

Year to Date The Personalized and Document Imaging Segment year to date revenue decline of approximately 18% was primarily due to volume declines within Personalized Imaging largely due to reduced demand for paper and output systems (-8%) and consumer film (-2%). Also contributing to the revenue decline was unfavorable price/mix within Intellectual Property (-7%) due to the $61 million licensing revenue reduction reflecting sharing, with licensees, of the withholding tax refund received (refer to Note 9 "Income Taxes" for additional information). Partially offsetting these declines was favorable price/mix within Personalized Imaging (+3%), due to the results of pricing actions in paper and output systems, and volume improvements for retail systems solutions (+2%) due to increased demand.

Gross Profit Current Quarter The decrease in gross profit percent for the three months ended September 30, 2012 was attributable to increased manufacturing and other costs in Personalized Imaging (-1pp) driven by lower production volumes primarily for consumer film products.

Year to Date The decrease in gross profit percent for the nine months ended September 30, 2012 was primarily attributable to unfavorable price/mix within Intellectual Property due to the $61 million licensing revenue reduction as noted above. Partially offsetting this decline was favorable price/mix within Personalized Imaging (+5pp) driven by the pricing actions in paper and output systems noted above.

50--------------------------------------------------------------------------------Selling, General and Administrative Expenses The decrease in SG&A for the three and nine months ended September 30, 2012 as compared with the prior year period was primarily attributable to cost reduction actions.

Research and Development Costs The decrease in R&D for the three and nine months ended September 30, 2012 as compared with the prior year period was primarily attributable to cost reduction actions.

RESTRUCTURING COSTS AND OTHER The Company recorded $128 million of charges, including $2 million of charges for accelerated depreciation and $7 million of charges for inventory write-downs, which were reported in Cost of sales in the accompanying Consolidated Statement of Operations for the three months ended September 30, 2012, and $2 million which was reported as discontinued operations. The Company recorded $244 million of charges, including $4 million of charges for accelerated depreciation and $8 million of charges for inventory write-downs, which were reported in Cost of sales in the accompanying Consolidated Statement of Operations for the nine months ended September 30, 2012, and $26 million which was reported as discontinued operations. The remaining costs incurred of $117 million and $206 million were reported as Restructuring costs and other in the accompanying Consolidated Statement of Operations for the three and nine months ended September 30, 2012, respectively. 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.

During the three and nine months ended September 30, 2012, the Company made cash payments related to restructuring of approximately $15 million and $65 million, respectively.

The charges of $244 million recorded in the first three quarters of 2012 included $89 million applicable to the Digital Printing and Enterprise Segment, $16 million applicable to the Graphics, Entertainment and Commercial Films Segment, $22 million applicable to the Personalized and Document Imaging Segment, and $91 million that was applicable to manufacturing, research and development, and administrative functions, which are shared across both segments. The remaining $26 million was applicable to discontinued operations.

The restructuring actions implemented in the first nine months of 2012 are expected to generate future annual cash savings of approximately $251 million. These savings are expected to reduce future annual Cost of sales, SG&A, and R&D expenses by $110 million, $100 million, and $41 million, respectively. The Company began realizing a portion of these savings in the first nine months of 2012, and expects the majority of the annual savings to be in effect by the end of the first half of 2013 as actions are completed.

51 --------------------------------------------------------------------------------LIQUIDITY AND CAPITAL RESOURCES As of As of September 30, December 31, (in millions) 2012 2011 Cash and cash equivalents $ 1,132 $ 861 Cash Flow Activity Nine Months Ended (in millions) September 30, 2012 2011 Change Cash flows from operating activities: Net cash used in continuing operations $ (291 ) $ (917 ) $ 626 Net cash provided by (used in) discontinued operations 30 (121 ) 151 Net cash used in operating activities (261 ) (1,038 ) 777 Cash flows from investing activities: Net cash used in continuing operations (10 ) (106 ) 96 Net cash provided by discontinued operations 27 66 (39 ) Net cash provided by (used in) investing activities 17 (40 ) 57 Cash flows from financing activities: Net cash provided by financing activities 512 301 211 Effect of exchange rate changes on cash 3 15 (12 ) Net increase (decrease) in cash and cash equivalents $ 271 $ (762 ) $ 1,033 Operating Activities Net cash used in operating activities decreased $777 million for the nine months ended September 30, 2012 as compared with the corresponding period in 2011, primarily due to non-payment of pre-petition claims. Additionally, cash provided by discontinued operations improved by $151 million due to working capital changes associated with the discontinued operations in the current year period.

