

EASTMAN KODAK CO
Form 10-K
February 25, 2011

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

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

For the year ended December 31, 2010 or

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

For the transition period from _____ to _____

Commission File Number 1-87

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

NEW JERSEY
(State of incorporation)

16-0417150
(IRS Employer Identification No.)

343 STATE STREET, ROCHESTER, NEW
YORK
(Address of principal executive offices)

14650
(Zip Code)

Registrant's telephone number, including area
code: _____ 585-724-4000

Securities registered pursuant to Section 12(b) of the Act:

Title of each Class	Name of each exchange on which registered
Common Stock, \$2.50 par value	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

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Yes

No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months, and (2) has been subject to such filing requirements for the past 90 days.

Yes

No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large accelerated filer	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

The aggregate market value of the voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, as of the last business day of the registrant's most recently completed second fiscal quarter, June 30, 2010 was approximately \$1.2 billion. The registrant has no non-voting common stock.

The number of shares outstanding of the registrant's common stock as of February 11, 2011 was 268,882,900 shares of common stock.

DOCUMENTS INCORPORATED BY REFERENCE

PART III OF FORM 10-K

The following items in Part III of this Form 10-K incorporate by reference information from the Notice of 2011 Annual Meeting and Proxy Statement:

- Item 10 - DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE
- Item 11 - EXECUTIVE COMPENSATION
- Item 12 - SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS
- Item 13 - CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR

INDEPENDENCE

Item 14 - PRINCIPAL ACCOUNTING FEES AND SERVICES

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Form 10-K
December 31, 2010

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PART I

ITEM 1. BUSINESS

Eastman Kodak Company (the “Company” or “Kodak”) helps consumers, businesses, and creative professionals unleash the power of pictures and printing to enrich their lives. When used in this report, unless otherwise indicated, “we,” “our,” “us,” the “Company” and “Kodak” refer to Eastman Kodak Company. The Company’s products and services span:

- Digital still and video cameras and related accessories
 - Consumer inkjet printers and media
 - Digital picture frames
- Retail printing kiosks, APEX drylab systems, and related media and services
 - KODAK Gallery online imaging services
 - Imaging sensors
 - Prepress equipment and consumables
 - Workflow software and services
- Electrophotographic printing equipment, consumables, and service
- Commercial inkjet printing equipment, consumables, and service
 - Document scanners
 - Business process services
- Origination and print films and special effects services for the entertainment industry
 - Consumer and professional photographic film
 - Photographic paper and processing chemicals
- Industrial materials such as film for the production of printed circuit boards, and specialty chemicals

Kodak was founded by George Eastman in 1880 and incorporated in 1901 in the State of New Jersey. The Company is headquartered in Rochester, New York.

In 2010, competitive pricing and rising commodity costs negatively impacted results in Kodak’s more mature product lines, including Prepress Solutions, Digital Capture and Devices, and Entertainment Imaging. The Company continued its investment in its four growth initiatives – consumer inkjet, commercial inkjet, workflow software and services, and packaging solutions – and these product lines continue to gain scale and acceptance in the market. The Company continues to execute its intellectual property strategy and entered into three significant intellectual property arrangements during the year, recognizing revenue of \$838 million.

The Company’s key goals for 2011 are:

- Increase revenue from our digital growth initiative businesses –consumer inkjet, commercial inkjet, workflow software and services, and packaging solutions
- Drive positive cash generation before restructuring payments, which is equal to net cash (used in)/provided by operating activities, as determined under Generally Accepted Accounting Principles in the United States of America (U.S. GAAP), minus capital expenditures, plus proceeds from the sale of assets and certain businesses and other settlements/agreements not otherwise included in U.S. GAAP cash (used in)/provided by operating activities, plus net cash flow generated by divested businesses through the date of divestiture to the extent such business divestitures would be categorized as discontinued operations, minus cash flow from the operations of significant acquisitions or strategic alliances completed during the year, plus cash restructuring payments

REPORTABLE SEGMENTS

The Company reports financial information for three reportable segments: Consumer Digital Imaging Group (“CDG”), Graphic Communications Group (“GCG”), and Film, Photofinishing and Entertainment Group (“FPEG”). The balance of the Company's operations, which individually and in the aggregate do not meet the criteria of a reportable segment, are reported in All Other.

