EASTMAN KODAK CO
Form 10-Q/A
December 12, 2005

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q/A

AMENDMENT TO APPLICATION OR REPORT

Filed Pursuant to Section 13 or 15 (d) of
The Securities Exchange Act of 1934

EASTMAN KODAK COMPANY

(Exact name of registrant as specified in its charter)

AMENDMENT NO. 1

EXPLANATORY NOTE

The purpose of this Amendment No. 1 to Eastman Kodak Company s Quarterly Report on Form 10-Q is to restate the Company s consolidated financial statements and related disclosures for the three and six month periods ended June 30, 2005. The restatement reflects adjustments to correct non-cash errors in the Company s accounting for restructuring accruals associated with severance and special pension-related termination benefits that were discovered in connection with the third quarter 2005 closing process. The restatement has resulted in the Company s reducing its previously reported net losses for the three and six month periods ended June 30, 2005 of $154 million ($.54 per share) and $296 million ($1.03 per share), respectively, to net losses of $141 million ($.49 per share) and $281 million ($.98 per share), respectively. The nature and impact of these adjustments are described in Note 1: Basis of Presentation and Restatement in this Form 10-Q/A.

Except for the revision of management s conclusion regarding the effectiveness of the Company s disclosure controls and procedures as of June 30, 2005 presented under Part I, Item 4, the Company has not modified or updated other disclosures presented in the original report on Form 10-Q except for the required effects of the restatement. Accordingly, other than the item indicated above, this Form 10-Q/A does not reflect events occurring after the filing of the original Form 10-Q or modify or update those disclosures. Information not affected by the restatement is unchanged and reflects the disclosure made at the time of the original filing of the Form 10-Q with the Securities and Exchange Commission on August 9, 2005. Accordingly, this Form 10-Q/A should be read in conjunction with the Company s filings made with the Securities and Exchange Commission subsequent to the filing of the original Form 10-Q. The following items have been amended as a result of the restatement:

Part I Item 1 - Financial Statements
Part I Item 2 - Management s Discussion and Analysis of Financial Condition and Results of Operations
Part I Item 4 - Controls and Procedures; and
Part II Item 6 - Exhibits

In addition, the Company s Form 10-Q/A for the period ended March 31, 2005 dated December 12, 2005, the Form 10-Q for the period ended September 30, 2005 dated November 9, 2005, the Form 8-K dated August 11, 2005, the Form 8-K dated August 22, 2005, the Form 8-K dated August 24, 2005, the Form 8-K dated September 30, 2005, the Form 8-K dated October 17, 2005, the Form 8-K dated October 18, 2005, the Form 8-K dated October 19, 2005, the Form 8-K dated November 4, 2005 and the Form 8-K dated November 18, 2005 are hereby incorporated by reference.

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this amendment to be signed on its behalf by the undersigned, thereunto duly authorized.

Eastman Kodak Company
(Registrant)

/s/ Richard G. Brown, Jr.

Richard G. Brown, Jr.
Controller

Date: December 12, 2005

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

x **Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

For the quarterly period ended June 30, 2005

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.

YesNo
x o

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

YesNo
x o

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

Class	**Number of Shares Outstanding at July 31, 2005**
Common Stock, $2.50 par value	**287,201,183**

Part I. FINANCIAL INFORMATION

Item 1. Financial Statements

Eastman Kodak Company
CONSOLIDATED STATEMENT OF OPERATIONS
(in millions, except per share data)

	Three Months Ended June 30		Six Months Ended June 30	
	2005	2004	2005	2004
	(Restated)		(Restated)	
Net sales	$ 3,686	$ 3,464	$ 6,518	$ 6,384
Cost of goods sold	2,622	2,363	4,749	4,476
Gross profit	1,064	1,101	1,769	1,908
Selling, general and administrative expenses	654	615	1,238	1,164
Research and development costs	276	213	475	410
Restructuring costs and other	253	134	368	188
(Loss) earnings from continuing operations before interest, other income (charges), net and income taxes	(119)	139	(312)	146
Interest expense	49	43	87	87
Other income (charges), net	(37)	8	(2)	6
(Loss) earnings from continuing operations before income taxes	(205)	104	(401)	65
Benefit for income taxes	(64)	(15)	(119)	(62)
(Loss) earnings from continuing operations	(141)	119	(282)	127
Earnings from discontinued operations, net of income taxes		17	1	30
NET (LOSS) EARNINGS	$ (141)	$ 136	$ (281)	$ 157
Basic net (loss) earnings per share:				
Continuing operations	$ (.49)	$ .42	$ (.98)	$ .44
Discontinued operations		.06		.11
Total	$ (.49)	$ .48	$ (.98)	$ .55
Diluted net (loss) earnings per share:				
Continuing operations	$ (.49)	$ .40	$ (.98)	$ .44
Discontinued operations		.06		.09
Total	$ (.49)	$ .46	$ (.98)	$ .53
Number of common shares used in basic net (loss) earnings per share	287.1	286.6	287.0	286.6
Effect of dilutive securities:				
Employee stock options		0.1		0.1
Contingent convertible notes		18.5		18.5
Number of common shares used in diluted net (loss) earnings per share	287.1	305.2	287.0	305.2

Eastman Kodak Company
CONSOLIDATED STATEMENT OF OPERATIONS (Continued)
(in millions)

	Three Months Ended June 30		Six Months Ended June 30	
	2005	2004	2005	2004
	(Restated)		(Restated)	
CONSOLIDATED STATEMENT OF RETAINED EARNINGS				
Retained earnings at beginning of period	$ 7,770	$ 7,536	$ 7,922	$ 7,515
Net (loss) earnings	(141)	136	(281)	157
Cash dividend declared	(72)	(72)	(72)	(72)
Loss from issuance of treasury stock	(2)	(1)	(14)	(1)
Retained earnings at end of period	$ 7,555	$ 7,599	$ 7,555	$ 7,599

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

Eastman Kodak Company
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
(in millions)

	June 30, 2005 (Restated)	Dec. 31, 2004
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 553	$ 1,255
Receivables, net	2,976	2,544
Inventories, net	1,523	1,158
Deferred income taxes	582	556
Other current assets	136	105
Assets of discontinued operations	30	30
Total current assets	5,800	5,648
Property, plant and equipment, net	4,462	4,512
Goodwill	2,004	1,446
Other long-term assets	3,320	3,131
TOTAL ASSETS	$ 15,586	$ 14,737
LIABILITIES AND SHAREHOLDERS EQUITY		
CURRENT LIABILITIES		
Accounts payable and other current liabilities	$ 3,864	$ 3,896
Short-term borrowings	966	469
Accrued income taxes	707	625
Total current liabilities	5,537	4,990
OTHER LIABILITIES		
Long-term debt, net of current portion	2,755	1,852
Pension and other postretirement liabilities	3,356	3,338
Other long-term liabilities	689	737
Total liabilities	12,337	10,917
SHAREHOLDERS EQUITY		
Common stock at par	978	978
Additional paid in capital	864	859
Retained earnings	7,555	7,922
Accumulated other comprehensive loss	(326)	(90)
Unearned restricted stock	(7)	(5)
	9,064	9,664
Less: Treasury stock at cost	5,815	5,844
Total shareholders equity	3,249	3,820
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	$ 15,586	$ 14,737

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

Eastman Kodak Company
CONSOLIDATED STATEMENT OF CASH FLOWS
(in millions)

	Six Months Ended June 30	
	2005	**2004**
	(Restated)	
Cash flows relating to operating activities:		
Net (loss) earnings	$ (281)	$ 157
Adjustments to reconcile to net cash (used in) provided by operating activities:		
Earnings from discontinued operations	(1)	(29)
Equity in (earnings) losses from unconsolidated affiliates	(12)	4
Depreciation and amortization	541	469
Purchased research and development	66	10
Gain on sales of businesses/assets	(16)	(1)
Restructuring costs, asset impairments and other non-cash charges	101	24
Benefit for deferred taxes	(133)	(120)
Decrease (increase) in receivables	69	(204)
Increase in inventories	(98)	(76)
Decrease in liabilities excluding borrowings	(711)	(246)
Other items, net	45	45
Total adjustments	(149)	(124)
Net cash (used in) provided by continuing operations	(430)	33
Net cash provided by discontinued operations		4
Net cash (used in) provided by operating activities	(430)	37
Cash flows relating to investing activities:		
Additions to properties	(210)	(182)
Net proceeds from sales of businesses/assets	22	1
Acquisitions, net of cash acquired	(987)	(335)
Distributions from (investments in) unconsolidated affiliates	63	(31)
Marketable securities - purchases	(55)	(64)
Marketable securities - sales	45	58
Net cash used in investing activities	(1,122)	(553)
Net cash used in discontinued operations		(2)
Net cash used in investing activities	(1,122)	(555)
Cash flows relating to financing activities:		
Net increase (decrease) in borrowings with original maturity of 90 days or less	87	(40)
Proceeds from other borrowings	1,068	89
Repayment of other borrowings	(296)	(257)
Exercise of employee stock options	12	
Net cash provided by (used in) financing activities	871	(208)

Effect of exchange rate changes on cash	(21)	(5)
Net decrease in cash and cash equivalents	(702)	(731)
Cash and cash equivalents, beginning of year	1,255	1,250
Cash and cash equivalents, end of quarter	$ 553	$ 519

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

Eastman Kodak Company
NOTES TO FINANCIAL STATEMENTS

NOTE 1: BASIS OF PRESENTATION

BASIS OF PRESENTATION AND RESTATEMENT

The consolidated interim financial statements are unaudited, and certain information and footnote disclosure 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, except for the adjustments in connection with the items discussed below) 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, 2004. Certain amounts for prior periods have been reclassified to conform to the current period classification.