Partially offsetting these improvements was the incremental payment of reorganization and restructuring costs of approximately $150 million in the current year period.

Investing Activities Net cash provided by investing activities increased $57 million for the nine months ended September 30, 2012 as compared with the nine months ended September 30, 2011, due to decreases in current period capital expenditures of $37 million, as well as cash used for a business acquisition in the prior year period of $27 million and the funding of a restricted cash account of $22 million in the prior year period. Partially offsetting these cash improvements was a decrease in proceeds from the sales of businesses/assets of $32 million.

Financing Activities Net cash provided by financing activities increased $211 million for the nine months ended September 30, 2012 as compared with the corresponding period in 2011 due to the net borrowing increase of approximately $210 million in the current year period, driven by the first quarter net borrowing increase, and the proceeds from the sale and leaseback of a property in Mexico in the first quarter for approximately $41 million. Partially offsetting these increases was an increase in reorganization items of $40 million. Refer to discussion below for more details on current period financing activities.

52 ------------------------------------------------------------------------------Sources of Liquidity The Company has been using cash received from operations, including intellectual property licensing, and the sale of non-core assets to fund its investment in its growth businesses and its transformation from a traditional film manufacturing company to a digital technology company. While the Company develops its reorganization plan, the need to invest in its businesses will be balanced with the need to improve liquidity. The Company faces an uncertain business environment and a number of substantial challenges, including aggressive price competition, secular decline in the Company's traditional film businesses, the cost to restructure the Company to enable sustainable profitability, the level of investment necessary for its businesses, underfunded and unfunded defined benefit and other postretirement benefit plans, and short-term uncertainty relating to monetization of the Company's digital imaging patent portfolios.

The Company's Bankruptcy Filing is intended to permit the Company to reorganize and improve liquidity in the U.S. and abroad, monetize non-strategic intellectual property and businesses, 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.

On January 20, 2012, in connection with the Company's Bankruptcy Filing, the Company entered into the DIP Credit Agreement which provides up to a $700 million super-priority senior secured term loan facility and up to a $250 million super-priority senior secured asset-based revolving credit facility. During the first half of 2012 the Company borrowed $700 million in term loans and issued $114 million of letters of credit and had secured agreements of $20 million under the revolving credit facilities. As of September 30, 2012 there was $667 million, $114 million and $20 million of outstanding debt, letters of credit and secured agreements, respectively, outstanding under the DIP Credit Agreement.

The Company must prepay the DIP Credit Agreement with all net cash proceeds from sales of or casualty events relating to certain types of collateral consisting of accounts, inventory, equipment or machinery that constitute collateral. In addition, all net cash proceeds from any sale in respect of the Company's digital imaging patent portfolio must be used to prepay the DIP Credit Agreement. With respect to all other asset sales or casualty events, or intellectual property licensing or settlement agreements, 75% of the net cash proceeds must be used to prepay the DIP Credit Agreement and 25% may be retained by the Company (retained proceeds are $25 million as of September 30, 2012). However, once the Company's share of these retained proceeds totals $150 million, all remaining and future net proceeds must be used to prepay the DIP Credit Agreement. The DIP Credit Agreement terminates and all outstanding obligations must be repaid on the earliest to occur of (i) July 20, 2013, (ii) the date of the substantial consummation of certain reorganization plans or (iii) certain other events, including Events of Default and repayment in full of the obligations pursuant to a mandatory prepayment. The Company has begun exploring funding opportunities for its emergence plan.

Cash and cash equivalents are held in various locations throughout the world. At September 30, 2012 and December 31, 2011, approximately $300 million and $170 million, respectively, of cash and cash equivalents were held within the U.S.

and approximately $830 million and $690 million, respectively, of cash and cash equivalents were held outside the U.S. Total cash and cash equivalents at September 30, 2012 and December 31, 2011 were $1,132 million and $861 million, respectively. The Company utilizes a variety of tax planning and financing strategies in an effort to ensure that cash is available in locations where it is needed. Cash balances held outside of the U.S. are generally required to support local country operations, or may have high tax costs, and therefore may not be readily available for transfer to other jurisdictions. Additionally, in China, where approximately $330 million of cash and cash equivalents was held as of September 30, 2012, there are limitations related to net asset balances that impact the ability to make cash available to other jurisdictions in the world. Under the terms of the DIP Credit Agreement, the Debtors are permitted to invest up to $100 million at any time in subsidiaries that are not party to the loan agreement.

