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 adjust the Company s consolidated financial statements and related disclosures for the three and six month periods ended June 30, 2004 and 2003. This filing should be read in conjunction with the Company s Annual Report on Form 10-K for the year ended December 31, 2004. Adjustments to the consolidated financial statements for the three and six month periods ended June 30, 2004 and 2003 reflect the changes made in the Company s 2004 Annual Report on Form 10-K.

In April 2005, the Company restated its consolidated financial statements as of and for the year ended December 31, 2003. In addition, the Company restated its quarterly consolidated financial statements for each of the quarterly periods in 2003 and for the first three quarters of 2004. The restatement reflected adjustments to correct errors in the Company s accounting for income taxes, accounting for pensions and other postretirement benefits as well as other miscellaneous adjustments. The restatement resulted in the Company s adjusting its previously reported net earnings for the three and six month periods ended June 30, 2004 of $154 million ($.54 per share) and $182 million ($.64 per share), respectively, to net earnings of $136 million ($.48 per share) and $157 million ($.55 per share), respectively, and adjusting its previously reported net earnings for the three and six month periods ended June 30, 2003 of $112 million ($.39 per share) and $124 million ($.43 per share), respectively, to net earnings of $118 million ($.41 per share) and $123 million ($.43 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.

Generally, no attempt has been made in this Form 10-Q/A to modify or update other disclosures presented in the original report on Form 10-Q except as required to reflect the effects of the restatement. 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 5, 2004. 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 and Reports on Form 8-K

In addition, the Company s Form 10-Q/A for the period ended September 30, 2004 dated May 31, 2005, the Form 10-K for the period ended December 31, 2004 dated April 6, 2005, the Form 10-Q for the period ended March 31, 2005 dated May 9, 2005, the Form 8-K dated April 1, 2005, the Form 8-K dated April 22, 2005, the Form 8-K dated May 5, 2005, the Form 8-K dated May 10, 2005, the Form 8-K dated May 11, 2005 and the Form 8-K dated May 24, 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: May 31, 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, 2004

or

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

For the transition period from to

Commission File Number 1-87

EASTMAN KODAK COMPANY

(Exact name of registrant as specified in its charter)

NEW JERSEY **(State of incorporation)**	**16-0417150** **(IRS Employer Identification No.)**
343 STATE STREET, ROCHESTER, NEW YORK **(Address of principal executive offices)**	**14650** **(Zip Code)**

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

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

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, 2004
Common Stock, $2.50 par value	**286,605,218**

Part I. FINANCIAL INFORMATION

Item 1. Financial Statements

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

	Three Months Ended June 30		Six Months Ended June 30	
	2004	2003	2004	2003
	(Restated)	(Restated)	(Restated)	(Restated)
Net sales	$ 3,464	$ 3,258	$ 6,384	$ 5,897
Cost of goods sold	2,363	2,164	4,476	4,003
Gross profit	1,101	1,094	1,908	1,894
Selling, general and administrative expenses	615	708	1,164	1,267
Research and development costs	213	177	410	369
Restructuring costs and other	134	41	188	76
Earnings from continuing operations before interest, other income (charges), net and income taxes	139	168	146	182
Interest expense	43	34	87	71
Other income (charges), net	8	(9)	6	(30)
Earnings from continuing operations before income taxes	104	125	65	81
(Benefit) provision for income taxes	(15)	11	(62)	(15)
Earnings from continuing operations	119	114	127	96
Earnings from discontinued operations, net of income taxes	17	4	30	27
NET EARNINGS	$ 136	$ 118	$ 157	$ 123
Basic and diluted net earnings per share:				
Continuing operations	$ .42	$ .40	$ .44	$ .34
Discontinued operations	.06	.01	.11	.09
Total	$ .48	$ .41	$ .55	$ .43
Number of common shares used in basic earnings per share	286.6	286.5	286.6	286.4
Incremental shares from assumed conversion of options	0.0	0.1	0.1	0.2
Number of common shares used in diluted earnings per share	286.6	286.6	286.7	286.6

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

	Three Months Ended June 30		Six Months Ended June 30	
	2004	**2003**	**2004**	**2003**
	(Restated)	**(Restated)**	**(Restated)**	**(Restated)**
CONSOLIDATED STATEMENT OF RETAINED EARNINGS				
Retained earnings at beginning of period	$ 7,536	$ 7,602	$ 7,515	$ 7,611
Net earnings	136	118	157	123
Cash dividends declared	(72)	(258)	(72)	(258)
Loss from issuance of treasury stock	(1)	(1)	(1)	(15)
Retained earnings at end of quarter	$ 7,599	$ 7,461	$ 7,599	$ 7,461

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

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

	June 30, 2004 (Restated)	Dec. 31, 2003 (Restated)
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 519	$ 1,250
Receivables, net	2,605	2,327
Inventories, net	1,260	1,078
Deferred income taxes	654	596
Other current assets	129	129
Assets of discontinued operations	104	72
Total current assets	5,271	5,452
Property, plant and equipment, net	4,795	5,051
Goodwill	1,418	1,349
Other long-term assets	3,188	2,929
Assets of discontinued operations	66	65
TOTAL ASSETS	$ 14,738	$ 14,846
LIABILITIES AND SHAREHOLDERS EQUITY		
CURRENT LIABILITIES		
Accounts payable and other current liabilities	$ 3,642	$ 3,630
Short-term borrowings	1,043	946
Accrued income taxes	642	643
Liabilities of discontinued operations	37	36
Total current liabilities	5,364	5,255
OTHER LIABILITIES		
Long-term debt, net of current portion	1,997	2,302
Pension and other postretirement liabilities	3,377	3,374
Other long-term liabilities	757	662
Liabilities of discontinued operations	4	8
Total liabilities	11,499	11,601
SHAREHOLDERS EQUITY		
Common stock at par	978	978
Additional paid in capital	850	850
Retained earnings	7,599	7,515
Accumulated other comprehensive loss	(331)	(238)
Unearned restricted stock	(6)	(8)
	9,090	9,097
Less: Treasury stock at cost	5,851	5,852
Total shareholders equity	3,239	3,245
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	$ 14,738	$ 14,846

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	
	2004	**2003**
	(Restated)	**(Restated)**
Cash flows relating to operating activities:		
Net earnings	$ 157	$ 123
Adjustments to reconcile to net cash provided by operating activities:		
Earnings from discontinued operations	(29)	(29)
Equity in losses from unconsolidated affiliates	4	30
Depreciation and amortization	469	406
Purchased research and development	10	21
Gain on sales of businesses/assets	(1)	
Restructuring costs, asset impairments and other non-cash charges	24	37
(Benefit) provision for deferred taxes	(120)	(19)
Increase in receivables	(204)	(164)
Increase in inventories	(76)	(69)
Decrease in liabilities excluding borrowings	(246)	(209)
Other items, net	45	96
Total adjustments	(124)	100
Net cash provided by continuing operations	33	223
Net cash provided by discontinued operations	4	31
Net cash provided by operating activities	37	254
Cash flows relating to investing activities:		
Additions to properties	(182)	(232)
Net proceeds from sales of businesses/assets	1	
Acquisitions, net of cash acquired	(335)	(109)
Investments in unconsolidated affiliates	(31)	(41)
Marketable securities - purchases	(64)	(44)
Marketable securities - sales	58	43
Net cash used in continuing operations	(553)	(383)
Net cash used in discontinued operations	(2)	(4)
Net cash used in investing activities	(555)	(387)
Cash flows relating to financing activities:		
Net (decrease) increase in borrowings with original maturity of 90 days or less	(40)	129
Proceeds from other borrowings	89	715
Repayment of other borrowings	(257)	(466)
Exercise of employee stock options		12
Net cash (used in) provided by financing activities	(208)	390