The Company's sales, earnings and assets by reportable segment for these three reportable segments and All Other for each of the past three years are shown in Note 24, “Segment Information,” in the Notes to Financial Statements.

CONSUMER DIGITAL IMAGING GROUP (“CDG”) SEGMENT

CDG's mission is to enhance people's lives and social interactions through the capabilities of digital imaging and printing technology. This focus has led to a full range of product and service offerings to the consumer. CDG's strategy is to drive profitable revenue growth by leveraging a powerful brand, a deep knowledge of the consumer, and extensive digital imaging and materials science intellectual property.

Digital Capture and Devices: Digital capture and devices includes digital still and pocket video cameras, digital picture frames, accessories, and branded licensed products. These products are sold directly to retailers or distributors, and are also available to customers through the Internet at the KODAK Store (www.kodak.com) and other online providers. Digital Capture and Devices also includes charged coupled devices (CCD) imaging sensors, and licensing activities related to the Company's intellectual property in digital imaging products.

Net sales of Digital Capture and Devices accounted for 28%, 23%, and 24% of total consolidated revenue for the years ended December 31, 2010, 2009, and 2008, respectively.

Net revenues from licensing and royalties within the CDG segment accounted for 12%, 6%, and 5% of total consolidated revenue for the years ended December 31, 2010, 2009, and 2008, respectively.

Retail Systems Solutions: Retail Systems Solutions' product and service offerings to retailers include kiosks and consumables, Adaptive Picture Exchange (“APEX”) drylab systems and consumables, and after sale service and support. Consumers can create a wide variety of photo gifts including photo books, personal greeting cards, prints, posters, and collages. Kodak has the largest installed base of retail photo kiosks in the world.

Consumer Inkjet Systems: Consumer Inkjet Systems encompasses Kodak All-in-One desktop inkjet printers, ink cartridges, and media. These products are sold directly to retailers or distributors, and are also available to customers through the Internet at the KODAK Store (www.kodak.com) and other online providers. Consumer Inkjet Systems is one of Kodak's four digital growth initiative businesses, and in 2010, printer unit shipments grew 45% year-on-year. Also in 2010 the Company launched a new and low-cost platform of printers.

Consumer Imaging Services: Kodak Gallery is a leading online merchandise and photo sharing service. The www.Kodakgallery.com website provides consumers with a secure and easy way to view, store and share their images with friends and family, and to receive Kodak prints and other creative products from their pictures, such as photo books, frames, calendars, and other personalized merchandise.

Kodak also distributes KODAK EasyShare desktop software at no charge to consumers, which provides easy organization and editing tools, and unifies the experience between digital cameras, printers, and the KodakGallery services.

Marketing and Competition

CDG faces competition from consumer electronics and printer companies, and other online service companies in the markets in which it competes, generally competing on price, features, and technological advances.

The key elements of CDG's marketing strategy emphasize ease of use, quality, total cost of ownership value proposition, and the complete solution offered by Kodak products and services. This is communicated through a combination of in-store presentation, an aggressive social media strategy, online marketing, advertising, customer relationship marketing and public relations. The Company's advertising programs actively promote the segment's products and services in its various markets, and its principal trademarks, trade dress, and corporate symbol are widely

used and recognized. Kodak is frequently noted by trade and business publications as one of the most recognized and respected brands in the world.

GRAPHIC COMMUNICATIONS GROUP (“GCG”) SEGMENT

GCG is committed to helping its customers grow their businesses by offering innovative, powerful solutions that enhance production efficiency, open new revenue opportunities, and improve return on marketing investment. To this end, the Company has developed a wide-ranging portfolio of digital products - workflow, equipment, media, and services - that combine to create a value-added complete solution to customers. GCG’s strategy is to transform large graphics markets with revolutionary technologies and customized services that grow our customers’ businesses and Kodak’s business with them.