The Bankruptcy Court has approved bidding procedures for the Company to auction its digital capture and Kodak imaging systems and services patent portfolios. If the Company is unable to sell its digital imaging patent portfolio at an appropriate price, it intends to pursue alternative methods to monetize the digital imaging patents, including potential licensing opportunities related to that patent portfolio. During the third quarter of 2012 the Company exited its digital capture and devices and Kodak Gallery businesses. Additionally, the Company has announced its decision to initiate a sales process for its Personalized Imaging and Document Imaging businesses. The Company has also announced a plan, starting in 2013, to focus its Consumer Inkjet business solely on the sale of ink to its installed printer base. These actions are intended to improve the Company's liquidity.

 The Debtors' agreement with the Retiree Committee to stop providing retiree medical, dental, life insurance and survivor income benefits (other than COBRA continuation coverage or conversion rights as required by the retiree benefit plans or applicable law) after December 31, 2012, if approved, will also improve liquidity. The Company expects to pay $112 million of retiree benefits under the terms of the plans in 2012. There can be no assurance that cash on hand, cash generated through operations, cash generated from asset sales, and other available funds will be sufficient to meet the Company's reorganization or ongoing cash needs, or that the Company will remain in compliance with all the necessary terms and conditions of the DIP Credit Agreement. As a result, the Company may be required to consider other alternatives to maximize the potential recovery for the various creditor constituencies, including, but not limited to, a possible sale of the Company or certain of the Company's material assets pursuant to Section 363 of the Bankruptcy Code.

Liens on assets under the Company's borrowing arrangements are not expected to affect the Company's strategy of divesting non-core assets.

Refer to Note 8, "Short-Term Borrowings and Long-Term Debt," in the Notes to Financial Statements for further discussion of sources of liquidity, presentation of long-term debt, related maturities and interest rates as of September 30, 2012 and December 31, 2011.

Debtor-in-Possession Credit Agreement In connection with the Bankruptcy Filing, on January 20, 2012, the Company and Kodak Canada Inc. (the "Canadian Borrower" and, together with the Company, the "Borrowers") entered into a Debtor-in-Possession Credit Agreement, as amended on January 25, 2012, March 5, 2012 and April 26, 2012 (the "DIP Credit Agreement"), with certain subsidiaries of the Company and the Canadian Borrower signatory thereto ("Subsidiary Guarantors"), the lenders signatory thereto (the "Lenders"), Citigroup Global Markets Inc., as sole lead arranger and bookrunner, and Citicorp North America, Inc., as syndication agent, administration agent and co-collateral agent (the "Agent"). Pursuant to the terms of the DIP Credit Agreement, the Lenders agreed to lend in an aggregate principal amount of up to $950 million, consisting of an up to $250 million super-priority senior secured asset-based revolving credit facility and an up to $700 million super-priority senior secured term loan facility (collectively, the "Loans"). A portion of the revolving credit facility will be available to the Canadian Borrower and may be borrowed in Canadian Dollars. The DIP Credit Agreement was approved on February 15, 2012 by the Bankruptcy Court. The DIP Credit Agreement terminates and all outstanding obligations must be repaid on the earliest to occur of (i) July 20, 2013, (ii) the date of the substantial consummation of certain reorganization plans and (iii) certain other events, including Events of Default and repayment in full of the obligations pursuant to a mandatory prepayment.

The Company and each existing and future direct or indirect U.S. subsidiary of the Company (other than indirect U.S. subsidiaries held through foreign subsidiaries and certain immaterial subsidiaries (if any)) (the "U.S.

Guarantors") have agreed to provide unconditional guarantees of the obligations of the Borrowers under the DIP Credit Agreement. In addition, the U.S.

Guarantors, the Canadian Borrower and each existing and future direct and indirect Canadian subsidiary of the Canadian Borrower (other than certain immaterial subsidiaries (if any)) (the "Canadian Guarantors" and, together with the U.S. Guarantors, the "Guarantors") have agreed to provide unconditional guarantees of the obligations of the Canadian Borrower under the DIP Credit Agreement. Under the terms of the DIP Credit Agreement, the Company will have the option to have interest on the loans provided thereunder accrue at a base rate or the then applicable LIBOR Rate (subject to certain adjustments and, in the case of the term loan facility, a floor of 1.00%), plus a margin, (x) in the case of the revolving loan facility, of 2.25% for a base rate revolving loan or 3.25% for a LIBOR rate revolving loan, and (y) in the case of the term loan facility, of 6.50% for a base rate loan and 7.50% for a LIBOR Rate loan. The obligations of the Borrowers and the Guarantors under the DIP Credit Agreement are secured by a first-priority security interest in and lien upon all of the existing and after-acquired personal property of the Company and the U.S.