During the first quarter of 2005, the Company determined that property, plant and equipment was overstated by approximately $9 million ($5 million net of tax) as a result of interest capitalized during the construction period that had inadvertently not been written off at the time of the disposal of certain assets. The Company has assessed the impact of this item on each of the 2000-2004 annual periods and interim periods in 2004 and 2003 and determined that the impact of such errors is immaterial to each of these prior periods. The additional amount that should have been recorded as expense in each of the years 2000-2004 was less than $1.3 million per year on an after-tax basis. The Company has concluded that the $9 million adjustment ($5 million net of tax) was immaterial to the results of operations for the quarter ended March 31, 2005, the six months ended June 30, 2005 and the expected results for the full year 2005. Accordingly, the Company recorded an adjustment of $9 million in the quarter ended March 31, 2005 and the six months ended June 30, 2005 to write off these balances. Approximately $7 million of the adjustment relates to assets that were disposed of through restructuring actions and, therefore, is recorded in the restructuring costs and other line within the accompanying Consolidated Statement of Operations for the six months ended June 30, 2005. Approximately $2 million relates to assets that were disposed of in the ordinary course of business and, therefore, is recorded in the cost of goods sold line within the accompanying Consolidated Statement of Operations for the six months ended June 30, 2005.

RESTATEMENT OF PREVIOUSLY ISSUED FINANCIAL STATEMENTS

The Company has restated the accompanying quarterly consolidated financial statements as of and for the three and six months ended June 30, 2005 through the filing of this Form 10-Q/A. The restatement reflects adjustments to correct non-cash errors in the Company s accounting for restructuring accruals associated with severance and special pension-related termination benefits that were discovered in connection with the third quarter 2005 closing process. The restatement has resulted in the Company s reducing its previously reported net loss for the three and six months ended June 30, 2005 of $154 million ($.54 per share) and $296 million ($1.03 per share), respectively, to a net loss of $141 million ($.49 per share) and $281 million ($.98 per share), respectively.

The errors giving rise to the restatement adjustments were identified when, in reconciling the general ledger balance sheet account for severance as of September 30, 2005 relating to one of the Company s plant closings in the United Kingdom under its ongoing restructuring program, the Company discovered an error that caused it to inadvertently overstate a severance accrual as of and for the quarter ended June 30, 2005 by $11 million (net of tax). In addition, in reconciling the general ledger account for one of the Company s international pension plans as of September 30, 2005, the Company discovered it had inadvertently overaccrued the special termination benefits. This error impacted the Company s Statement of Operations for the three months ended June 30, 2005 by $2 million (net of tax) and for the six months ended June 30, 2005 by $4 million (net of tax).

The impacts of the restatement adjustments on the Consolidated Statement of Operations for the three and six months ended June 30, 2005, respectively, are presented below (in millions, except per share data).

	For the Three Months Ended June 30, 2005		
	As Previously Reported	Severance and Pension Related Restructuring Accruals Adjustments	As Restated
Net sales	$ 3,686	$	$ 3,686
Cost of goods sold	2,622		2,622
Gross profit	1,064		1,064
Selling, general and administrative expenses	654		654
Research and development costs	276		276
Restructuring costs and other	267	(14)	253
Loss from continuing operations before interest, other charges, net and income taxes	(133)	14	(119)
Interest expense	49		49
Other charges, net	(37)		(37)
Loss from continuing operations before income taxes	(219)	14	(205)
Benefit for income taxes	(65)	1	(64)
Loss from continuing operations	(154)	13	(141)
Earnings from discontinued operations, net of income taxes			
Net loss	$ (154)	$ 13	$ (141)
Basic and diluted net loss per share:			
Continuing operations	$ (.54)	$ .05	$ (.49)
Discontinued operations			
Total	$ (.54)	$ .05	$ (.49)

	For the Six Months Ended June 30, 2005		
	As Previously Reported	Severance and Pension Related Restructuring Accruals Adjustments	As Restated
Net sales	$ 6,518	$	$ 6,518
Cost of goods sold	4,749		4,749
Gross profit	1,769		1,769
Selling, general and administrative expenses	1,238		1,238
Research and development costs	475		475
Restructuring costs and other	385	(17)	368
Loss from continuing operations before interest, other (charges), net and income taxes	(329)	17	(312)
Interest expense	87		87
Other charges, net	(2)		(2)
Loss from continuing operations before income taxes	(418)	17	(401)
Benefit for income taxes	(121)	2	(119)
Loss from continuing operations	(297)	15	(282)
Earnings from discontinued operations, net of income taxes	1		1
Net loss	$ (296)	$ 15	$ (281)
Basic and diluted net loss per share:			
Continuing operations	$ (1.03)	$ .05	$ (.98)
Discontinued operations			
Total	$ (1.03)	$ .05	$ (.98)

RECENT ACCOUNTING PRONOUNCEMENTS

In June 2005, the Financial Accounting Standards Board (FASB) issued Staff Position No. 143-1, Accounting for Electronic Equipment Waste Obligations (FSP 143-1). FSP 143-1 addresses the accounting for obligations associated with Directive 2002/96/EC on Waste Electrical and Electronic Equipment (the Directive) adopted by the European Union, and requires application of the provisions of SFAS No. 143 and FIN 47 as those standards relate to the Directive. This FSP is effective the later of the first reporting period ending after June 8, 2005, or the date of adoption of the Directive by the individual EU-member countries, of which none have adopted the Directive as of June 30, 2005. The Company is evaluating the impact of FSP 143-1 on its consolidated financial statements.

In March 2005, the FASB issued FASB Interpretation No. 47, Accounting for Conditional Asset Retirement Obligations (FIN 47). FIN 47 clarifies that the term conditional asset retirement obligation as used in FASB No. 143, Accounting for Asset Retirement Obligations, refers to a legal obligation to perform an asset retirement activity in which the timing and/or method of settlement are conditional on a future event that may or may not be within the control of the Company. In addition, FIN 47 clarifies when a company would have sufficient information to reasonably estimate the fair value of an asset retirement obligation. FIN 47 is effective for periods no later than fiscal years ending after December 15, 2005 (the fourth quarter of 2005 for the Company). Retrospective application of interim financial information is permitted but not required. Early adoption is encouraged. The Company is evaluating the impact of FIN 47 on its consolidated financial statements.

In December 2004, the FASB issued Statement No. 123R, Share-Based Payment, a revision to SFAS No. 123, Accounting for Stock-Based Compensation. SFAS No. 123R eliminates the alternative to record compensation expense using the intrinsic value method of accounting under Accounting Principles Board Opinion No. 25 (APB No. 25) that was provided in SFAS No. 123 as originally issued.

Under Opinion 25, issuing stock options to employees generally resulted in the recognition of no compensation cost if the options were granted with an exercise price equal to their fair value at the date of grant. SFAS No. 123R requires companies to measure and record the cost of employee services received in exchange for an award of equity instruments based on the fair value of the award at the date of grant (with limited exceptions). That cost will be recognized over the period during which an employee is required to provide service in exchange for the award (usually the vesting period). No compensation cost is recognized for equity instruments for which employees do not render the requisite service.

In April 2005, the Securities and Exchange Commission voted to change the effective date of SFAS No. 123R to fiscal years starting after June 15; however, early application is encouraged. The Company adopted the modified version of the prospective application of SFAS No. 123R as of January 1, 2005 under which the Company is required to recognize compensation expense, over the applicable vesting period, based on the fair value of (1) any unvested awards subject to SFAS No. 123R existing as of January 1, 2005, and (2) any new awards granted subsequent to the adoption date. Refer to Note 11, Shareholders Equity for the effect of adoption on the Company s consolidated financial statements.

In December 2004, the FASB issued SFAS No. 151, Inventory Costs that amends the guidance in Accounting Research Bulletin No. 43, Chapter 4, Inventory Pricing, (ARB No. 43) to clarify the accounting for abnormal idle facility expense, freight, handling costs, and wasted material (spoilage). In addition, this Statement requires that an allocation of fixed production overhead to the costs of conversion be based on the normal capacity of the production facilities. SFAS No. 151 is effective for inventory costs incurred for fiscal years beginning after June 15, 2005 (year ending December 31, 2006 for the Company). The Company is evaluating the impact of SFAS No. 151.