Effect of exchange rate changes on cash	(5)	12
Net (decrease) increase in cash and cash equivalents	(731)	269
Cash and cash equivalents, beginning of year	1,250	569
Cash and cash equivalents, end of quarter	$ 519	$ 838

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

Eastman Kodak Company
NOTES TO FINANCIAL STATEMENTS

NOTE 1: 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) 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 were reclassified to conform to the current period classification. Additionally, reclassifications were made for the earnings or losses, balance sheet information and cash flows related to discontinued operations. Refer to Note 14, Discontinued Operations.

RESTATEMENT OF PREVIOUSLY ISSUED FINANCIAL STATEMENTS

In April 2005, the Company restated its consolidated financial statements as of and for the year ended December 31, 2003. In addition, the Company restated its quarterly consolidated financial statements for each of the quarterly periods in 2003 and for the first three quarters of 2004. The restatement reflected adjustments to correct errors in the Company s accounting for income taxes, accounting for pensions and other postretirement benefits as well as other miscellaneous adjustments. The restatement resulted in the Company adjusting its previously reported net earnings for the three and six months ended June 30, 2004 of $154 million ($.54 per share) and $182 million ($.64 per share), respectively, to net earnings of $136 million ($.48 per share) and $157 million ($.55 per share), respectively, and adjusting its previously reported net earnings for the three and six months ended June 30, 2003 of $112 million ($.39 per share) and $124 million ($.43 per share), respectively, to net earnings of $118 million ($.41 per share) and $123 million ($.43 per share), respectively. The nature and impact of these adjustments are described below.

Income Taxes

During the 2004 year-end closing process, errors were discovered relating to the Company s accounting for income taxes, the majority of which related to the Company s foreign operations. The more significant errors affecting the three and six months ended June 30, 2004 that were discovered related to matters surrounding 1) inappropriately recognizing tax benefits associated with net operating loss carry forwards, 2) correcting deferred income tax accounts for book/tax differences in certain foreign subsidiaries, and 3) accruing interest expense on potential tax settlements with the Internal Revenue Service. The impact of these adjustments on previously reported net earnings for the three and six months ended June 30, 2004 amounted to a reduction of $7 million and $9 million, respectively. The more significant errors affecting the three and six months ended June 30, 2003 that were discovered related to matters surrounding correcting deferred income tax accounts for book/tax differences in certain foreign subsidiaries. The impact of these adjustments on previously reported net earnings for the three and six months ended June 30, 2003, excluding the impact of income tax adjustments related to periods prior to 2003, which are discussed below, amounted to an increase of $7 million and $5 million, respectively.

Pensions and Other Postretirement Benefits

During the 2004 year-end testing of the effectiveness of the Company s internal controls over financial reporting, the Company identified ineffective controls surrounding the reconciliation of participant census data between the Company s source systems and the information provided to the actuary in performing the actuarial valuation of the liabilities and net periodic benefits cost for the various domestic and international pension and other postretirement benefit plans. This control weakness resulted in incorrect participant data being utilized in the actuarial calculations. In addition, the Company had identified an error in the recorded amounts of its postretirement benefits expense. The Company has quantified the effect of these errors and the impact of these adjustments on previously reported net earnings for the three and six months ended June 30, 2004 amounted to a reduction of $4 million and $6 million, respectively. The impact of these adjustments on previously reported net earnings for the three and six months ended June 30, 2003, excluding the impact of pension and other postretirement benefit adjustments relating to periods prior to 2003, which are discussed below, amounted to an increase of $1 million and $2 million, respectively.

Other Adjustments

During 2004, the Company determined that its general ledger accounting system was inappropriately translating depreciation expense from its foreign operations, using a historical exchange rate rather than a current exchange rate for purposes of translating periodic depreciation expense. The impact of this adjustment on previously reported net earnings for the three and six months ended June 30, 2004 amounted to a reduction of $6 million and $13 million, respectively. Excluding amounts relating to periods prior to 2003, which are discussed below, the impact of this adjustment on previously reported net earnings for the three and six months ended June 30, 2003 amounted to a reduction of $4 million and $5 million, respectively.

During 2003, the Company recorded a charge to write-off an exclusivity payment made to a customer that had previously been recorded as an asset based on the Company s ability to recover a pro-rata portion of the payment in the event of a customer breach. The Company determined that this payment should have been written off prior to January 1, 2003. This adjustment had no impact on previously reported net earnings for the three and six months ended June 30, 2004. Excluding amounts relating to periods prior to 2003, which are discussed below, the impact of this adjustment on previously reported net earnings for the three and six months ended June 30, 2003 amounted to an increase of $1 million and $2 million, respectively.

In addition, the Company also determined that a number of individually immaterial adjustments were recorded in 2003 and 2004 that more appropriately belonged in different quarterly periods within 2003 or 2004 or in a period prior to January 1, 2003. The impact of these adjustments on previously reported net income for the three and six months ended June 30, 2004 amounted to a reduction of $1 million and an increase of $3 million, respectively. Excluding amounts relating to periods prior to 2003, which are discussed below, the impact of these adjustments on previously reported net earnings for the three and six months ended June 30, 2003 amounted to an increase of $1 million and a reduction of $4 million, respectively.

Adjustments relating to periods prior to 2003

As discussed above, certain of the adjustments, or portions thereof, made to restate the Company s 2004 and 2003 financial statements relate to periods prior to January 1, 2003. The following table summarizes these:

(in millions)

	Income/(Loss)
Income Tax	$ 36
Pension and other postretirement benefits	(35)
Translation of depreciation expense	27
Exclusivity asset write-off	(21)
Other, miscellaneous	(8)
Net adjustment	$ (1)

The Company has assessed the impact of the above items on each annual period prior to January 1, 2003 and determined that the impact of such errors is immaterial to each prior period. In addition, the Company has concluded that the net $1 million adjustment is immaterial to net earnings, as adjusted, for the three and six months ended June 30, 2003 and for the full year ended December 31, 2003. Accordingly, the Company has recorded this net adjustment of $1 million as an addition to Selling, general and administrative expenses for the three months ended March 31, 2003.

The impact on the Consolidated Statement of Earnings is presented below (in millions, except per share data). The impact of the above adjustments on the Consolidated Statement of Financial Position and Consolidated Statement of Cash Flows is not presented, as it is immaterial.