Guarantors, including pledges of all stock or other equity interest in direct subsidiaries owned by the Company or the U.S. Guarantors (but only up to 65% of the voting stock of each direct foreign subsidiary owned by the Company or any U.S. Guarantor in the case of pledges securing the Company's and the U.S.

Guarantors' obligations under the DIP Credit Agreement). Assets of the type described in the preceding sentence of the Canadian Borrower or any Canadian subsidiary of the Canadian Borrower are similarly pledged to secure the obligations of the Canadian Borrower and Canadian Guarantor under the DIP Credit Agreement. The security and pledges are subject to certain exceptions.

The DIP Credit Agreement limits, among other things, the Borrowers' and the Subsidiary Guarantors' ability to (i) incur indebtedness, (ii) incur or create liens, (iii) dispose of assets, (iv) prepay subordinated indebtedness and make other restricted payments, (v) enter into sale and leaseback transactions and (vi) modify the terms of any organizational documents and certain material contracts of the Borrowers and the Subsidiary Guarantors. In addition to standard obligations, the DIP Credit Agreement provides for specific milestones that the Company must achieve by specific target dates. In addition, the Company and its subsidiaries are required to maintain consolidated Adjusted EBITDA (as defined in the DIP Credit Agreement) of not less than a specified level for certain periods, with the specified levels ranging from $(130) million to $175 million depending on the applicable period. The Company and its subsidiaries must also maintain minimum U.S. Liquidity (as defined in the DIP Credit Agreement) ranging from $100 million to $250 million depending on the applicable period. The Company was required to maintain U.S. Liquidity of $125 million, $250 million, and $150 million for the periods from January 20, 2012 to February 15, 2012; February 16, 2012 to March 31, 2012; and April 1, 2012 to September 30, 2012, respectively. From October 1, 2012 through the termination of the DIP Credit Agreement, the Company must maintain U.S. Liquidity of $100 million, subject to increase under certain circumstances as described in the DIP Credit Agreement. The Company was in compliance with all covenants under the DIP Credit Agreement as of September 30, 2012.

 The Borrowers drew $700 million in term loans under the DIP Credit Agreement during the first quarter of 2012 and issued approximately $114 million of letters of credit under the revolving credit facility. Under the DIP Credit Agreement borrowing base calculation, the Borrowers had approximately $70 million available under the revolving credit facility. Availability under the DIP Credit Agreement may be further subject to borrowing base availability, reserves and other limitations. The Company paid approximately $33 million to the Agent for arrangement, incentive, and customary agency administration fees in connection with the DIP Credit Agreement and will pay to the Lenders participation fees and an unused amount fee and commitment fee as set forth in the DIP Credit Agreement.

Second Lien Note Holders Agreement On February 14, 2012, the Company reached an adequate protection agreement with a group representing at least 50.1% of the Second Lien Note Holders (2019 Senior Secured Note Holders and 2018 Senior Secured Note Holders), which was reflected in the Final DIP Order. The Company agreed, among other things, to provide all Second Lien Note Holders with a portion of the proceeds received from certain sales and settlements in respect of the Company's digital imaging patent portfolio subject to the following waterfall and the Company's right to retain a percentage of certain proceeds under the DIP Credit Agreement: first, to repay any outstanding obligations under the DIP Credit Agreement, including cash collateralizing letters of credit (unless certain parties otherwise agree); second, to pay 50% of accrued second lien interest at the non-default rate; third, the Company retains $250 million; fourth, to repay the remaining accrued and unpaid second lien interest at the non-default rate; fifth, any remaining proceeds after conditions one through four up to $2,250 million to be split 60% to the Company and 40% to repay outstanding second lien debt at par; and sixth, the Company agreed that any proceeds above $2,250 million will be split 50% to the Company and 50% to Second Lien Note Holders until second lien debt is fully paid. The Company also agreed to pay current interest to Second Lien Note Holders upon the receipt of $250 million noted above. Subject to the satisfaction of certain conditions, the Company also agreed to pay reasonable fees of certain advisors to the Second Lien Note Holders.