In December 2004, FASB issued FSP No. 109-2, Accounting and Disclosure Guidance for the Foreign Earnings Repatriation Provision within the American Jobs Creation Act of 2004 (the Act). The Act was signed into law in October of 2004. The Act creates a temporary incentive for U.S. multinationals to repatriate foreign subsidiary earnings by providing an 85% dividends received deduction for certain dividends from controlled foreign corporations. The deduction is subject to a number of limitations and requirements, including adoption of a specific domestic reinvestment plan for the repatriated earnings. Accordingly, the FSP provides guidance on accounting for income taxes that related to the accounting treatment for unremitted earnings in a foreign investment (a consolidated subsidiary or corporate joint venture that is essentially permanent in nature). Further, the FSP permits a company time beyond the financial reporting period of enactment to evaluate the effect of the Act on its plan for reinvestment or repatriation of foreign earnings for purposes of applying FASB Statement No. 109, Accounting for Income Taxes. Accordingly, an enterprise that has not yet completed its evaluation of the repatriation provision for purposes of applying Statement 109 is required to disclose certain information, for each period for which financial statements covering periods affected by the Act are presented. Subsequently, the total effect on income tax expense (or benefit) for amounts that have been recognized under the repatriation provision must be provided in a company s financial statements for the period in which it completes its evaluation of the repatriation provision. The provisions of FSP 109-2 were effective in the fourth quarter of 2004. The Company has not yet completed its evaluation; consequently, the required information is disclosed in Note 5, Income Taxes.

NOTE 2: RECEIVABLES, NET
(in millions)

	June 30, 2005	December 31, 2004
Trade receivables	$ 2,585	$ 2,137
Miscellaneous receivables	391	407
Total (net of allowances of $174 and $127)	$ 2,976	$ 2,544

Of the total trade receivable amounts of $2,585 million and $2,137 million as of June 30, 2005 and December 31, 2004, respectively, approximately $361 million and $492 million 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)

	June 30, 2005	December 31, 2004
Finished goods	$ 1,116	$ 822
Work in process	285	275
Raw materials	420	391
	1,821	1,488
LIFO reserve	(298)	(330)
Total	$ 1,523	$ 1,158

Full year 2005 estimated inventory usage is expected to result in the liquidation of LIFO inventory quantities. In the aggregate, these inventories are carried at the lower costs prevailing in prior years as compared with the cost of current purchases. The effect of these expected LIFO liquidations was to reduce cost of goods sold by $29 million and $30 million in the three months ended June 30, 2005 and 2004, respectively, and to reduce cost of goods sold by $45 million and $35 million in the six months ended June 30, 2005 and 2004, respectively.

NOTE 4: GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill was $2,004 million and $1,446 million at June 30, 2005 and December 31, 2004, respectively. The changes in the carrying amount of goodwill by reportable segment for the six months ended June 30, 2005 were as follows:

(in millions)

	D&FIS	Health	Graphic Communications	Consolidated Total
Balance at December 31, 2004	$ 739	$ 588	$ 119	$ 1,446
Goodwill related to acquisitions		32	565	597
Finalization of purchase accounting		(1)	1	
Currency translation adjustments	(10)	(27)	(2)	(39)
Balance at June 30, 2005	$ 729	$ 592	$ 683	$ 2,004

The aggregate amount of goodwill acquired during the six months ended June 30, 2005 of $597 million was attributable to $324 million for the acquisition of Creo and $241 million for the acquisition of KPG, both within the Graphic Communications segment, and $32 million for the acquisition of Orex within the Health segment.

The gross carrying amount and accumulated amortization by major intangible asset category as of June 30, 2005 and December 31, 2004 were as follows:

(in millions)

	As of June 30, 2005			
	Gross Carrying Amount	Accumulated Amortization	Net	Weighted-Average Amortization Period
Technology-based	$ 480	$ 122	$ 358	7 years
Customer-related	368	51	317	13 years
Other	249	31	218	11 years
Total	$ 1,097	$ 204	$ 893	10 years

(in millions)

	As of December 31, 2004			
	Gross Carrying Amount	Accumulated Amortization	Net	Weighted-Average Amortization Period
Technology-based	$ 264	$ 106	$ 158	8 years
Customer-related	206	34	172	15 years
Other	168	20	148	13 years
Total	$ 638	$ 160	$ 478	11 years

The aggregate amount of intangible assets acquired during the six months ended June 30, 2005 of $459 million was attributable to $78 million of customer-related intangibles, $45 million of technology-based intangibles and $25 million of other intangibles related to the purchase of KPG; $80 million of customer-related intangibles, $135 million of technology-based intangibles, and $50 million of other intangibles related to the purchase of Creo; $4 million of customer-related intangibles and $9 million of technology-based intangibles related to the purchase of Orex; $27 million of technology-based intangibles relating to the purchase of patents; and $6 million of technology-based intangible assets related to the finalization of purchase accounting for the purchase of Lucky Film.

At June 30, 2005, other intangible assets are primarily composed of manufacturing exclusivity intangible assets and acquired trademarks.

Amortization expense related to purchased intangible assets for the three months ended June 30, 2005 and 2004 was $25 million and $17 million, respectively. Amortization expense related to purchased intangible assets for the six months ended June 30, 2005 and 2004 was $42 million and $31 million, respectively.

Estimated future amortization expense related to purchased intangible assets at June 30, 2005 is as follows (in millions):

Remainder of 2005	$ 64
2006	126
2007	121
2008	118
2009	106
2010 and thereafter	358
Total	$ 893

NOTE 5: INCOME TAXES

A reconciliation between the U.S. federal income tax rate, the Company s estimated annual effective tax (benefit) rate and the second quarter income tax rate from continuing operations was as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2005	**2004**	**2005**	**2004**
	(Restated)		**(Restated)**	
U.S. statutory tax rate	(35.0)%	35.0%	(35.0)%	35.0%
Change in statutory rate resulting from:				
State and other income taxes, net of federal	(0.1)%	0.6%	(0.1)%	0.6%
Export sales and manufacturing credits	2.1	(1.6)	2.1	(1.6)
Operations outside the U.S.	18.6	(20.1)	18.6	(20.1)
Valuation allowance	1.3		1.3	
Interest on reserves	(4.0)	6.0	(4.0)	6.0
Tax settlements		0.4		0.4
Other, net	1.6	(0.3)	1.6	(0.3)
Estimated annual effective tax rate	(15.5)%	20.0%	(15.5)%	20.0%
Impact from discrete period items:				
Restructuring	(22.4)%	(24.9)%	(18.0)%	(49.0)%
Purchased in-process R&D	(6.8)		(3.5)	(2.5)
Tax settlements		(8.7)		(63.0)
NexPress related charges		(0.9)		(1.5)
Gains on property sales	(0.2)		(0.1)	
Donation tax benefit change	2.9		1.5	
State tax law changes (NY, OH)	2.4		1.2	
Valuation allowance	4.3		2.2	
Lucky Film investment impairment	1.4		0.7	
Repatriation of foreign earnings	2.9		1.5	
Income tax (benefit) rate	(31.0)%	(14.5)%	(30.0)%	(96.0)%

For the three-month period ended June 30, 2005, discrete period tax benefits of $96 million were recorded. The net discrete period tax benefits resulted from the following discrete period charges and credits, which when aggregated were taxed in jurisdictions with tax rates greater than the estimated annual effective tax rate: restructuring charges of $339 million; a $64 million charge for purchased in-process research and development costs; $13 million associated with gains on property sales related to its focused cost reductions; tax charges of $6 million due to a change in estimate with respect to a tax benefit recorded in connection with a land donation in a prior period; a $19 million charge related to the Lucky Film investment impairment as a result of an other- than-temporary decline in the market value of Lucky s stock, which had no tax effect due to the Company s tax holiday in China; tax charges of $5 million associated with changes in state tax laws in New York and Ohio; a tax charge of $9 million related to the recording of a valuation allowance against deferred tax assets in Brazil and a tax charge of $6 million associated with the planned remittance of earnings from subsidiary companies outside of the U.S.

For the six-month period ended June 30, 2005, the Company recorded discrete period tax benefits of $153 million in connection with restructuring charges of $545 million as well as all other items presented for the three-month period ended June 30, 2005, which when aggregated are taxed in jurisdictions with tax rates greater than the annual effective tax rate.

For the three month period ended June 30, 2004, the Company recorded discrete period tax benefits of $69 million, of which $60 million was in connection with the following items, which when aggregated, were taxed in jurisdictions with tax rates greater than the estimated annual effective tax rate: restructuring charges of $163 million and fixed asset write-offs and inventory write-downs totaling $5 million in connection with the Company s historical ownership in the NexPress joint venture in connection with the acquisition of the NexPress-related entities. Additionally, a discrete period tax benefit of $9 million was recorded as a result of the settlement with the Internal Revenue Service in connection with the Company s filing relating to the income tax reporting of a patent infringement litigation settlement.

For the six month period ended June 30, 2004, the Company recorded discrete period tax benefits of $126 million, of which $85 million is in connection with the following items, which when aggregated, are taxed in jurisdictions with tax rates greater than the estimated annual effective tax rate: restructuring charges of $241 million, a $9 million charge for purchased in-process research and development costs and fixed asset write-offs and inventory write-downs totaling $5 million in connection with the Company s historical ownership in the NexPress joint venture in connection with the acquisition of the NexPress-related entities.