	For the Three Months Ended June 30, 2004		For the Six Months Ended June 30, 2004	
	As Previously Reported	Restated	As Previously Reported	Restated
Consolidated Statement of Earnings:				
Net sales	$ 3,469	$ 3,464	$ 6,388	$ 6,384
Cost of goods sold	2,354	2,363	4,461	4,476
Gross profit	1,115	1,101	1,927	1,908
Selling, general and administrative expenses	613	615	1,165	1,164
Research and development costs	212	213	409	410
Restructuring costs and other	135	134	185	188
Earnings from continuing operations, before interest, other income, net and income taxes	155	139	168	146
Interest expense	43	43	87	87
Other income, net	7	8	6	6
Earnings from continuing operations before income taxes	119	104	87	65
Benefit for income taxes	(24)	(15)	(72)	(62)
Earnings from continuing operations	$ 143	$ 119	$ 159	$ 127
Earnings from discontinued operations, net of income taxes	$ 11	$ 17	$ 23	$ 30

NET EARNINGS	$	154	$	136	$	182	$	157
Basic and diluted net earnings per share:								
Continuing operations	$	.50	$	.42	$	.56	$	.44
Discontinued operations		.04		.06		.08		.11
Total	$	.54	$	.48	$	.64	$	.55

The following table reflects the impact of the aforementioned adjustments on selected components of the Company s Consolidated Statement of Earnings for the three months ended June 30, 2004:

	As Previously Reported	Pensions and Other Postretirement Benefits	Other	Tax	As Restated
Earnings (loss) from continuing operations before income taxes	$ 119	$ (7)	$ (8)	$	$ 104
Provision (benefit) for income taxes	(24)	(3)	(1)	13	(15)
Earnings (loss) from continuing operations	143	(4)	(7)	(13)	119
Earnings from discontinued operations before income taxes	18				18
Provision (benefit) for income taxes	7			(6)	1
Earnings from discontinued operations	11			6	17
Net earnings (loss)	$ 154	$ (4)	$ (7)	$ (7)	$ 136

The following table reflects the impact of the aforementioned adjustments on selected components of the Company s Consolidated Statement of Earnings for the six months ended June 30, 2004:

	As Previously Reported	Pensions and Other Postretirement Benefits	Other	Tax	As Restated
Earnings (loss) from continuing operations before income taxes	$ 87	$ (9)	$ (13)	$	$ 65
Provision (benefit) for income taxes	(72)	(3)	(2)	15	(62)
Earnings (loss) from continuing operations	159	(6)	(11)	(15)	127
Earnings from discontinued operations before income taxes	38				38
Provision (benefit) for income taxes	15		(1)	(6)	8
Earnings from discontinued operations	23		1	6	30
Net earnings (loss)	$ 182	$ (6)	$ (10)	$ (9)	$ 157

	For the Three Months Ended June 30, 2003		For the Six Months Ended June 30, 2003	
	As Previously Reported	Restated	As Previously Reported	Restated
Consolidated Statement of Earnings:				
Net sales	$ 3,259	$ 3,258	$ 5,899	$ 5,897
Cost of goods sold	2,163	2,164	4,002	4,003
Gross profit	1,096	1,094	1,897	1,894
Selling, general and administrative expenses	707	708	1,265	1,267
Research and development costs	178	177	371	369
Restructuring costs and other	44	41	76	76
Earnings from continuing operations, before interest, other charges, net and income taxes	167	168	185	182
Interest expense	34	34	71	71
Other charges, net	9	9	30	30
Earnings from continuing operations before income taxes	124	125	84	81
Provision (benefit) for income taxes	18	11	(10)	(15)
Earnings from continuing operations	$ 106	$ 114	$ 94	$ 96
Earnings from discontinued operations, net of income taxes	$ 6	$ 4	$ 30	$ 27
NET EARNINGS	$ 112	$ 118	$ 124	$ 123
Basic and diluted net earnings per share:				
Continuing operations	$ .37	$ .40	$ .33	$ .34
Discontinued operations	.02	.01	.10	.09
Total	$ .39	$ .41	$ .43	$ .43

The following table reflects the impact of the aforementioned adjustments on selected components of the Company s Consolidated Statement of Earnings for the three months ended June 30, 2003:

	As Previously Reported	Pensions and Other Postretirement Benefits	Other	Tax	As Restated
Earnings (loss) from continuing operations before income taxes	$ 124	$ 2	$ (1)	$	$ 125
Provision (benefit) for income taxes	18	1	(1)	(7)	11
Earnings from continuing operations	106	1		7	114
Earnings (loss) from discontinued operations before income taxes	9		(2)		7
Provision for income taxes	3				3

Earnings (loss) from discontinued operations	6		(2)		4
Net earnings (loss)	$ 112	$ 1	$ (2)	$ 7	$ 118

The following table reflects the impact of the aforementioned adjustments on selected components of the Company s Consolidated Statement of Earnings for the six months ended June 30, 2003:

	As Previously Reported	Pensions and Other Postretirement Benefits	Other	Adjustments Relating to Prior Periods	Tax	As Restated
Earnings (loss) from continuing operations before income taxes	$ 84	$ 3	$ (5)	$ (1)	$	$ 81
Provision (benefit) for income taxes	(10)	1	(1)		(5)	(15)
Earnings (loss) from continuing operations	94	2	(4)	(1)	5	96
Earnings (loss) from discontinued operations before income taxes	23		(3)			20
Benefit for income taxes	(7)					(7)
Earnings (loss) from discontinued operations	30		(3)			27
Net earnings (loss)	$ 124	$ 2	$ (7)	$ (1)	$ 5	$ 123

RECENT ACCOUNTING PRONOUNCEMENTS

In May 2004, the FASB issued FASB Staff Position (FSP) No. 106-2, Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the Act). The Act, which was signed into law on December 8, 2003, authorizes Medicare to provide prescription drug benefits to retirees. Under the Act, the federal government will begin to make subsidy payments to employers that sponsor postretirement benefit plans under which retirees receive prescription drug benefits that are actuarially equivalent to the prescription drug benefits provided by Medicare. Accordingly, the FSP provides guidance on accounting for the effects of the subsidy. As of and for the year ended December 31, 2003 and the quarter ended March 31, 2004, the Company had deferred the recognition of the effects of the Act in accordance with FSP No. 106-1, Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003, (that was issued in January 2004), which permitted employers to either (1) recognize the effects of the Act as of the enactment date or (2) defer recognition until the earlier of the FASB s issuance of final rules on how to account for the subsidy or any remeasurement of plan obligations after January 31, 2004 due to a plan amendment, curtailment, or other significant event. FSP 106-2 supersedes FSP 106-1. The provisions of FSP 106-2 are effective for the first interim or annual period beginning after June 15, 2004 (third quarter of 2004 for Kodak); however early adoption is encouraged. Accordingly, the Company adopted the provisions of FSP 106-2 effective April 1, 2004 (second quarter of 2004) on a prospective basis. The impacts of the adoption of FSP 106-2 are discussed in detail in Note 9, Retirement Plans and Other Postretirement Benefits.