Contractual Obligations Kodak Limited, a wholly owned subsidiary of the Company, has agreed with the Trustees of the Kodak Pension Plan (the "Plan" or "KPP") in the United Kingdom to make certain contributions to the Plan. Under the terms of this agreement, Kodak Limited is obligated to pay a minimum amount of $50 million to the KPP in each of the years 2012 through 2014, and a minimum amount of $90 million to the KPP in each of the years 2015 through 2022. The payment amounts for the years 2015 through 2022 could be lower, and the payment amounts for 2012 through 2022 could be higher by up to $5 million per year, 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.

The underfunded position of the Plan of approximately $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 September 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.

EKC has proposed that the Subsidiary's 2012 contribution be considered part of the overall resolution of the claims of the Trustee and Kodak Limited.

Other Refer to Note 3, "Liabilities Subject to Compromise" in the Notes to Financial Statements for discussion regarding the Company's reclassification of certain liabilities.

Refer to Note 10, "Commitments and Contingencies" in the Notes to Financial Statements for discussion regarding the Company's undiscounted liabilities for environmental remediation costs, and other commitments and contingencies including legal matters.

CAUTIONARY STATEMENT PURSUANT TO SAFE HARBOR PROVISIONS OF THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995 This report on Form 10-Q, includes "forward-looking statements" as that term is defined under the Private Securities Litigation Reform Act of 1995.

Forward-looking statements include statements concerning the Company's plans, objectives, goals, strategies, future events, future revenue or performance, capital expenditures, liquidity, financing needs, business trends, and other information that is not historical information. When used in this report on Form 10-Q, the words "estimates," "expects," "anticipates," "projects," "plans," "intends," "believes," "predicts", "forecasts," or future or conditional verbs, such as "will," "should," "could," or "may," and variations of such words or similar expressions are intended to identify forward-looking statements. All forward-looking statements, including, without limitation, management's examination of historical operating trends and data are based upon the Company's expectations and various assumptions. Future events or results may differ from those anticipated or expressed in these forward-looking statements. Important factors that could cause actual events or results to differ materially from these forward-looking statements include, among others, the risks and uncertainties described in more detail in this report on Form 10-Q for the quarter ended September 30, 2012 under the headings "Business", "Risk Factors", "Management's Discussion and Analysis of Financial Condition and Results of Operations-Liquidity and Capital Resources" and those described in filings made by the Company with the U.S. Bankruptcy Court for the Southern District of New York and in other filings the Company makes with the SEC from time to time, as well as the following: the Company's ability to successfully emerge from Chapter 11 as a profitable sustainable company; the ability of the Company and its subsidiaries to develop, secure approval of and consummate one or more plans of reorganization with respect to the Chapter 11 cases; the Company's ability to improve its operating structure, financial results and profitability; the ability of the Company to achieve cash forecasts, financial projections, and projected growth; our ability to raise sufficient proceeds from the sale of businesses and non-core assets; the businesses the Company expects to emerge from Chapter 11; the ability of the company to discontinue certain businesses or operations; the ability of the Company to continue as a going concern; the Company's ability to comply with the Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA) covenants in its Debtor-in-Possession Credit Agreement; our ability to obtain additional financing; the potential adverse effects of the Chapter 11 proceedings on the Company's liquidity, results of operations, brand or business prospects; the monetization of our digital imaging patent portfolio; the outcome of our intellectual property patent litigation matters; the Company's ability to generate or raise cash and maintain a cash balance sufficient to comply with the minimum liquidity covenants in its Debtor-in-Possession Credit Agreement and to fund continued investments, capital needs, restructuring payments and service its debt; our ability to fairly resolve legacy liabilities; the resolution of claims against the company; our ability to retain key executives, managers and employees; our ability to maintain product reliability and quality and growth in relevant markets; our ability to effectively anticipate technology trends and develop and market new products, solutions and technologies; and the impact of the global economic environment on the. There may be other factors that may cause the Company's actual results to differ materially from the forward-looking statements. All forward-looking statements attributable to the Company or persons acting on its behalf apply only as of the date of this report on Form 10-Q, and are expressly qualified in their entirety by the cautionary statements included in this report. The Company undertakes no obligation to update or revise forward-looking statements to reflect events or circumstances that arise after the date made or to reflect the occurrence of unanticipated events.

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