In addition, the Company received confirmation that the Internal Revenue Service had provided a formal concession concerning the taxation of certain intercompany royalties, which could not legally be distributed to the parent. The $32 million settlement was recorded as a discrete period tax benefit within earnings from continuing operations for the six-month period ended June 30, 2004. Also included was the discrete period tax benefit recorded in the second quarter of $9 million as a result of the settlement with the Internal Revenue Service in connection with the Company s filing relating to the income tax reporting of a patent infringement litigation settlement.

The American Jobs Creation Act of 2004 (the Act) was signed into law in October of 2004. The Act creates a temporary incentive for U.S. multinationals to repatriate foreign subsidiary earnings by providing an 85% dividends received deduction for certain dividends from controlled foreign corporations. The deduction is subject to a number of limitations and requirements, including adoption of a specific domestic reinvestment plan for the repatriated earnings. Whether the Company will ultimately take advantage of the temporary incentive depends on a number of factors. The Company is not yet in a position to finalize its decision regarding this temporary incentive, although it needs to do so before December 31, 2005. Until the time that the Company finalizes its decision, the Company will make no changes to its current intention to indefinitely reinvest accumulated earnings of its foreign subsidiaries. As a result, no provision has been made for income taxes that would be payable upon distribution of such earnings under the Act.

The audit for tax years 1993-1998 has progressed to the final level of review by the IRS and the Company anticipates that it will be formally settled during the third quarter of 2005. The finalization of this settlement could have a significant impact upon the Company s 2005 effective tax rate and operating results because the settlement covers six years and also includes significant transactional activity associated with the disposition of various businesses.

NOTE 6: COMMITMENTS AND CONTINGENCIES

Environmental

At June 30, 2005 the Company s undiscounted accrued liabilities for environmental remediation costs amounted to $165 million and are reported in other long-term liabilities in the accompanying Consolidated Statement of Financial Position.

The Company is currently implementing a Corrective Action Program required by the Resource Conservation and Recovery Act (RCRA) at the Kodak Park site in Rochester, NY. As part of this program, the Company has completed the RCRA Facility Assessment (RFA), a broad-based environmental investigation of the site. The Company is currently in the process of completing, and in some cases has completed, RCRA Facility Investigations (RFI) and Corrective Measures Studies (CMS) for areas at the site. At June 30, 2005, estimated future investigation and remediation costs of $63 million are accrued for this site and are included in the $165 million reported in other long-term liabilities.

The Company announced the closing of four manufacturing facilities outside the United States in 2004 and 2005. The Company has obligations with estimated future investigation, remediation and monitoring costs of $27 million at three of these facilities. There were no such costs associated with the fourth facility. At June 30, 2005, these costs are accrued and included in the $165 million reported in other long-term liabilities.

The Company has obligations relating to other operating sites and former operations with estimated future investigation, remediation and monitoring costs of $31 million. At June 30, 2005, these costs are accrued and included in the $165 million reported in other long-term liabilities.

The Company has completed its acquisition of Kodak Polychrome Graphics through the redemption of Sun Chemical Corporation s 50 percent interest in the joint venture. The Company also completed its acquisition of Creo Inc. As a result of the two acquisitions, the Company has obligations with estimated future investigation, remediation and monitoring costs of $18 million. At June 30, 2005, these costs are accrued and included in the $165 million reported in other long-term liabilities.

The Company has retained certain obligations for environmental remediation and Superfund matters related to certain sites associated with the non-imaging health businesses sold in 1994. At June 30, 2005, estimated future remediation costs of $26 million are accrued for these sites and are included in the $165 million reported in other long-term liabilities.

Cash expenditures for the aforementioned investigation, remediation and monitoring activities are expected to be incurred over the next thirty years for many of the sites. For these known environmental exposures, 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 equipment and operating costs for remediation and long-term monitoring of the sites. The Company does not believe it is reasonably possible that the losses for the known exposures could exceed the current accruals by material amounts.

A Consent Decree was signed in 1994 in settlement of a civil complaint brought by the U.S. Environmental Protection Agency and the U.S. Department of Justice. In connection with the Consent Decree, the Company is subject to a Compliance Schedule, under which the Company has improved its waste characterization procedures, upgraded one of its incinerators, and is evaluating and upgrading its industrial sewer system. The total expenditures required to complete this program are currently estimated to be approximately $7 million over the next four years. These expenditures are incurred as part of plant operations and, therefore, are not included in the environmental accrual at June 30, 2005.

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 four 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 four 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.

The Clean Air Act Amendments were enacted in 1990. Expenditures to comply with the Clean Air Act implementing regulations issued to date have not been material and have been primarily capital in nature. In addition, future expenditures for existing regulations, which are primarily capital in nature, are not expected to be material. Many of the regulations to be promulgated pursuant to this Act have not been issued.

Uncertainties associated with environmental remediation contingencies are pervasive and often result in wide ranges of outcomes. Estimates developed in the early stages of remediation can vary significantly. A finite estimate of cost does not normally become fixed and determinable at a specific time. Rather, the costs associated with environmental remediation become estimable over a continuum of events and activities that help to frame and define a liability, and the Company continually updates its cost estimates. The Company has an ongoing monitoring and identification process to assess how the activities, with respect to the known exposures, are progressing against the accrued cost estimates, as well as to identify other potential remediation sites that are presently unknown.

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

Other Commitments and Contingencies

At June 30, 2005, the Company had outstanding letters of credit totaling $151 million and surety bonds in the amount of $95 million primarily to ensure the completion of environmental remediations and payment of possible casualty and workers compensation claims.

On March 8, 2004, the Company filed a complaint against Sony Corporation in federal district court in Rochester, New York, for digital camera patent infringement. Several weeks later, on March 31, 2004, Sony sued the Company for digital camera patent infringement in federal district court in Newark, New Jersey. Sony subsequently filed a second lawsuit against the Company in Newark, New Jersey, alleging infringement of a variety of other Sony patents. The Company filed a counterclaim in the New Jersey action, asserting infringement by Sony of the Company s kiosk patents. The Company successfully moved to transfer Sony s New Jersey digital camera patent infringement case to Rochester, New York, and the two digital camera patent infringement cases are now consolidated for purposes of discovery. In June 2005, the federal district court in Rochester, New York appointed a special master to assist the court with discovery and the claims construction briefing process. Based on the current discovery schedule, the Company expects that claims construction hearings in the digital camera cases will take place in 2006. Both the Company and Sony Corporation seek unspecified damages and other relief. Although this lawsuit may result in the Company s recovery of damages, the amount of the damages, if any, cannot be quantified at this time. Accordingly, the Company has not recognized any gain in the financial statements as of June 30, 2005, in connection with this matter.

On June 13, 2005, a purported shareholder class action lawsuit was filed against the Company and two of its current executives in the United States District Court for the Southern District of New York. On June 20, 2005, a second, similar lawsuit was filed against the same defendants in the United States District Court for the Western District of New York. The complaints filed in each of these actions (collectively, the Complaints) seek to allege claims under the Securities Exchange Act on behalf of a proposed class of persons who purchased securities of the Company between April 23, 2003 and September 25, 2003, inclusive. The substance of the Complaints is that various press releases and other public statements made by the Company during the proposed class period allegedly misrepresented the Company s financial condition and omitted material information regarding, among other things, the state of the Company s film and paper business. Defendants initial responses to the Complaints are not yet due. The Company intends to defend these lawsuits vigorously but is unable currently to predict the outcome of the litigation or to estimate the range of potential loss, if any.

The Company and its subsidiary companies are involved in other lawsuits, claims, investigations and proceedings, including product liability, commercial, intellectual property, environmental, and health and safety matters, which are being handled and defended in the ordinary course of business. There are no such matters pending representing contingent losses that the Company and its General Counsel expect to be material in relation to the Company s business, financial position or results of operations, or cash flows.

NOTE 7: GUARANTEES

The Company guarantees debt and other obligations under agreements with certain affiliated companies and customers. At June 30, 2005, these guarantees totaled a maximum of $226 million, with outstanding guaranteed amounts of $110 million. The maximum guarantee amount includes guarantees of up to: $151 million of customer amounts due to banks in connection with various banks financing of customers purchase of product and equipment from Kodak ($68 million outstanding), and $75 million for other unconsolidated affiliates and third parties ($42 million outstanding).

The guarantees for the other unconsolidated affiliates and third party debt mature between 2005 and 2012. 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 Kodak 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 guarantee.

Management believes the likelihood is remote that material payments will be required under any of the guarantees disclosed above. With respect to the guarantees that the Company issued in the quarter ended June 30, 2005, the Company assessed the fair value of its obligation to stand ready to perform under these guarantees by considering the likelihood of occurrence of the specified triggering events or conditions requiring performance as well as other assumptions and factors. The Company has determined that the fair value of the guarantees was not material to the Company s financial position, results of operations or cash flows.

The Company also guarantees debt owed to banks for some of its consolidated subsidiaries. The maximum amount guaranteed is $383 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 $205 million. These guarantees expire in 2005 through 2006.

The Company may provide up to $100 million in loan guarantees to support funding needs for SK Display Corporation, an unconsolidated affiliate in which the Company has a 34% ownership interest. As of June 30, 2005, the Company has not been required to guarantee any of SK Display Corporation s outstanding debt.

