The Merriam Report EK QEJun-09 Eastman Kodak

All amounts in millions except for earnings per share

Quarterly period ending:	QEJun-08	QESep-08	QEDec-08	QEMar-09	QEJun-09	Averages
Earnings Per Share (Incl. Ext. Items)	$ 1.620	$ 0.330	$ (3.120)	$ (1.320)	$ (0.700)	$ (0.638)
% Change in E.P.S. (from prev. qtr.)		-79.6%	-1045.5%	57.7%	47.0%	-255.1%
Total Revenues	2485.00	2405.00	2433.00	1477.00	1766.00	2113.20
% Change in Revenues (from prev. qtr.)		-3.2%	1.2%	-39.3%	19.6%	-5.4%
Cost of Revenues	1899.0	1744.0	1934.0	1283.0	1440.0	1660.0
Accounts Receivable:	1892.0	1833.0	1716.0	1289.0	1333.0	1612.6
% Change in Receivables (from prev. qtr.)		-3.1%	-6.4%	-24.9%	3.4%	-7.7%
DSO's (# of days it took customers to pay)	69.3	69.4	64.2	79.4	68.7	70.2
Inventories:	1087.0	1136.0	948.0	1038.0	918.0	1025.4
% Change in Inventory (from prev. qtr.)		4.5%	-16.5%	9.5%	-11.6%	-3.5%
Inventory as a % of Sales	43.7%	47.2%	39.0%	70.3%	52.0%	50.44%
Prepaid Expenses:	0.00	0.00	0.00	0.00	0.00	0.0
Other Current Assets:	222.0	172.0	195.0	219.0	216.0	204.8
Property,**P**lant& **E**quip. (net):	1712.0	1629.0	1551.0	1458.0	1407.0	1551.4
% Change in P,P& E (from prev. qtr.)		-4.8%	-4.8%	-6.0%	-3.5%	-4.8%
Accounts Payable:	3137.0	3006.0	3267.0	2478.0	2318.0	2841.2
% Change in Payables (from prev. qtr.)		-4.2%	8.7%	-24.2%	-6.5%	-6.5%
Quarterly period ending:	**QEJun-08**	**QESep-08**	**QEDec-08**	**QEMar-09**	**QEJun-09**	
Total Liabilities:	9509.0	7536.0	8218.0	7290.0	7218.0	7954.2
Shareholder equity:	3523.0	4377.0	961.0	639.0	-112.0	1877.6
Retained Earnings (Accum. Deficit)	6772.0	6865.0	5879.0	5525.0	5335.0	
Operating Cash Flow (OCF)	5770.0	6777.0	3445.0	2782.0	1997.0	4154.2
OCF as % of Revenues	232.2%	281.8%	141.6%	188.4%	113.1%	181.2%
Balance Sheet Cash Flow (BSCF)	4258.0	2525.0	3040.0	3304.0	3351.0	3295.6
BSCF as % of Revenues	171.3%	105.0%	124.9%	223.7%	189.8%	160.8%
Spread between OCF & BSCF	1512.0	4252.0	405.0	-522.0	-1354.0	858.6
Ratios						
Spread to Revenues	60.85%	176.80%	16.65%	-35.34%	-76.67%	0.285
Spread to OCF						
MR Dual Cash-Flow Figure	0.608	1.768	0.166	-0.353	-0.767	

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0.285

Eastman Kodak **EK** **QEJun-09**

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MR Dual Cash-Flow Figure		0.608	1.768	0.166	-0.353	-0.767

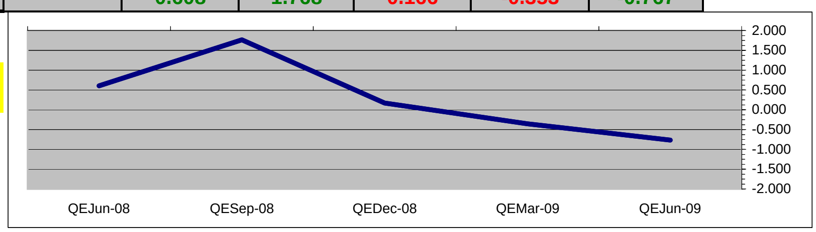
Merriam Report Signals:

Recent Bearish

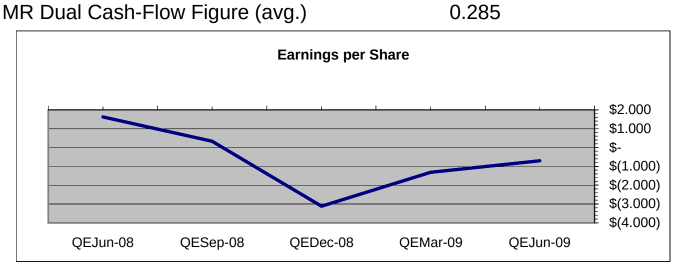
Confirmed Bearish

Recent Bullish

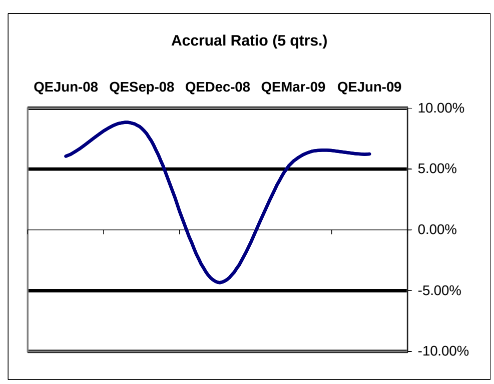
Confirmed Bullish



MR Dual Cash-Flow Figure (avg.) 0.285



	QEJun-08	QESep-08	QEDec-08	QEMar-09	QEJun-09
Accrual Ratios	6.05%	8.35%	-4.31%	5.66%	6.25%
Average Accruals	4.40%				



Revenue Metrics (as % of Sales)	Recent Qtr.	Combined Avg.
Research & Development	4.76%	5.19%
Cost of Sales	81.54%	78.55%
S/G/A	18.35%	17.35%
Payables	131.26%	134.45%

Capital Productivity	Recent Qtr.	Combined Avg.
Inventory / Revenues	$ 0.520	$ 0.485
Receivables / Revenues	$ 0.755	$ 0.763
Inventory & Receivables / Revenues	$ 1.275	$ 1.248
P,P&E / Revenues	$ 0.80	$ 0.73

Summary of Merriam Report signals

Dual Cash-Flow Figures	Double Bearish
Operating Cash-Flow Trend	Bearish
Balance Sheet Cash-Flow Trend	Bearish

	QEJun-08	QESep-08	QEDec-08	QEMar-09	QEJun-09
OCF	5770.0	6777.0	3445.0	2782.0	1997.0
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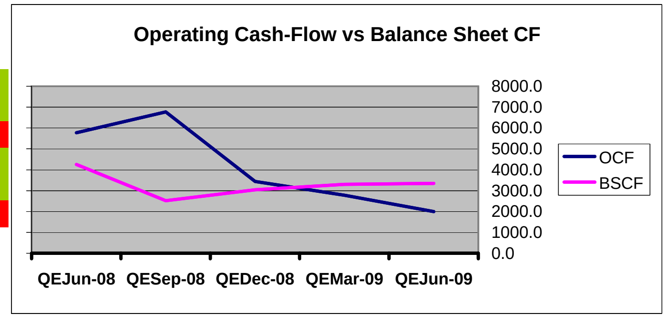
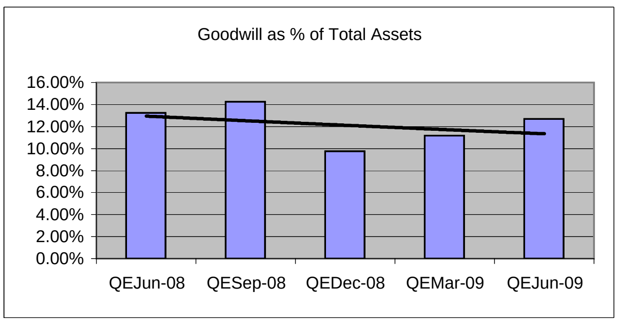
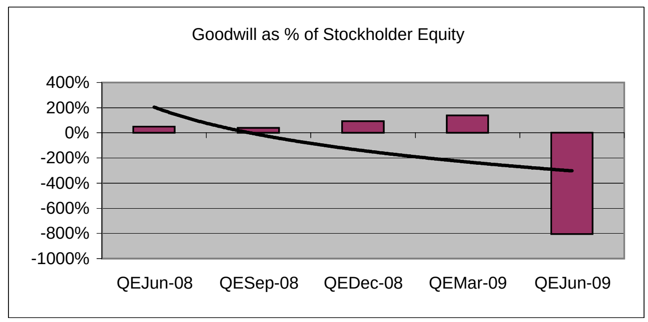


Comparison of Recent Quarter Changes to Average

EPS	Bullish
Revenues	Bullish
Accounts Receivable	Bearish
Days Sales Outstanding	Bullish
Inventory	Bullish
Accounts Payable	Bearish
Accrual Ratios	Very Bearish





Summary : Eastman Kodak

Kodak's digital transformation has been a *work in progress* for some years now. As turnaround stories go, Kodak's management finds themselves in perpetual cost-cutting mode. However, after running EK through our dual cash flow and accrual screen, we see little incentive to own shares or buy the debt of Kodak at this time.