NOTE 2: RECEIVABLES, NET
(in millions)

	June 30, 2004	December 31, 2003
		(Restated)
Trade receivables	$ 2,254	$ 2,002
Miscellaneous receivables	351	325
Total (net of allowances of $109 and $112)	$ 2,605	$ 2,327

Of the total trade receivable amounts of $2,254 million and $2,002 million as of June 30, 2004 and December 31, 2003, respectively, approximately $442 million and $536 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, 2004	December 31, 2003
	(Restated)	(Restated)
Finished goods	$ 901	$ 818
Work in process	300	300
Raw materials	398	328
	1,599	1,446
LIFO reserve	(339)	(368)
Total	$ 1,260	$ 1,078

The full-year 2004 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 $30 million and $35 million in the three and six months ended June 30, 2004, respectively.

NOTE 4: GOODWILL AND OTHER INTANGIBLE ASSETS

Effective January 1, 2002, the Company adopted the provisions of SFAS No. 142, Goodwill and Other Intangible Assets, under which goodwill is no longer amortized, but is required to be assessed for impairment at least annually. Goodwill was $1,418 million and $1,349 million at June 30, 2004 and December 31, 2003, respectively. The changes in the carrying amount of goodwill by reportable segment for the six months ended June 30, 2004 were as follows:

(in millions)

	D&FIS	Health Imaging	Commercial Imaging	Graphic Communications	Consolidated Total
					(Restated)
Balance at December 31, 2003	$ 732	$ 525	$ 93	$ (1)	$ 1,349
Goodwill related to acquisitions	13			15	28
Goodwill written off related to disposals/divestitures	(5)				(5)
Finalization of purchase accounting		44		7	51
Goodwill amortization				1	1
Currency translation adjustments	(1)	(5)			(6)
Balance at June 30, 2004	$ 739	$ 564	$ 93	$ 22	$ 1,418

The aggregate amount of goodwill acquired during the six months ended June 30, 2004 of $28 million was primarily attributable to $15 million for the purchase of Kodak Versamark within the Graphic Communications segment and $13 million primarily related to the purchase of Chinon within the D&FIS segment. The $5 million of goodwill written off in relation to disposals/divestitures during the six months ended June 30, 2004 for the D&FIS segment was attributable to the divesture of Consumer Imaging Services (CIS) in Austria.

The aggregate amount of goodwill added through the finalization of purchase accounting during the six months ended June 30, 2004 of $51 million was primarily attributable to $36 million for the November 2003 purchase of Algotec Systems, Ltd. and $8 million related to the October 2003 purchase of PracticeWorks, Inc., which are both within the Health Imaging segment, and $7 million for the May 2004 purchase of the NexPress-related entities, which is within the Graphic Communications segment.

The gross carrying amount and accumulated amortization by major intangible asset category for June 30, 2004 and December 31, 2003 were as follows:

(in millions)

As of June 30, 2004

	Gross Carrying Amount	Amortization Accumulated	Net	Weighted-Average Amortization Period
Technology-based	$ 270	$ 94	$ 176	8 years
Customer-related	213	25	188	15 years
Manufacturing exclusivity	132	3	129	12 years
Other	20	6	14	10 years
Total	$ 635	$ 128	$ 507	11 years

As of December 31, 2003

	Gross Carrying Amount	Accumulated Amortization	Net	Weighted-Average Amortization Period
Technology-based	$ 201	$ 76	$ 125	8 years
Customer-related	176	17	159	15 years
Other	14	4	10	12 years
Total	$ 391	$ 97	$ 294	12 years

The aggregate amount of intangible assets acquired during the six months ended June 30, 2004 of $244 million was primarily attributable to $139 million for the purchase of Lucky Film and $86 million related to the purchase of Kodak Versamark, as described in Note 13 Acquisitions.

Intangible asset amortization expense for the three months ended June 30, 2004 and 2003 was $17 million and $6 million, respectively. Intangible asset amortization expense for the six months ended June 30, 2004 and 2003 was $31 million and $11 million, respectively.

Estimated future aggregate amortization expense related to purchased intangible assets over the next five fiscal years is expected to be as follows: 2005 - $65 million; 2006 - $58 million; 2007 - $56 million; 2008 - $55 million; and 2009 - $46 million.

NOTE 5: INCOME TAXES

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2004	2003	2004	2003
	(Restated)	(Restated)	(Restated)	(Restated)
U.S. statutory tax rate	35.0%	35.0%	35.0%	35.0%
Increase (decrease) in statutory rate resulting from:				
State and other income taxes, net of federal	0.6%	0.4%	0.6%	0.4%
Export sales and manufacturing credits	(1.6)	(2.8)	(1.6)	(2.8)
Operations outside the U.S.	(20.1)	(12.4)	(20.1)	(12.4)
Interest on reserves	6.0		6.0	
Tax settlements	0.4		0.4	
Other, net	(0.3)	0.3	(0.3)	0.3
Estimated annual effective tax rate	20.0%	20.5%	20.0%	20.5%
Impact from discrete period items:				
Restructuring	(25.4)%	(6.7)%	(49.0)%	(14.7)%
Purchased in-process R&D			(2.5)	(4.5)
Tax settlements	(8.7)		(63.0)	
NexPress-related charges	(0.9)		(1.5)	
Asset impairments		(1.3)		(1.9)
Intellectual property settlement				(2.5)
Intellectual property donation				(9.4)
Patent infringement settlement		(2.0)		(3.2)
Prior year acquisition settlement		(1.5)		(2.3)
Income tax rate	(15.0)%	9.0%	(96.0)%	(18.0)%

For the three month period ended June 30, 2004, the Company recorded discrete period tax benefits of $69 million, of which $60 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 $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 is 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.

For the three months ended June 30, 2003, the Company recorded discrete period tax benefits of $31 million 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 $51 million; a $14 million charge relating to the settlement of a patent infringement claim; a $14 million charge for the settlement of certain issues relating to a prior year acquisition; and a $9 million charge relating to the impairment of the Burrell Companies net assets held for sale.

For the six month period ended June 30, 2003, the Company recorded discrete period tax benefits of $66 million, of which $58 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 $100 million; a $21 million charge for purchased in-process research and development costs; a $12 million charge relating to an intellectual property settlement; a $14 million charge relating to the settlement of a patent infringement claim; a $14 million charge for the settlement of certain issues relating to a prior year acquisition; and a $9 million charge relating to the impairment of the Burrell Companies net assets held for sale. Additionally, a discrete period tax benefit of $8 million was recorded relating to the donation of intellectual property.

NOTE 6: COMMITMENTS AND CONTINGENCIES

Environmental

At June 30, 2004, the Company s undiscounted accrued liabilities for environmental remediation costs amounted to $129 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, 2004, estimated future investigation and remediation costs of $56 million are accrued for this site and are included in the $129 million reported in other long-term liabilities.

The Company has obligations relating to operating sites and other facilities with estimated future investigation, remediation and monitoring costs of $27 million. These costs are accrued and included in the $129 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, 2004, estimated future remediation costs of $34 million are accrued for these sites and are included in the $129 million reported in other long-term liabilities.

The Company has obligations relating to two former manufacturing sites located outside of the United States. At June 30, 2004, estimated future investigation, remediation and monitoring costs of $12 million are accrued for these sites and are included in the $129 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 $17 million over the next five years. These expenditures are incurred as part of plant operations and, therefore, are not included in the environmental accrual at June 30, 2004.