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 Kodak s request in such capacities. Historically, costs incurred to settle claims related to these indemnifications have not been material to the Company s financial position, results of operations or cash flows. Additionally, the fair value of the indemnifications that the Company issued during the quarter ended June 30, 2005 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 equipment. The original warranty period for equipment products 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 from December 31, 2004 to June 30, 2005, 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 at December 31, 2004	$	62
Warranty obligations assumed from acquisitions		7
Actual warranty experience during 2005		(37)
2005 warranty provisions		37
Adjustments for changes in estimates		(2)
Accrued warranty obligations at June 30, 2005	$	67

The Company also offers extended warranty arrangements to its customers 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. Costs incurred under these extended warranty arrangements for the six months ended June 30, 2005 amounted to $117 million. The change in the Company s deferred revenue balance in relation to these extended warranty arrangements from December 31, 2004 to June 30, 2005, 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 at December 31, 2004	$	141
Deferred extended warranty revenue assumed from acquisitions		45
New extended warranty arrangements in 2005		214
Recognition of extended warranty arrangement revenue in 2005		(197)
Deferred revenue at June 30, 2005	$	203

NOTE 8: RESTRUCTURING COSTS AND OTHER

Currently, the Company is being adversely impacted by the progressing digital substitution. As the Company continues to adjust its operating model in light of changing business conditions, it is probable that ongoing focused cost reduction activities will be required from time to time.

In accordance with this, the Company periodically announces planned restructuring programs (Programs), which often consist of a number of restructuring initiatives. These Program announcements provide estimated ranges relating to the number of positions to be eliminated and the total restructuring charges to be incurred. The actual charges for initiatives under a Program are recorded in the period in which the Company commits to formalized restructuring plans or executes the specific actions contemplated by the Program and all criteria for restructuring charge recognition under the applicable accounting guidance have been met.

Restructuring Programs Summary

The activity in the accrued restructuring balances and the non-cash charges incurred in relation to all of the restructuring programs described below were as follows for the second quarter of 2005:

(in millions)

	Balance March 31, 2005	Costs Incurred	Reversals	Cash Payments	Non-cash Settlements	Other Adjustments and Reclasses (1)	Balance June 30, 2005
		(Restated)				(Restated)	(Restated)
2004-2007 Program:							
Severance reserve	$ 222	$ 168	$	$ (91)	$	$ (53)	$ 246
Exit costs reserve	41	28	(1)	(30)		(2)	36
Total reserve	$ 263	$ 196	$ (1)	$ (121)	$	$ (55)	$ 282
Long-lived asset impairments and inventory write-downs	$	$ 69	$	$	$ (69)	$	$
Accelerated depreciation	$	$ 75	$	$	$ (75)	$	$
Pre-2004 Programs:							

Severance reserve	$ 27	$	$	$ (8)	$	$ (3)	$ 16
Exit costs reserve	9			(2)		10	17
Total reserve	$ 36	$	$	$ (10)	$	$ 7	$ 33
Total of all restructuring programs	$ 299	$ 340	$ (1)	$ (131)	$ (144)	$ (48)	$ 315

(1) The Other Adjustments and Reclasses column of the table above includes reclassifications from (to) Other long-term assets and Pension and other postretirement liabilities (for amounts relating to restructuring actions that impacted the Company s retirement and postretirement plans) in the Consolidated Statement of Financial Position. It also includes foreign currency translation adjustments of $(1) million, which are reflected in accumulated other comprehensive loss within the Consolidated Statement of Financial Position, as well as transfers among the program reserve balances due to a reallocation of prior foreign currency translation adjustments.

The costs incurred, net of reversals, which total $339 million for the three months ended June 30, 2005, include $75 million and $11 million of charges related to accelerated depreciation and inventory write-downs that were reported in cost of goods sold in the accompanying Consolidated Statement of Operations for the three months ended June 30, 2005. The remaining costs incurred, net of reversals, of $253 million were reported as restructuring costs and other in the accompanying Consolidated Statement of Operations for the three months ended June 30, 2005. The severance costs and exit costs require the outlay of cash, while long-lived asset impairments, accelerated depreciation and inventory write-downs represent non-cash items.

2004-2007 Restructuring Program

The Company announced on January 22, 2004 that it planned to develop and execute a comprehensive cost reduction program throughout the 2004 to 2006 timeframe. The objective of these actions is to achieve a business model appropriate for the Company s traditional businesses, and to sharpen the Company s competitiveness in digital markets.

The Program is expected to result in total charges of $1.3 billion to $1.7 billion over the three-year period, of which $700 million to $900 million are related to severance, with the remainder relating to the disposal of buildings and equipment. Overall, Kodak s worldwide facility square footage is expected to be reduced by approximately one-third. Approximately 12,000 to 15,000 positions worldwide are expected to be eliminated through these actions primarily in global manufacturing, selected traditional businesses and corporate administration.

On July 20, 2005, the Company announced that it would extend the restructuring activity, originally announced in January 2004, as part of its efforts to accelerate its digital transformation and to respond to a faster-than-expected decline in consumer film sales. The Company now plans to increase the total employment reduction to a range of 22,500 to 25,000 positions, and to reduce its traditional manufacturing infrastructure to approximately $1 billion, compared with $2.9 billion as of December 31, 2004. When largely completed by the middle of 2007, these activities will result in a business model consistent with what is necessary to compete profitably in digital markets. As a result of this announcement, this program has been renamed the 2004-2007 Restructuring Program.

Prior to the announcement of the extension of the Program, the Company implemented certain actions under the Program during the second quarter of 2005. As a result of these actions, the Company recorded charges of $265 million in the second quarter of 2005, which were composed of severance, long-lived asset impairments, exit costs and inventory write-downs of $168 million, $58 million, $28 million and $11 million, respectively. The severance costs related to the elimination of approximately 2,200 positions, including approximately 125 photofinishing, 1,550 manufacturing, 325 research and development and 200 administrative positions. The geographic composition of the positions to be eliminated includes approximately 1,150 in the United States and Canada and 1,050 throughout the rest of the world. The reduction of the 2,200 positions and the $196 million charges for severance and exit costs are reflected in the 2004-2007 Restructuring Program table below. The $58 million charge in the second quarter and the $82 million year-to-date charge for long-lived asset impairments were included in restructuring costs and other in the accompanying Consolidated Statement of Operations for the three and six months ended June 30, 2005, respectively. The charges taken for inventory write-downs of $11 million and $21 million were reported in cost of goods sold in the accompanying Consolidated Statement of Operations for the three and six months ended June 30, 2005, respectively.

Under this Program, on a life-to-date basis as of June 30, 2005, the Company has recorded charges of $1,066 million, which was composed of severance, long-lived asset impairments, exit costs and inventory write-downs of $656 million, $220 million, $150 million and $40 million, respectively. The severance costs related to the elimination of approximately 13,475 positions, including approximately 5,275 photofinishing, 5,525 manufacturing, 775 research and development, and 1,900 administrative positions.

The following table summarizes the activity with respect to the charges recorded in connection with the focused cost reduction actions that the Company has committed to under the 2004-2007 Restructuring Program and the remaining balances in the related reserves at June 30, 2005:

(dollars in millions)

	Number of Employees	Severance Reserve	Exit Costs Reserve	Total	Long-lived Asset Impairments and Inventory Write-downs	Accelerated Depreciation
Q1, 2004 charges		$	$	$	$ 1	$ 2
Q1, 2004 utilization					(1)	(2)
Balance at 3/31/04						
Q2, 2004 charges	2,700	98	17	115	28	23
Q2, 2004 utilization	(800)	(12)	(11)	(23)	(28)	(23)
Q2, 2004 other adj. & reclasses		(2)		(2)		
Balance at 6/30/04	1,900	84	6	90		
Q3, 2004 charges	3,200	186	20	206	27	31
Q3, 2004 reversal			(1)	(1)		
Q3, 2004 utilization	(2,075)	(32)	(14)	(46)	(27)	(31)
Q3, 2004 other adj. & reclasses			(5)	(5)		
Balance at 9/30/04	3,025	238	6	244		
Q4, 2004 charges	3,725	134	62	196	101	96
Q4, 2004 reversal		(6)		(6)		
Q4, 2004 utilization	(2,300)	(125)	(22)	(147)	(101)	(96)
Q4, 2004 other adj. & reclasses		26	(10)	16		
Balance at 12/31/04	4,450	267	36	303		
Q1, 2005 charges, as restated	1,650	70	23	93	34	81
Q1, 2005 utilization	(2,000)	(72)	(18)	(90)	(34)	(81)
Q1, 2005 other adj. & reclasses, as restated		(43)		(43)		
Balance at 3/31/05	4,100	222	41	263		
Q2, 2005 charges, as restated	2,200	168	28	196	69	75
Q2, 2005 reversal			(1)	(1)		
Q2, 2005 utilization	(2,725)	(91)	(30)	(121)	(69)	(75)
Q2, 2005 other adj. & reclasses, as restated		(53)	(2)	(55)		
Balance at 6/30/05, as restated	3,575	$ 246	$ 36	$ 282	$	$