Prepress Solutions: Prepress Solutions is comprised of digital and traditional consumables, including plates, chemistry, and media, prepress output device equipment and related services, and proofing solutions. Prepress solutions also includes flexographic packaging solutions, which is one of Kodak’s four digital growth initiative businesses.

Innovative products within Prepress Solutions include high productivity TRILLIAN SP plates launched in 2010 and FLEXCEL NX packaging systems.

Net sales of Prepress Solutions accounted for 22% of total consolidated revenue for each of the years ended December 31, 2010, 2009, and 2008.

Digital Printing Solutions: Digital Printing Solutions includes high-speed, high-volume commercial inkjet printing equipment, consumables, and related services, as well as color and black-and-white electrophotographic printing equipment, consumables, and related services. Commercial inkjet is one of Kodak’s four digital growth initiative businesses.

Innovative product offerings include PROSPER color and black-and-white presses, components and systems. These products utilize Kodak’s revolutionary Stream technology to deliver high-speed, high-quality variable data inkjet printing on a broad range of media at a low running cost.

Business Services and Solutions: The Business Services and Solutions group’s product and service offerings are composed of high-speed production and workgroup document scanners, related services, and digital controllers for driving digital output devices, and workflow software and solutions. Workflow software and solutions, which includes consulting and professional business process services, can enable new opportunities for our customers to transform from a print service provider to a marketing service provider, and is one of Kodak’s four digital growth initiatives.

Marketing and Competition

Around the world, graphic communications products and services are sold through a variety of direct and indirect channels. The end users of these products include businesses in the creative, in-plant, data center, commercial printing, packaging, newspaper, and digital prepress market segments.

GCG faces competition from other companies who offer a range of commercial offset and digital printing equipment, consumables and service. The Company also faces competition from document scanning equipment manufacturers, software companies, and other service providers. Competitiveness is generally focused on technology, solutions and price.

FILM, PHOTOFINISHING AND ENTERTAINMENT GROUP (“FPEG”) SEGMENT

FPEG provides consumers, professionals, and the entertainment industry with film and paper for imaging and photography. Although the market for consumer and professional films, traditional photofinishing and certain industrial and aerial films are in decline and expected to continue to decline due to digital substitution, FPEG participates in large markets and enjoys number 1 or number 2 market share position in those markets. The strategy of FPEG is to provide sustainable cash generation by extending our materials science assets in traditional and new markets.

Entertainment Imaging: Entertaining Imaging includes origination, intermediate, and color print motion picture films, special effects services, and other digital products and services for the entertainment industry.

Net sales of Entertainment Imaging accounted for 10%, 12%, and 11% of total consolidated revenue for the years ended December 31, 2010, 2009, and 2008, respectively.

Traditional Photofinishing: Traditional Photofinishing includes color negative photographic paper, photochemicals, professional output systems, and event imaging services.

Net sales of Traditional Photofinishing accounted for 10%, 11%, and 12% of total consolidated revenue for the years ended December 31, 2010, 2009, and 2008, respectively.

Industrial Materials: Industrial Materials encompasses aerial and industrial film products, film for the production of printed circuit boards, and specialty chemicals, and represents a key component of FPEG's strategy of extending and repurposing our materials science assets.

Film Capture: Film Capture includes consumer and professional photographic film and one-time-use cameras.

Marketing and Competition

Film products and services for the consumer and professional markets and traditional photofinishing are sold throughout the world, both directly to retailers, and increasingly through distributors. Price competition continues to exist in all marketplaces. To be more cost competitive with its traditional photofinishing and film offerings, and to shift towards a variable cost model, the Company has rationalized capacity and restructured its go-to-market models in many of its traditional market segments

Throughout the world, most Entertainment Imaging products are sold directly to studios, laboratories, independent filmmakers or production companies. Quality and availability are important factors for these products, which are sold in a price-competitive environment. The distribution of motion pictures to theaters is another important element of the Entertainment Imaging business, one in which the Company continues to be widely recognized as a market leader. Price competition is a bigger factor in this segment of the motion picture market, but the Company continues to maintain leading share position. As the industry continues to move to digital cinema formats, the Company anticipates that it will face new competitors, including some of its current customers and other electronics manufacturers.