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 five such active 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 relating 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 necessarily 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

Qualex, a wholly owned subsidiary of Kodak, has a 50% ownership interest in Express Stop Financing (ESF), which is a joint venture partnership between Qualex and a subsidiary of Dana Credit Corporation (DCC), a wholly owned subsidiary of Dana Corporation. Qualex accounts for its investment in ESF under the equity method of accounting. ESF provided a long-term financing solution to Qualex s photofinishing customers in connection with Qualex s leasing of photofinishing equipment to third parties, as opposed to Qualex extending long-term credit. As part of the operations of its photofinishing services, Qualex sold equipment under a sales-type lease arrangement and recorded a long-term receivable. These long-term receivables were subsequently sold to ESF without recourse to Qualex and, therefore, these receivables were removed from Qualex s books. ESF incurred debt to finance the purchase of the receivables from Qualex. This debt is collateralized solely by the long-term receivables purchased from Qualex, and in part, by a $40 million guarantee from DCC. Qualex provides no guarantee or collateral to ESF s creditors in connection with the debt, and ESF s debt is non-recourse to Qualex. Qualex s only continued involvement in connection with the sale of the long-term receivables is the servicing of the related equipment under the leases. Qualex has continued revenue streams in connection with this equipment through future sales of photofinishing consumables, including paper and chemicals, and maintenance.

Although the lessees requirement to pay ESF under the lease agreements is not contingent upon Qualex s fulfillment of its servicing obligations, under the agreement with ESF, Qualex would be responsible for any deficiency in the amount of rent not paid to ESF as a result of any lessee s claim regarding maintenance or supply services not provided by Qualex. Such lease payments would be made in accordance with the original lease terms, which generally extend over 5 to 7 years. To date, the Company has incurred no such material claims, and Qualex does not anticipate any significant situations where it would be unable to fulfill its service obligations under the arrangement with ESF. ESF s outstanding lease receivable amount was approximately $311 million at June 30, 2004.

Effective July 20, 2004, ESF entered into an arrangement amending the Receivables Purchase Agreement (RPA), which represents the financing arrangement between ESF and the bank. Under the amended RPA agreement, maximum borrowings were lowered to $200 million. Total outstanding borrowings under the RPA at June 30, 2004 were $200 million. The amended RPA extends through July 2005, at which time the RPA can be extended or terminated. Pursuant to the ESF partnership agreement between Qualex and DCC, commencing October 6, 2003, Qualex no longer sells its lease receivables to ESF. Qualex currently is utilizing the services of Imaging Financial Services, Inc., a wholly owned subsidiary of General Electric Capital Corporation, as its primary financing solution for prospective leasing activity with its customers.

At June 30, 2004, the Company had outstanding letters of credit totaling $121 million and surety bonds in the amount of $108 million primarily to ensure the completion of environmental remediations, the payment of casualty and workers compensation claims, and to meet various customs and tax obligations. The Company could be required to increase the dollar amount of its letters of credit or other financial support up to an additional $155 million in relation to these matters if its Moody s or S&P long-term debt credit ratings are reduced below the current ratings of Baa3 and BBB-, respectively.

The Company and its subsidiary companies are involved in 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, results of operations or cash flows. However, included in the matters referenced above are three patent infringement lawsuits in which the Company is the plaintiff. Although these lawsuits 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, 2004 in connection with these three matters.

NOTE 7: GUARANTEES

The Company guarantees debt and other obligations under agreements with certain affiliated companies and customers. At June 30, 2004, these guarantees totaled a maximum of $354 million, with outstanding guaranteed amounts of $141 million. The maximum guarantee amount includes guarantees of up to: $160 million of debt for Kodak Polychrome Graphics (KPG), an unconsolidated affiliate in which the Company has a 50% ownership interest ($31 million outstanding); $141 million of customer amounts due to banks in connection with various banks financing of customers purchase of products and equipment from Kodak ($77 million outstanding); and $53 million for other unconsolidated affiliates and third parties ($33 million outstanding). The KPG debt facility and the related guarantee mature on December 31, 2005. The guarantees for the other unconsolidated affiliates and third party debt mature between July 2004 and May 2006. 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 with 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. This activity is not material. Management believes the likelihood is remote that material payments will be required under these guarantees. With respect to the guarantees that the Company issued in the three and six months ended June 30, 2004, 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 $412 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 $230 million. These guarantees expire in 2004 through 2005 with the majority expiring in 2004.

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, 2004, 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 six months ended June 30, 2004 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 from December 31, 2003 to June 30, 2004 was as follows:

(in millions)

Accrued warranty obligations at December 31, 2003	$	49
Actual warranty experience		(28)
Warranty provisions		32
Accrued warranty obligations at June 30, 2004	$	53

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, 2004 amounted to $101 million. The change in the Company s deferred revenue balance in relation to these extended warranty arrangements from December 31, 2003 to June 30, 2004 was as follows:

(in millions)

Deferred revenue at December 31, 2003	$	118
New extended warranty arrangements		200
Recognition of extended warranty arrangement revenue		(173)
Deferred revenue at June 30, 2004	$	145

NOTE 8: RESTRUCTURING COSTS AND OTHER

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 when 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 was as follows for the second quarter of 2004:

(in millions)

	Balance March 31, 2004 (Restated)	Costs Incurred	Reversals	Cash Payments	Non-cash Settlements	Other Adjustments and Reclasses (1)	Balance June 30, 2004 (Restated)
2004-2006 Program:							
Severance reserve	$	$ 98	$	$ (12)	$	$ (2)	$ 84
Exit costs reserve		17		(11)			6
Total reserve	$	$ 115	$	$ (23)	$	$ (2)	$ 90
Long-lived asset impairments and inventory write-downs	$	$ 28	$	$	$ (28)	$	$
Accelerated depreciation	$	$ 23	$	$	$ (23)	$	$
Q3 2003 Program:							
Severance reserve	$ 166	$	$ (2)	$ (62)	$	$	$ 102
Exit costs reserve	14		(2)	(2)			10
Total reserve	$ 180	$	$ (4)	$ (64)	$	$	$ 112
Accelerated depreciation	$	$ 6	$	$	$ (6)	$	$
Q1 2003 Program:							
Severance reserve	$ 11	$	$	$ (2)	$	$	$ 9
Exit costs reserve	1						1
Total reserve	$ 12	$	$	$ (2)	$	$	$ 10
Accelerated depreciation	$	$ 1	$	$	$ (1)	$	$
Phogenix Program:							
Exit costs reserve	$ 6	$	$ (3)	$	$	$	$ 3
Q4 2002 Program:							
Severance reserve	$ 7	$	$	$ (3)	$	$	$ 4
Exit costs reserve	6		(3)				3
Total reserve	$ 13	$	$ (3)	$ (3)	$	$	$ 7
2001 Programs:							
Severance reserve	$ 3	$	$	$	$	$	$ 3
Exit costs reserve	12						12

Total reserve	$	15	$		$		$		$		$		$	15
Total of all restructuring programs	$	226	$	173	$	(10)	$	(92)	$	(58)	$	(2)	$	237

(1) The Other Adjustments and Reclasses column of the table above includes foreign currency translation adjustments of $(2) million, which are reflected in the Consolidated Statement of Financial Position.