The severance charges of $168 million for the second quarter and $238 million year to date were reported in restructuring costs and other in the accompanying Consolidated Statement of Operations for the three and six months ended June 30, 2005, respectively. Included in the $168 million second quarter charge taken for severance was $21 million relating to special termination postretirement benefits and a net curtailment loss of $19 million. The liability related to these charges is reported in pension and other postretirement benefits on the Company s Consolidated Statement of Financial Position as of June 30, 2005, and is disclosed in Note 9, Retirement Plans and Other Postretirement Benefits. The exit costs of $28 million and $51 million were reported in restructuring costs and other in the accompanying Consolidated Statement of Operations for the three and six months ended June 30, 2005, respectively. Included in the $28 million second quarter charge was a $7 million charge for environmental remediation associated with the closure of manufacturing facilities in Coburg, Australia and Sao Jose dos Campos, Brazil. The liability related to this charge is disclosed in Note 6, Commitments and Contingencies under Environmental. In addition, a transfer of $7 million was made from the 2004-2007 Program severance (-$12 million) and exit reserves (+ $5 million) to the Pre-2004 Programs severance and exit reserves due to a reallocation of prior foreign currency translation adjustments. The severance costs and exit costs require the outlay of cash, while the long-lived asset impairments and inventory write-downs represent non-cash items. During the second quarter of 2005, the Company made $91 million of severance payments and $30 million of exit costs payments related to the 2004-2007 Restructuring Program. In addition, $1 million of exit cost reserves were reversed in the second quarter, as the Company was able to settle a lease obligation for an amount that was less than originally estimated. As a result of the initiatives already implemented under the 2004-2007 Restructuring Program, severance payments will be paid during periods through 2007 since, in many instances, the employees whose positions were eliminated can elect or are required to receive their payments over an extended period of time. In addition, certain exit costs, such as long-term lease payments, will be paid through 2007 and subsequent periods.

As a result of initiatives implemented under the 2004-2007 Restructuring Program, the Company recorded $75 million and $156 million of accelerated depreciation on long-lived assets in cost of goods sold in the accompanying Consolidated Statement of Operations for the three and six months ended June 30, 2005, respectively. The accelerated depreciation relates to long-lived assets accounted for under the held and used model of SFAS No. 144. Accelerated depreciation represents a non-cash item. The second quarter amount of $75 million relates to $4 million of photofinishing facilities and equipment, $67 million of manufacturing facilities and equipment, and $4 million of administrative facilities and equipment that will be used until their abandonment. The year-to-date amount of $156 million relates to $24 million of photofinishing facilities and equipment, $127 million of manufacturing facilities and equipment, and $5 million of administrative facilities and equipment. The Company will incur accelerated depreciation charges of approximately $34 million in the third quarter of 2005 as a result of the initiatives already implemented under the 2004-2007 Restructuring Program.

Pre-2004 Restructuring Programs

At June 30, 2005, the Company had remaining severance and exit costs reserves of $16 million and $17 million, respectively, relating to restructuring plans committed to or executed prior to 2004. Included in these reserve balances was a transfer of $7 million from the 2004-2007 Program reserves during the second quarter due to a reallocation of prior foreign currency translation adjustments.

The remaining severance payments relate to initiatives already implemented under the Pre-2004 Restructuring Programs and will be paid out during 2005 since, in many instances, the employees whose positions were eliminated can elect or are required to receive their severance payments over an extended period of time. Most of the remaining exit costs reserves represent long-term lease payments, which will continue to be paid over periods throughout and after 2005.

NOTE 9: RETIREMENT PLANS AND OTHER POSTRETIREMENT BENEFITS

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

(in millions)

	Three Months Ended June 30,				Six Months Ended June 30,			
	2005		2004		2005		2004	
	U.S.	Non-U.S.	U.S.	Non-U.S.	U.S.	Non-U.S.	U.S.	Non-U.S.
		(Restated)				(Restated)		
Service cost	$ 30	$ 10	$ 30	$ 8	$ 60	$ 21	$ 62	$ 18
Interest cost	89	43	98	38	179	85	197	77
Expected return on plan assets	(130)	(52)	(136)	(41)	(260)	(104)	(274)	(83)
Amortization of:								
Transition obligation asset								(1)
Prior service cost		7		(5)		15	1	(10)
Actuarial loss	9	14	7	12	19	31	13	24
	(2)	22	(1)	12	(2)	48	(1)	25
Special termination benefits		4				45		1
Curtailment loss (gain)		21	1	1		17	8	(6)
Net pension cost		47		13		110	7	20
Other plans including unfunded plans		2		5		4		10
Total net pension cost	$ (2)	$ 49	$	$ 18	$ (2)	$ 114	$ 7	$ 30

For the quarters ended June 30, 2005 and 2004, $25 million and $2 million, respectively, of special termination benefits and curtailment charges were incurred as a result of the Company s restructuring actions and, therefore, have been included in restructuring costs and other in the Consolidated Statement of Operations.

As a result of the cumulative impact of the ongoing position eliminations under its Pre-2004 and 2004-2007 Restructuring Programs, as disclosed in Note 8, the Company incurred curtailment gains and losses with respect to certain of its retirement plans in the second quarter of 2005. These curtailment events resulted in the remeasurement of the plans obligations during the quarter, which impacted the accounting for the additional minimum pension liabilities. These remeasurements resulted in an increase in the additional minimum pension liabilities of $65 million during the first half of 2005. This increase is reflected in the pension and other postretirement liabilities component within the accompanying Consolidated Statement of Financial Position as of June 30, 2005. The net-of-tax amount of $43 million relating to the increase of the additional minimum pension liabilities is reflected in the accumulated other comprehensive loss component within the accompanying Consolidated Statement of Financial Position as of June 30, 2005.

The Company made contributions (funded plans) or paid benefits (unfunded plans) totaling approximately $126 million relating to its major U.S. and non-U.S. defined benefit pension plans in the first half of 2005. The Company expects its contribution (funded plans) and benefit payment (unfunded plans) requirements for its major U.S. and non-U.S. defined benefit pension plans for the balance of 2005 to be approximately $70 million.

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

(in millions)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2005	2004	2005	2004
Components of net postretirement benefit cost				
Service cost	$ 3	$ 4	$ 6	$ 8
Interest cost	43	47	86	100
Amortization of:				
Prior service cost	(13)	(15)	(27)	(29)
Actuarial loss	16	20	32	51
	49	56	97	130
Curtailment gain		(2)	(3)	(25)
Total net postretirement benefit cost	$ 49	$ 54	$ 94	$ 105

As a result of the cumulative impact of the ongoing position eliminations under its Pre-2004 and 2004-2007 Restructuring Programs, as disclosed in Note 8, the Company incurred curtailment gains of $3 million and $25 million for the first half of 2005 and 2004, respectively.

During the quarter ended June 30, 2004, the Company adopted the provisions of FSP 106-2 with respect to its U.S. postretirement plan, which resulted in a remeasurement of the plan s accumulated projected benefit obligation (APBO) as of April 1, 2004. The actuarially determined impact of the subsidy reduced the APBO by approximately $354 million. The effect of the subsidy on the measurement of the net periodic postretirement benefit cost was to reduce the cost by approximately $12 million and $24 million for the three and six months ended June 30, 2005, respectively, as follows:

(in millions)

	Three Months Ended June 30, 2005	Six Months Ended June 30, 2005
	Effect of Subsidy	Effect of Subsidy
Interest cost	$ 5	$ 10
Amortization of the actuarial gain	7	14
	$ 12	$ 24

The Company paid benefits totaling approximately $122 million relating to its U.S., United Kingdom and Canada postretirement benefit plans in the first half of 2005. The Company expects to pay benefits of $121 million for postretirement plans for the balance of 2005.

NOTE 10: EARNINGS PER SHARE

Options to purchase 33.8 million and 36.4 million shares of common stock at weighted average per share prices of $49.23 and $49.10 for the three months ended June 30, 2005 and 2004, respectively, and options to purchase 27.2 million and 36.5 million shares of common stock at weighted average per share prices of $55.90 and $49.10 for the six months ended June 30, 2005 and 2004, respectively, were outstanding during the periods presented but were not included in the computation of diluted earnings per share because the options exercise price was greater than

the average market price of the common shares for the respective periods and, therefore, the impact of these shares on the diluted earnings per share calculation would be anti-dilutive.

In addition, for the three and six months ended June 30, 2005, approximately 18.5 million shares related to the assumed conversion of the Company s Contingent Convertible Securities were not included in the denominator, and approximately $3 million and $6 million related to the after-tax interest expense on the Contingent Convertible Securities for the three and six months ended June 30, 2005, respectively, were not adjusted for in the numerator for purposes of the computation of diluted earnings per share for the three and six months ended June 30, 2005. These items were not included in the computation because they are anti-dilutive to the Company s earnings per share.

For the three and six months ended June 30, 2004, approximately 18.5 million shares related to the assumed conversion of the Company s Contingent Convertible Securities were included in the denominator, and approximately $3 million and $6 million related to the after-tax interest expense on the Contingent Convertible Securities for the three and six months ended June 30, 2004, respectively, were adjusted for in the numerator for purposes of the computation of diluted earnings per share. These items were included in the computation because they are dilutive to the Company s earnings per share.