FINANCIAL INFORMATION BY GEOGRAPHIC AREA

Financial information by geographic area for the past three years is shown in Note 24, "Segment Information," in the Notes to Financial Statements.

RAW MATERIALS

The raw materials used by the Company are many and varied, and are generally readily available. Lithographic aluminum is the primary material used in the manufacture of offset printing plates. The Company procures lithographic aluminum coils from several suppliers on a spot basis or under contracts generally in place over the next one to three years. Silver is one of the essential materials used in the manufacture of films and papers. The Company purchases silver from numerous suppliers under annual agreements or on a spot basis. Paper base is an essential material in the manufacture of photographic papers. The Company has a contract to acquire paper base from a certified photographic paper supplier over the next several years. Electronic components are used in the manufacture of digital cameras and devices, consumer and commercial printers, and other electronic devices. Although most

electronic components are generally available from multiple sources, certain key electronic components included in the finished goods manufactured by and purchased from the Company's third party suppliers are obtained from single or limited sources, which may subject the Company to supply risks.

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SEASONALITY OF BUSINESS

Sales and earnings of the CDG segment are linked to the timing of holidays, vacations and other leisure or gifting seasons. Digital capture and consumer inkjet printing products have experienced peak sales during the last four months of the year as a result of the December holidays. Sales are normally lowest in the first quarter due to the absence of holidays and fewer picture-taking and gift-giving opportunities during that time.

Sales and earnings of the GCG segment generally exhibit modestly higher levels in the fourth quarter, due to seasonal customer demand linked to commercial year-end advertising processes.

Sales and earnings of the FPEG segment are linked to the timing of holidays, vacations and other leisure activities. Sales and earnings of traditional film and photofinishing products are normally strongest in the second and third quarters as demand is high due to heavy vacation activity and events such as weddings and graduations. Sales of entertainment imaging film are typically strongest in the second quarter reflecting demand due to the summer motion picture season.

RESEARCH AND DEVELOPMENT

Through the years, the Company has engaged in extensive and productive efforts in research and development.

Research and development expenditures for the Company's three reportable segments and All Other were as follows:

(in millions)	For the Year Ended December 31,		
	2010	2009	2008
Consumer Digital Imaging Group	\$ 148	\$ 146	\$ 205
Graphic Communications Group	152	171	221
Film, Photofinishing and Entertainment Group	19	33	49
All Other	2	6	3
Total	\$ 321	\$ 356	\$ 478

Research and development is headquartered in Rochester, New York. Other U.S. groups are located in Boston, Massachusetts; New Haven, Connecticut; Dayton, Ohio; and San Jose, Emeryville, and San Diego, California. Outside the U.S., groups are located in Canada, England, Israel, Germany, Japan, China, and Singapore. These groups work in close cooperation with manufacturing units and marketing organizations to develop new products and applications to serve both existing and new markets.

It has been the Company's general practice to protect its investment in research and development and its freedom to use its inventions by obtaining patents. The ownership of these patents contributes to the Company's ability to provide leadership products and to generate revenue from licensing. The Company holds portfolios of patents in several areas important to its business, including digital cameras and image sensors; network photo sharing and fulfillment; flexographic and lithographic printing plates and systems; digital printing workflow and color management proofing systems; color and black-and-white electrophotographic printing systems; commercial, and consumer inkjet printers; inkjet inks and media; thermal dye transfer and dye sublimation printing systems; digital cinema; and color negative films, processing and papers. Each of these areas is important to existing and emerging business opportunities that bear directly on the Company's overall business performance.

The Company's major products are not dependent upon one single, material patent. Rather, the technologies that underlie the Company's products are supported by an aggregation of patents having various remaining lives and

expiration dates. There is no individual patent expiration or group of patents expirations which are expected to have a material impact on the Company's results of operations.