The costs incurred, net of reversals, which total $163 million for the quarter ended June 30, 2004, include $32 million of charges related to accelerated depreciation and inventory write-downs, which were reported in cost of goods sold in the accompanying Consolidated Statement of Earnings for the quarter ended June 30, 2004. The remaining costs incurred, net of reversals, of $131 million were reported as restructuring costs and other in the accompanying Consolidated Statement of Earnings for the quarter ended June 30, 2004.

2004-2006 Restructuring Program

In addition to completing the remaining initiatives under the Third Quarter, 2003 Restructuring Program, the Company announced on January 22, 2004 that it plans to develop and execute a new 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. Maximum single year cash usage under the new program is expected to be approximately $250 million.

The Company implemented certain actions under this program during the second quarter of 2004. As a result of these actions, the Company recorded charges of $143 million in the second quarter, which was composed of severance, long-lived asset impairments, exit costs and inventory write-downs of $98 million, $26 million, $17 million and $2 million, respectively. The severance costs related to the elimination of approximately 2,700 positions, including approximately 1,350 photofinishing, 925 manufacturing, 275 research and development and 150 administrative positions. The geographic composition of the positions to be eliminated includes approximately 2,250 in the United States and Canada and 450 throughout the rest of the world. The reduction of the 2,700 positions and the $115 million charges for severance and exit costs are reflected in the 2004 to 2006 Restructuring Program table below. The $26 million charge in the second quarter and the $27 million year-to-date charge for long-lived asset impairments were included in restructuring costs and other in the accompanying Consolidated Statement of Earnings for the three and six months ended June 30, 2004, respectively. The charges taken for inventory write-downs of $2 million were reported in cost of goods sold in the accompanying Consolidated Statement of Earnings for the three and six months ended June 30, 2004.

The following table summarizes the activity with respect to the severance charges and exit costs recorded in connection with the focused cost reductions that were announced in the second quarter of 2004 and the remaining balances in the related reserves at June 30, 2004:

(dollars in millions)

	Number of Employees	Severance Reserve (Restated)	Exit Costs Reserve	Total (Restated)	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	$	$

The severance charges of $98 million and the exit costs of $17 million recorded in the second quarter were reported in restructuring costs and other in the accompanying Consolidated Statement of Earnings for the three and six months ended June 30, 2004. 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 2004, the Company made $12 million of severance payments and $11 million of exit costs payments related to the 2004-2006 Restructuring Program. Severance payments relating to the second quarter restructuring actions will be paid during the period through 2006, 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. Most exit costs are expected to be paid during 2004. However, certain costs, such as long-term lease payments, will be paid over periods after 2004.

As a result of initiatives implemented under the 2004 to 2006 Restructuring Program, the Company recorded $23 million and $25 million of accelerated depreciation on long-lived assets in cost of goods sold in the accompanying Consolidated Statement of Earnings for the three and six months ended June 30, 2004, respectively. The accelerated depreciation relates to long-lived assets accounted for under the held and used model of SFAS No. 144. The second quarter amount of $23 million relates to $14 million of photofinishing facilities and equipment and $9 million of manufacturing facilities and equipment that will be used until their abandonment. The additional $2 million year-to-date amount relates to manufacturing facilities and equipment that will be used until their abandonment. The Company will incur accelerated depreciation charges of $19 million and $9 million in the third and fourth quarters of 2004, respectively, as a result of the initiatives already implemented under the 2004 to 2006 Restructuring Program.

The charges of $166 million recorded in the second quarter included $97 million applicable to the D&FIS segment and $2 million applicable to the Health Imaging segment. The balance of $67 million was applicable to manufacturing, R&D, and administrative functions, which are shared across all segments.

Third Quarter, 2003 Restructuring Program

During the third quarter of 2003, the Company announced its intention to implement a series of cost reduction actions during the last two quarters of 2003 and the first two quarters of 2004, which were expected to result in pre-tax charges totaling $350 million to $450 million. It was anticipated that these actions would result in a reduction of approximately 4,500 to 6,000 positions worldwide primarily relating to the rationalization of global manufacturing assets, reduction of corporate administration and R&D, and the consolidation of the infrastructure and administration supporting the Company s consumer imaging and professional products and services operations.

The Company implemented certain actions under this Program during the first quarter of 2004. As a result of these actions, the Company recorded charges of $57 million in continuing operations in the first quarter of 2004, which was composed of severance, exit costs, long-lived asset impairments and inventory write-downs of $44 million, $7 million, $4 million and $2 million, respectively. The severance costs related to the elimination of approximately 2,000 positions, including approximately 850 photofinishing positions, 775 manufacturing positions and 375 administrative positions. The geographic composition of the positions to be eliminated includes approximately 1,100 in the United States and Canada and 900 throughout the rest of the world. The reduction of the 2,000 positions and the $51 million charges for severance and exit costs are reflected in the Third Quarter, 2003 Restructuring Program table below. The $4 million charge for long-lived asset impairments was included in restructuring costs and other in the accompanying Consolidated Statement of Earnings for the six months ended June 30, 2004. The charges taken for inventory write-downs of $2 million were reported in cost of goods sold in the accompanying Consolidated Statement of Earnings for the six months ended June 30, 2004.

The following table summarizes the activity with respect to the severance charges and exit costs recorded in connection with the focused cost reductions that were announced in the third quarter of 2003 and the remaining balances in the related reserves at June 30, 2004:

(dollars in millions)

	Number of Employees	Severance Reserve (Restated)	Exit Costs Reserve	Total (Restated)	Long-lived Asset Impairments and Inventory Write-downs	Accelerated Depreciation
Q3, 2003 charges	1,700	$ 123	$	$ 123	$ 1	$ 14
Q3, 2003 utilization	(100)	(3)		(3)	(1)	(14)
Balance at 9/30/03	1,600	120		120		
Q4, 2003 charges	2,150	103	40	143	109	7
Q4, 2003 utilization	(2,025)	(48)	(28)	(76)	(109)	(7)
Q4, 2003 other adj. & reclasses		5		5		
Balance at 12/31/03	1,725	180	12	192		
Q1, 2004 charges	2,000	44	7	51	6	14
Q1, 2004 utilization	(2,075)	(76)	(5)	(81)	(6)	(14)
Q1, 2004 other adj. & reclasses		18		18		
Balance at 3/31/04	1,650	166	14	180		
Q2, 2004 charges						6
Q2, 2004 reversal		(2)	(2)	(4)		
Q2, 2004 utilization	(1,375)	(62)	(2)	(64)		(6)
Balance at 6/30/04	275	$ 102	$ 10	$ 112	$	$

The severance charges of $44 million and the exit costs of $7 million taken in the first quarter of 2004 were reported in restructuring costs and other in the accompanying Consolidated Statement of Earnings for the six months ended June 30, 2004. Included in the $44 million charge taken for severance was a net curtailment gain of $18 million. The net curtailment gain is disclosed in Note 9. 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. The Company made $138 million of severance payments and $7 million of exit cost payments related to the Third Quarter, 2003 Restructuring Program during the first two quarters of 2004. In addition, the Company reversed $2 million of severance reserves and $2 million of exit costs reserves during the second quarter of 2004 as severance payments to terminated employees were less than originally estimated and the Company was able to settle a lease obligation for an amount that was less than originally estimated. These reversals were included in restructuring costs and other in the accompanying Consolidated Statement of Earnings for the three and six months ended June 30, 2004. The remaining severance payments relating to the third quarter restructuring actions will be paid during the period through 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 exit costs are expected to be paid during 2004. However, certain costs, such as long-term lease payments, will be paid over periods after 2004.