NOTE 11: SHAREHOLDERS EQUITY

The Company has 950 million shares of authorized common stock with a par value of $2.50 per share, of which 391 million shares had been issued as of June 30, 2005 and December 31, 2004. Treasury stock at cost consists of approximately 104 million and 105 million shares at June 30, 2005 and December 31, 2004, respectively.

On February 18, 2004, the Company announced that it would begin expensing stock options starting January 1, 2005 using the fair value recognition provisions of Statement of Financial Accounting Standards (SFAS) No. 123, Accounting for Stock-Based Compensation. In December 2004, the FASB issued SFAS No. 123R, Share-Based Payment, a new accounting standard that will now require the expensing of stock options for interim and annual periods within fiscal years beginning after June 15, 2005.

Early adoption of SFAS No. 123R is permitted for all companies. On January 1, 2005, the Company early adopted the stock option expensing rules of the new standard. For the three and six months ended June 30, 2005, the Company recorded stock option expense of $3.8 million and $6.6 million, respectively. The Company s expensing of stock options increased the basic and diluted loss per share by less than $.01 and $.01 for the three and six months ended June 30, 2005, respectively.

Prior to January 1, 2005, the Company accounted for its employee stock incentive plans under APB No. 25 and the related interpretations under Financial Accounting Standards Board (FASB) Interpretation No. 44, Accounting for Certain Transactions Involving Stock Compensation. Accordingly, no stock option expense was reflected in net earnings for the three and six months ended June 30, 2004, as all options granted had an exercise price equal to the market value of the underlying common stock on the date of grant.

The Company has determined the pro forma net earnings and net earnings per share information for the three and six months ended June 30, 2004 as if the fair value method of SFAS No. 123 had been applied to its stock-based employee compensation. Net earnings, as reported, and the pro forma information is as follows:

(in millions, except per share data)

	Three Months Ended June 30, 2004	Six Months Ended June 30, 2004
Net earnings, as reported	$ 136	$ 157
Deduct: Total stock-based employee compensation expense determined under fair value method of all awards, net of related tax effects	(5)	(7)
Pro forma net earnings	$ 131	$ 150
Net earnings per share:		
Basic - as reported	$ .48	$ .55
Basic - pro forma	$ .46	$ .52
Diluted - as reported	$ .46	$ .53
Diluted - pro forma	$ .44	$ .51

NOTE 12: COMPREHENSIVE (LOSS) INCOME

(in millions)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2005	2004	2005	2004
	(Restated)		(Restated)	
Net (loss) income	$ (141)	$ 136	$ (281)	$ 157
Unrealized losses on available-for-sale securities	(2)	(5)	(3)	(6)
Realized and unrealized gains from hedging activity	12	8	12	12
Currency translation adjustments	(102)	(32)	(201)	(58)
Minimum pension liability adjustment	(119)	4	(44)	(41)
Total comprehensive (loss) income	$ (352)	$ 111	$ (517)	$ 64

NOTE 13: ACQUISITIONS

2005

Creo Inc.

On June 15, 2005, the Company completed the acquisition of Creo Inc. (Creo), a premier supplier of prepress and workflow systems used by commercial printers around the world. The acquisition of Creo uniquely positions the Company to be the preferred partner for its customers, helping them improve efficiency, expand their offerings and grow their businesses. The Company paid $954 million (excluding approximately $11 million in transaction related costs), or $16.50 per share, for all of the outstanding shares of Creo. The Company used its bank lines to initially fund the acquisition, with a portion of the debt to be refinanced in the capital markets at a future date. Creo s extensive solutions portfolio is now part of the Company s Graphic Communications segment.

The following represents the total purchase price of the acquisition (in millions):

Cash paid at closing	$	954
Estimated transaction costs		11
Total purchase price	$	965

Upon closing of an acquisition, the Company estimates the fair values of assets and liabilities acquired in order to consolidate the acquired balance sheet. Given the time it takes to obtain pertinent information to finalize the acquired balance sheet, it is not uncommon for initial estimates to be revised in subsequent quarters. Due to the proximity of the Creo acquisition to the end of the second quarter, the preliminary estimate of the assets and liabilities, which was prepared with the assistance of an independent third party valuation expert, may change in subsequent quarters. The preliminary purchase price allocation is as follows:

At June 15, 2005 (in millions):

Current assets	$	345
Intangible assets (including in-process R&D)		313
Other non-current assets (including PP&E)		209
Goodwill		324
Total assets acquired	$	1,191
Current liabilities	$	223
Non-current liabilities		3
Total liabilities assumed	$	226
Net assets acquired	$	965

Of the $313 million of acquired intangible assets, approximately $48 million was assigned to research and development assets that were written off at the date of acquisition. This amount was determined by identifying research and development projects that had not yet reached technological feasibility and for which no alternative future uses exist. The value of the projects identified to be in progress was determined by estimating the future cash flows from the projects once commercialized, less costs to complete development and discounting these net cash flows back to their present value. The discount rate used for these research and development projects was 23%. The charges for the write-off were included as research and development costs in the Company s Consolidated Statement of Operations for the three and six months ended June 30, 2005.

The remaining $265 million of intangible assets, which relate to developed technology, trademarks and customer relationships, have useful lives ranging from seven to ten years. The $324 million of goodwill is assigned to the Company s Graphic Communications segment.

Kodak Polychrome Graphics

On April 1, 2005, the Company completed its acquisition of Kodak Polychrome Graphics (KPG) through the redemption of Sun Chemical Corporation s 50 percent interest in the joint venture. The transaction further established the Company as a leader in the graphics communications industry and will complement the Company s existing business in this market. Under the terms of the transaction, the Company redeemed all of Sun Chemical Corporation s shares in KPG by providing $317 million in cash (excluding $7 million in transaction costs) at closing and by entering into two notes payable arrangements, one that will be payable within the U.S. (the U.S. note) and one that will be payable outside of the U.S. (the non-U.S. note), that will require principal and interest payments of $200 million in the third quarter of 2006, and $50 million annually from 2008 through 2013. The total payments due under the U.S note and the non-U.S. note are $100 million and $400 million, respectively. The aggregate fair value of these notes payable arrangements was recorded in the Company s Consolidated Statement of Financial Position as approximately $395 million as of the acquisition date and was presented as a non-cash investing activity in the Consolidated Statement of Cash Flows. KPG now operates within the Company s Graphics Communications segment.

The following represents the total purchase price of the acquisition (in millions):

Cash paid at closing	$	317
Estimated transaction costs		7
Notes payable		395
Total purchase price	$	719

Upon closing of an acquisition, the Company estimates the fair values of assets and liabilities acquired in order to consolidate the acquired balance sheet. Given the time it takes to obtain pertinent information to finalize the acquired balance sheet, it is not uncommon for initial estimates to be revised in subsequent quarters. The Company is currently in the process of finalizing the purchase price allocation with respect to the acquisition of KPG and must complete (1) the final review of the independent third party valuation prepared, and (2) the allocation of the purchase price to the proper tax jurisdictions, which will allow the Company to complete the final valuation of the deferred tax liability associated with the acquisition. A preliminary estimate of the deferred tax liability has been calculated and is included in the preliminary purchase price allocation, which is as follows:

At April 1, 2005 (in millions):

Current assets	$	484
Intangible assets (including in-process R&D)		164
Other non-current assets (including PP&E)		188
Goodwill		211
Total assets acquired	$	1,047
Current liabilities	$	257
Non-current liabilities		71
Total liabilities assumed	$	328
Net assets acquired	$	719

Of the $164 million of acquired intangible assets, approximately $16 million was assigned to research and development assets that were written off at the date of acquisition. This amount was determined by identifying research and development projects that had not yet reached technological feasibility and for which no alternative future uses exist. The value of the projects identified to be in progress was determined by estimating the future cash flows from the projects once commercialized, less costs to complete development and discounting these net cash flows back to their present value. The discount rate used for these research and development projects was 22%. The charges for the write-off were included as research and development costs in the Company s Consolidated Statement of Operations for the three and six months ended June 30, 2005.

The remaining $148 million of intangible assets, which relate to developed technology, trademarks and customer relationships, have useful lives ranging from five to ten years. The $211 million of goodwill is assigned to the Company s Graphic Communications segment.

The unaudited pro forma combined historical results, as if KPG had been acquired at the beginning of 2005 and 2004, respectively, are estimated to be:

(in millions, except per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2005	2004	2005	2004
	(Restated)		(Restated)	
Net sales	$ 3,686	$ 3,824	$ 6,957	$ 7,169
(Loss) earnings from continuing operations	$ (131)	$ 130	$ (259)	$ 146
Basic net (loss) earnings per share from continuing operations	$ (.46)	$ .45	$ (.90)	$ .51
Diluted net (loss) earnings per share from continuing operations	$ (.46)	$ .44	$ (.90)	$ .50
Number of common shares used in:				
Basic net earnings per share	287.1	286.6	287.0	286.6
Diluted net earnings per share	287.1	305.2	287.0	305.2

The pro forma results include amortization of the intangible assets presented above and exclude the write-off of research and development assets that were acquired.