ENVIRONMENTAL PROTECTION

The Company is subject to various laws and governmental regulations concerning environmental matters. The U.S. federal environmental legislation and state regulatory programs having an impact on the Company include the Toxic Substances Control Act, the Resource Conservation and Recovery Act, the Clean Air Act, the Clean Water Act, the NY State Chemical Bulk Storage Regulations and the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended (the "Superfund Law").

It is the Company's policy to carry out its business activities in a manner consistent with sound health, safety and environmental management practices, and to comply with applicable health, safety and environmental laws and regulations. The Company continues to engage in programs for environmental, health and safety protection and control.

Based upon information presently available, future costs associated with environmental compliance are not expected to have a material effect on the Company's capital expenditures, results of operations or competitive position, although costs could be material to a particular quarter or year, with the possible exception of matters related to the Passaic River, which are described in Note 10, "Commitments and Contingencies," in the Notes to Financial Statements.

EMPLOYMENT

At the end of 2010, the Company employed the full time equivalent of approximately 18,800 people, of whom approximately 9,600 were employed in the U.S. The actual number of employees may be greater because some individuals work part time.

AVAILABLE INFORMATION

The Company files many reports with the Securities and Exchange Commission ("SEC"), including annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K. These reports, and amendments to these reports, are made available free of charge as soon as reasonably practicable after being electronically filed with or furnished to the SEC. They are available through the Company's website at www.Kodak.com. To reach the SEC filings, follow the links to Investor Center, and then SEC Filings. The Company also makes available its annual report to shareholders and proxy statement free of charge through its website.

We have included the CEO and CFO certifications required by Section 302 of the Sarbanes-Oxley Act of 2002 as exhibits to this report. We have also included these certifications with the Form 10-K for the year ended December 31, 2009 filed on February 22, 2010. Additionally, we filed with the New York Stock Exchange ("NYSE") the CEO certification, dated June 9, 2010, regarding our compliance with the NYSE's corporate governance listing standards pursuant to Section 303A.12(a) of the listing standards, and indicated that the CEO was not aware of any violations of the listing standards by the Company.

ITEM 1A. RISK FACTORS

The competitive pressures we face could harm our revenue, gross margins and market share. The markets in which we do business are highly competitive with large, entrenched, and well financed industry participants. In certain markets where Kodak is a relatively new entrant, we have not achieved the scale of distribution that our competitors have. In addition, we encounter aggressive price competition for all our products and services from numerous companies globally. Over the past several years, price competition in the market for digital products, film products and services has been particularly intense as competitors have aggressively cut prices and lowered their profit margins for these products. Our results of operations and financial condition may be adversely

affected by these and other industry wide pricing pressures. If our products, services and pricing are not sufficiently competitive with current and future competitors, we could also lose market share, adversely affecting our revenue and gross margins.

If our commercialization and manufacturing processes fail to prevent product reliability and quality issues, our product launch plans may be delayed, our financial results may be adversely impacted, and our reputation may be harmed.

In developing, commercializing and manufacturing our products and services, we must adequately address reliability and other quality issues, including defects in our engineering, design and manufacturing processes, as well as defects in third-party components included in our products. Because our products are becoming increasingly sophisticated and complicated to develop and commercialize with rapid advances in technologies, the occurrence of defects may increase, particularly with the introduction of new product lines. Unanticipated issues with product performance may delay product launch plans which could result in additional expenses, lost revenue and earnings. Although we have established internal procedures to minimize risks that may arise from product quality issues, there can be no assurance that we will be able to eliminate or mitigate occurrences of these issues and associated liabilities. Product reliability and quality issues can impair our relationships with new or existing customers and adversely affect our brand image, and our reputation as a producer of high quality products could suffer, which could adversely affect our business as well as our financial results. Product quality issues can also result in recalls, warranty, or other service obligations and litigation.

If we are unsuccessful with our strategic investment decisions, our financial performance could be adversely affected. We have ma