As a result of initiatives implemented under the Third Quarter, 2003 Restructuring Program, the Company recorded $6 million and $20 million of accelerated depreciation on long-lived assets in cost of goods sold in the accompanying Consolidated Statement of Earnings for the three and six months ended June 30, 2004, respectively. The accelerated depreciation relates to long-lived assets accounted for under the held and used model of SFAS No. 144. The second quarter amount of $6 million relates to $4 million of manufacturing facilities and equipment and $2 million of photofinishing facilities and equipment that will be used until their abandonment. The year-to-date amount of $20 million relates to $13 million of manufacturing facilities and equipment and $7 million of photofinishing facilities and equipment that will be used until their abandonment. The Company will incur accelerated depreciation charges of $3 million in the third quarter of 2004, as a result of the initiatives implemented under the Third Quarter, 2003 Restructuring Program.

The charges of $6 million recorded in the second quarter included $2 million applicable to the D&FIS segment and $4 million applicable to manufacturing functions, which are shared across all segments. The year-to-date charges of $77 million included $45 million applicable to the D&FIS segment, $6 million to the Health Imaging segment and $1 million to the Commercial Imaging segment. The remaining $25 million included charges applicable to manufacturing, research and development, and administrative functions, as well as curtailment gains and losses, which are shared across segments.

As a result of implementing the initiatives in the first quarter of 2004, the Company has completed all the initiatives originally contemplated under the Third Quarter, 2003 Restructuring Program. A total of 5,850 positions were eliminated as a result of the initiatives implemented under the Third Quarter, 2003 Restructuring Program. The remaining 275 positions to be eliminated under the Third Quarter, 2003 Restructuring Program are expected to be completed during 2004.

First Quarter, 2003 Restructuring Program

In the early part of the first quarter of 2003, as part of its continuing focused cost reduction efforts and in addition to the remaining initiatives under the Fourth Quarter, 2002 Restructuring Program, the Company announced its First Quarter, 2003 Restructuring Program that included new initiatives to further reduce employment within a range of 1,800 to 2,200 employees. A significant portion of these new initiatives related to the rationalization of the Company s photofinishing operations in the U.S. and Europe. Specifically, as a result of declining film and photofinishing volumes and in response to global economic and political conditions, the Company began to implement initiatives to: (1) close certain photofinishing operations in the U.S. and EAMER, (2) rationalize manufacturing capacity by eliminating manufacturing positions on a worldwide basis, and (3) eliminate selling, general and administrative positions, particularly in the D&FIS segment.

The following table summarizes the activity with respect to the severance and exit costs charges recorded in connection with the focused cost reductions that were announced in the first quarter of 2003 and the remaining balances in the related reserves at June 30, 2004:

(dollars in millions)

					Long-lived Asset	
	Number of Employees	Severance Reserve	Exit Costs Reserve	Total	Impairments and Inventory Write-downs	Accelerated Depreciation
Q1, 2003 charges	425	$ 31	$	$ 31	$	$
Q1, 2003 utilization	(150)	(2)		(2)		
Balance at 3/31/03	275	29		29		
Q2, 2003 charges	500	17	4	21	5	
Q2, 2003 utilization	(500)	(13)		(13)	(5)	
Balance at 6/30/03	275	33	4	37		
Q3, 2003 charges	925	19	4	23	1	16
Q3, 2003 utilization	(400)	(12)	(1)	(13)	(1)	(16)
Balance at 9/30/03	800	40	7	47		
Q4, 2003 charges						8
Q4, 2003 utilization	(625)	(17)	(3)	(20)		(8)
Balance at 12/31/03	175	23	4	27		
Q1, 2004 charges						6
Q1, 2004 reversal		(1)		(1)		
Q1, 2004 utilization	(150)	(11)	(3)	(14)		(6)
Balance at 3/31/04	25	11	1	12		
Q2, 2004 charges						1

Q2, 2004 utilization		(2)		(2)		(1)
Balance at 6/30/04	25	$ 9	$ 1	$ 10	$	$

The severance and exit costs require the outlay of cash. During the first two quarters of 2004, the Company made severance payments of $13 million, and exit cost payments of $3 million related to the First Quarter, 2003 Restructuring Program. In addition, the Company reversed $1 million of excess severance reserves. This reversal was included in restructuring costs and other in the accompanying Consolidated Statement of Earnings for the six months ended June 30, 2004. The remaining severance payments will be paid during the period through 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. The remaining exit costs will be paid during 2004.

As a result of initiatives implemented under the First Quarter, 2003 Restructuring Program, the Company recorded $1 million and $7 million of accelerated depreciation on long-lived assets in cost of goods sold in the accompanying Consolidated Statement of Earnings for the three and six months ended June 30, 2004, respectively. The accelerated depreciation relates to long-lived assets accounted for under the held and used model of SFAS No. 144. The year-to-date amount of $7 million relates to lab equipment used in photofinishing that will be used until their abandonment. The remaining actions anticipated under the First Quarter, 2003 Restructuring Program are expected to be completed during the third quarter of 2004.

Phogenix Restructuring Program

The Company recorded $17 million of charges in the second quarter of 2003 associated with the Company s exit from the D&FIS segment s Phogenix joint venture with Hewlett Packard. At June 30, 2004 and December 31, 2003, the exit costs reserve, which represented the only cash portion of the charge, amounted to $3 million and $9 million, respectively. During the second quarter of 2004, the Company reversed $3 million of exit costs reserves as a result of actual shutdown costs being lower than estimated. This reversal was included in the restructuring costs and other in the accompanying Consolidated Statement of Earnings for the three and six months ended June 30, 2004. The remaining exit costs reserve at June 30, 2004 represents long-term lease payments to be paid during 2004 and beyond.

Fourth Quarter, 2002 Restructuring Program

At December 31, 2003, the Company had remaining severance and exit costs reserves of $12 million and $8 million, respectively, relating to the planned Program of focused cost reduction initiatives it announced during the Fourth Quarter of 2002. All actions anticipated under this Program were completed by the end of the third quarter of 2003 and resulted in the elimination of a total of 1,825 positions.

During the first two quarters of 2004, approximately $8 million of severance payments were made under the Fourth Quarter, 2002 Restructuring Program. The remaining severance reserve of $4 million as of June 30, 2004 has not been paid since, in many instances, the employees whose positions were eliminated could elect or were required to receive their severance payments over an extended period of time. During the first two quarters of 2004, approximately $1 million of exit cost payments were made. In addition, approximately $1 million and $4 million of excess exit costs reserves were reversed and included in restructuring costs and other in the accompanying Consolidated Statement of Earnings for the three and six months ended June 30, 2004, respectively, as the cost to shut down facilities was less than originally estimated. Most of the remaining exit costs reserves of $3 million as of June 30, 2004 represent long-term lease payments, which will be paid during 2004 and beyond.