OREX Computed Radiography Ltd.

On March 3, 2005, the Company completed the acquisition of OREX Computed Radiography Ltd. (OREX) for $53 million, inclusive of cash on hand at closing which totaled approximately $5 million. OREX is a leading provider of compact, robust computed radiography systems that enables medical practitioners to acquire patient x-ray images digitally. The acquisition will add the technology of OREX s small format computed radiography products for use in various health imaging markets, such as orthopedics, diagnostic imaging centers, dentistry, and industrial non-destructive testing (NDT). OREX has become a wholly owned subsidiary and operates within the Company s Health segment.

The preliminary purchase price allocation, which is subject to adjustment based upon the final closing balance sheet, is as follows:

At March 3, 2005 (in millions)

Current assets	$ 18
Intangible assets (including in-process R&D)	15
Other non-current assets (including PP&E)	2
Goodwill	31
Total assets acquired	$ 66
Current liabilities	$ 13
Total liabilities assumed	$ 13
Net assets acquired	$ 53

Of the $15 million of acquired intangible assets, approximately $2 million was assigned to research and development assets that were written off at the date of acquisition. This amount was determined by identifying research and development projects that had not yet reached technological feasibility and for which no alternative future uses exist. The value of the projects identified to be in progress was determined by estimating the future cash flows from the projects once commercialized, less costs to complete development and discounting these net cash flows back to their present value. The discount rate used for these research and development projects was 15%. The charges for the write-off were included as research and development costs in the Company s Consolidated Statement of Operations for the six months ended June 30, 2005.

The remaining $13 million of intangible assets, which relate to developed technology and customer relationships, have useful lives ranging from five to fifteen years. The $31 million of goodwill is assigned to the Health segment.

2004

NexPress-Related Entities

On May 1, 2004, the Company completed the purchase of Heidelberger Druckmaschinen AG s (Heidelberg) 50 percent interest in NexPress Solutions LLC, a 50/50 joint venture of Kodak and Heidelberg that makes high-end, on-demand digital color printing systems, and the equity of Heidelberg Digital LLC, a leading maker of digital black-and-white variable-data printing systems. Kodak also announced the acquisition of NexPress GmbH, a German subsidiary of Heidelberg that provides engineering and development support, and certain inventory, assets, and employees of Heidelberg s regional operations or market centers. There was no consideration paid to Heidelberg at closing. Under the terms of the acquisition, Kodak and Heidelberg agreed to use a performance-based earn-out formula whereby Kodak will make periodic payments to Heidelberg over a two-year period, if certain sales goals are met. If all sales goals are met during the two calendar years ending December 31, 2005, the Company will pay a maximum of $150 million in cash. During the first calendar year, no amounts were paid. Additional payments may also be made relating to the incremental sales of certain products in excess of a stated minimum number of units sold during a five-year period following the closing of the transaction. This acquisition advances the Company s strategy of diversifying its business portfolio, and accelerates its participation in the digital commercial printing industry.

The following table summarizes the estimated fair value of the assets acquired and liabilities assumed at the date of acquisition. The purchase price allocation is as follows:

At May 1, 2004   (in millions)

Current assets	$	88
Intangible assets (including in-process R&D)		9
Other non-current assets (including PP&E)		37
Total assets acquired	$	134
Current liabilities	$	65
Other non-current liabilities		6
Deferred taxes		33
Total liabilities assumed	$	104
Net assets acquired	$	30

The excess of fair value of acquired net assets over cost of $30 million represents negative goodwill and was recorded as a component of other long-term liabilities in the Company s Consolidated Statement of Financial Position.

As of the acquisition date, management began to assess and formulate plans to restructure the NexPress-related entities. As of June 30, 2005, management had completed its assessment and approved actions on the plans. Accordingly, as of June 30, 2005, the related liability was $6 million. This liability is included in the current liabilities amount reported above and represents restructuring charges related to the entities and net assets acquired. To the extent such actions related to the Company s historical ownership in the NexPress Solutions LLC joint venture, the restructuring charges will be reflected in the Company s Consolidated Statement of Operations. This amount was $1 million as of June 30, 2005.

Pro-forma Financial Information

The following unaudited pro forma financial information presents the combined results of operations of the Company and the Company s significant acquisitions since January 1, 2004, NexPress, KPG and Creo, as if the acquisitions had occurred as of the beginning of the periods presented. The unaudited pro forma financial information is not intended to represent or be indicative of the consolidated results of operations or financial condition of the Company that would have been reported had the acquisitions been completed as of the beginning of the periods presented, and should not be taken as representative of the future consolidated results of operations or financial condition of the Company. Pro forma results were as follows for the three and six months ended June 30, 2005 and 2004:

(in millions, except per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2005	**2004**	**2005**	**2004**
	(Restated)		**(Restated)**	
Net sales	$ 3,807	$ 4,036	$ 7,242	$ 7,622
(Loss) earnings from continuing operations	$ (154)	$ 100	$ (286)	$ 95
Basic net (loss) earnings per share from continuing operations	$ (.54)	$ .35	$ (1.00)	$ .33
Diluted net (loss) earnings per share from continuing operations	$ (.54)	$ .34	$ (1.00)	$ .33
Number of common shares used in:				
Basic net (loss) earnings per share	287.1	286.6	287.0	286.6
Diluted net (loss) earnings per share	287.1	305.2	287.0	305.2

The pro forma results include amortization of the intangible assets presented above and exclude the write-off of research and development assets that were acquired.

NOTE 14: DISCONTINUED OPERATIONS

On August 13, 2004, the Company completed the sale of RSS to ITT for $725 million in cash. RSS, a leading provider of specialized imaging solutions to the aerospace and defense community, was part of the Company s commercial and government systems operation within the Commercial Imaging segment. Its customers include NASA, other U.S. government agencies, and aerospace and defense companies. RSS had net sales for the three months ended June 30, 2004 of approximately $123 million and net sales for the six months ended June 30, 2004 of approximately $254 million. RSS had earnings before taxes for the three months ended June 30, 2004 of approximately $17 million and for the six months ended June 30, 2004 of approximately $36 million. The sale of RSS resulted in an after-tax gain of approximately $439 million recorded in the third quarter of 2004.

As a result of the sale of the assets and business of the Remote Sensing Systems operation, including the stock of the Company s wholly owned subsidiary, Research Systems, Inc. (collectively known as RSS), to ITT Industries (ITT) during 2004, the Company transferred the related employees plan assets of the Company s pension plan on August 13, 2004. This transfer is subject to a true-up process, which is expected to be completed during 2005. The after-tax gain of $439 million recorded during 2004 excluded the estimated settlement loss of $55 million, which will be recognized upon final true-up of the value of the plan assets.

The contract with ITT includes a provision under which Kodak may receive up to $35 million in cash (the Cash Amount) from ITT depending on the amount of pension plan assets that are ultimately transferred from Kodak s defined benefit pension plan trust in the U.S. to ITT. The total amount of assets that Kodak will ultimately transfer to ITT will be actuarially determined in accordance with the applicable sections under the Treasury Regulations and ERISA (the Transferred Assets). The Cash Amount will be equal to 50% of the amount by which the Transferred Assets exceed the maximum amount of assets that would be required to be transferred in accordance with the applicable U.S. Government Cost Accounting Standards (the CAS Assets), up to $35 million. Based on preliminary actuarial valuations, the estimated Cash Amount is approximately $30 million. Accordingly, the after-tax gain from the sale of RSS includes an estimated pre-tax amount of $30 million, representing the Company s estimate of the Cash Amount that will be received following the transfer of the pension plan assets to ITT. This amount has been recorded in assets of discontinued operations in the Company s Consolidated Statement of Financial Position as of June 30, 2005 and December 31, 2004. Upon completion of the final actuarial valuation (expected during 2005), which will determine the Transferred Assets, the gain will be adjusted accordingly.

Total Company earnings from discontinued operations for the three months ended June 30, 2004 of approximately $17 million was net of provisions for income taxes of $1 million. Total Company earnings from discontinued operations for the six months ended June 30, 2004 of approximately $30 million was net of a provision for income tax of $8 million.

NOTE 15: SEGMENT INFORMATION

In September of 2004, the Company announced the realignment of its operations, effective January 1, 2005, changing the corporate segment reporting structure beginning with the first quarter, 2005.

As a result of the change in composition of the reportable segments, the accompanying segment information for the three and six month periods ended June 30, 2004 has been presented in accordance with the new structure and to conform to the presentation for the three and six month periods ended June 30, 2005.

The Company has three reportable segments based on the aggregation of similar products and services: Digital and Film Imaging Systems (D&FIS); Health; and Graphic Communications. The balance of the Company s operations, which individually and in the aggregate do not meet the criteria of a reportable segment, are reported in All Other.

Segment financial information is shown below:

(in millions)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2005	2004	2005	2004
	(Restated)		(Restated)	
Net sales from continuing operations:				
D&FIS	$ 2,151	$ 2,434	$ 3,952	$ 4,412
Health	694	672	1,320	1,303
Graphic Communications	794	325	1,162	608
All Other	47	33	84	61
Consolidated total	$ 3,686			