NOTE 9: RETIREMENT PLANS AND OTHER POSTRETIREMENT BENEFITS

The components of net pension expense (income) 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,			
	2004		2003		2004		2003	
	U.S.	Non-U.S.	U.S.	Non-U.S.	U.S.	Non-U.S.	U.S.	Non-U.S.
	(Restated)				(Restated)		(Restated)	
Service cost	$ 30	$ 8	$ 29	$ 9	$ 62	$ 18	$ 60	$ 19
Interest cost	98	38	103	37	197	77	203	72
Expected return on plan assets	(136)	(41)	(145)	(44)	(274)	(83)	(291)	(86)
Amortization of:								
Transition obligation (asset)				(1)		(1)	1	(1)
Prior service cost		(5)	1	(8)	1	(10)	1	(15)
Actuarial loss	7	12	1	8	13	24	2	15
	(1)	12	(11)	1	(1)	25	(24)	4
Special termination benefits				8		1		14
Curtailment charge (credit)	1	1			8	(6)		
Net pension (income) expense		13	(11)	9	7	20	(24)	18
Other plans including unfunded plans		5		4		10		9
Total net pension (income) expense	$	$ 18	$ (11)	$ 13	$ 7	$ 30	$ (24)	$ 27

For the three months ended June 30, 2004 and 2003, special termination benefits and curtailment charges in the aggregate of $2 million and $8 million, respectively, 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 Earnings for the respective periods. For the six months ended June 30, 2004 and 2003, special termination benefits and curtailment charges in the aggregate of $3 million and $14 million, respectively, 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 Earnings for the respective periods.

As a result of the cumulative impact of the ongoing position eliminations under its Third Quarter and 2004-2006 Restructuring Programs, as disclosed in Note 8, the Company incurred curtailment gains and losses with respect to certain of its retirement plans in the first half of 2004. These curtailment events resulted in the remeasurement of the plans obligations during the quarter, which impacted the accounting for the additional minimum pension liabilities. As a result of these remeasurements, the Company was required to increase its additional minimum pension liabilities by a net of $58 million during the first half of 2004. This increase is reflected in the postretirement liabilities component within the accompanying Consolidated Statement of Financial Position as of June 30, 2004. The net-of-tax amount of $41 million relating to the recording of the additional minimum pension liabilities is reflected in the accumulated other comprehensive income component within the accompanying Consolidated Statement of Financial Position as of June 30, 2004.

The Company made contributions (funded plans) or paid benefits (unfunded plans) totaling approximately $68 million relating to its major U.S. and non-U.S. defined benefit pension plans in the first half of 2004. 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 2004 to be approximately $45 million.

The components of net postretirement benefit cost for the Company s U.S., United Kingdom and Canada postretirement benefit plans, which represent the Company s major postretirement medical plans, are as follows:

(in millions)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2004	**2003**	**2004**	**2003**
Components of net postretirement benefit cost				
Service cost	$ 4	$ 4	$ 8	$ 9
Interest cost	47	56	100	113
Amortization of:				
Prior service cost	(15)	(17)	(29)	(31)
Actuarial loss	20	16	51	41
	56	59	130	132
Curtailment credit	(2)		(25)	
Total net postretirement benefit cost	$ 54	$ 59	$ 105	$ 132

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 remeasurement of the APBO as of April 1, 2004 takes into account the impact of the subsidy the Company will receive under the Act and certain actuarial assumption changes including (1) changes in participation rates, (2) a decrease in the Company s Medicare plan premiums and (3) a decrease in the discount rate from 6.00% to 5.75%. The actuarially determined impact of the subsidy reduced the APBO by approximately $228 million. The effect of the subsidy on the measurement of the net periodic postretirement benefit cost was to reduce the cost by approximately $14 million for the three months ended June 30, 2004 as follows:

(in millions)

	Effect of Subsidy	Effect of Assumption Changes	Total
Service cost	$	$ 1	$ 1
Interest cost	4	3	7
Amortization of the actuarial gain	4	2	6
	$ 8	$ 6	$ 14

The Company paid benefits totaling approximately $119 million relating to its U.S., United Kingdom and Canada postretirement benefit plans in the first six months of 2004. The Company expects to pay benefits of $131 million for its U.S., United Kingdom and Canada postretirement plans for the balance of 2004.

NOTE 10: EARNINGS PER SHARE

Options to purchase 36.4 million and 39.9 million shares of common stock at weighted average per share prices of $49.10 and $49.08 for the three months ended June 30, 2004 and 2003, respectively, and options to purchase 36.5 million and 32.3 million shares of common stock at weighted average per share prices of $49.10 and $54.57 for the six months ended June 30, 2004 and 2003, 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.

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, 2004 and December 31, 2003. Treasury stock at cost consists of approximately 105 million shares at both June 30, 2004 and December 31, 2003.

The Company accounts for its employee stock option incentive plans under Accounting Principles Board (APB) Opinion No. 25, Accounting for Stock Issued to Employees, and the related interpretations under Financial Accounting Standards Board (FASB) Interpretation No. 44, Accounting for Certain Transactions Involving Stock Compensation. Accordingly, no compensation cost relating to stock options is reflected in net earnings for the three months and six months ended June 30, 2004 and 2003, 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 as if the fair value method of SFAS No. 123, Accounting for Stock-Based Compensation, had been applied to its stock-based employee compensation. The pro forma information is as follows:

(in millions, except per share data)

	Three Months Ended June 30		Six Months Ended June 30	
	2004	**2003**	**2004**	**2003**
	(Restated)	**(Restated)**	**(Restated)**	**(Restated)**
Net earnings, as reported	$ 136	$ 118	$ 157	$ 123
Deduct: Total compensation expense relating to stock options determined under fair value method of all awards, net of related tax effects	(5)	(4)	(7)	(9)
Pro forma net earnings	$ 131	$ 114	$ 150	$ 114
Earnings per share:				
Basic and diluted - as reported	$ .48	$ .41	$ .55	$ .43
Basic and diluted - pro forma	$ .46	$ .40	$ .52	$ .40

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 SFAS No. 123. On March 31, 2004, the FASB issued an exposure draft proposing a new accounting standard that requires the expensing of stock options, effective January 1, 2005. The Company will follow the stock option expensing rules of the new accounting standard once it is finalized and issued by the FASB.

NOTE 12: COMPREHENSIVE INCOME
(in millions)

	Three Months Ended June 30		Six Months Ended June 30	
	2004	2003	2004	2003
	(Restated)	(Restated)	(Restated)	(Restated)
Net income	$ 136	$ 118	$ 157	$ 123
Unrealized (losses) gains on available-for-sale securities	(5)	3	(6)	5
Realized and unrealized gains (losses) from hedging activity	8	(8)	12	(10)
Currency translation adjustments	(32)	148	(58)	