The KKR factor is what we find most perplexing and somewhat onerous. There's notes involved carrying 10-15% interest and warrants which they are required to hold for two years. Also, KKR will get two board seats. The biggest nut for Kodak in our view will be the $500 million of paper due 2013. A month ago, the bonds looked interesting at 70-cents to the dollar, but they've been bid up since KKR offered to throw Kodak a bone.

Common equity was bound to get diluted eventually, but it's the presence of KKR (now) which puts a little cotton in our mouths. Clearly, private equity is showing signs of life after getting annihilated in recent years, but it has the feel of vultures circling as they await the carrion. So what does KKR see that looks so intriguing?

For starters, they may be eyeing to pick-up assets on the cheap. By the looks of the deal, KKR will be at or near the top of the heap as a creditor, should EK file bankruptcy. According to many observers, this is a distinct possibility.

The interests of private equity are never aligned with those of regular shareholders. But, in a lousy earnings environment like this, it's difficult to swallow that KKR is betting on a surge in revenue or earnings anytime soon. That said, there is no stockholder equity to speak of (it turned negative in June according to our model), so KKR looks to be building its control base with "partner cash" as they roll the dice.

Then, in a surprising (late) turn of events, Kodak's management announced additional institutional interest in their finance scheme from pensions funds, etc., thus reducing their dependence on KKR's full-stake in the funding mechanism. Whatever the heck is going on is strange and we can't help but think the risk trade is back on again?

Kodak competes with the likes of Canon, Sony, Samsung and others in the digital camera space. Fierce competition means leaner profit margins for everybody. A stark contrast to the robust margins enjoyed back in the good 'ol days of film photography. **(cont. on next page)**

(Cont. from page 2)

EK is also notorious for litigating patent disputes with just about everybody. In recent months, management has been beefing up its in-house legal staff for IP, patent, licensing and related positions. When you consider that R&D spending is declining and S,G&A expenses are rising, how should an investor interpret these signs?

Being neither engineers nor software programmers, we offer two thoughts: this is either a strategic attempt to buy time (via the courtroom) or, the object-oriented software patents EK acquired from Wang Labs years ago, was the best $260 million Kodak ever spent on an acquisition.

The big question is, can Kodak leverage its imaging assets enough to remain competitive and survive? And, will the economy improve enough to give them a fighting chance? If the financial statements are any indication, the odds don't look good.

The bigger question in our mind is why redeem cheap convertible paper due 20+ years from when you could make a tender under par for the 7.25% bonds due 2013? Everybody else is calling in debt for cheap by issuing longer duration bonds. Convertible or not, Kodak's lifeline isn't coming from operations, it's coming from lenders who expect to be paid interest. Options activity has also been wild recently. -Note: the company has also suggested some of the additional capital investment from institutions will be used to pay down $575 million of debt potentially due in 2010.

Bottom line in our view is that KKR, *et al* , may be back to their old tricks but with unusual caveats. The game plan seems to have transformed from an LBO mentality to a vulture strategy. If you can't out leverage 'em, then conquer and take what you can. Just make sure you get some tangible assets out of the deal to (at least) keep your balance sheet from collapsing. The reason we say that is Kodak's intangible assets, particularly Goodwill as a % of total assets is relatively low.

Also, there has been a lot of talk about the "B" word lately at KKR backed units Capmark Financial and Capmark Bank. KKR founders Messrs. Kravis and Roberts are market hardened PE veterans, but they have some storm clouds of their own to deal with. As for the pension funds and institutional investors allegedly knocking on the door, they too have had a rough ride.

Investment Opinion: AVOID

Earnings Quality: D-

Trading range looks to be $3.50 to $4.50. Technical traders can probably hit lots of singles with the equity given the "dash for trash" sentiment of this current market. However, we'd have tight stops in place if planning a leisurely lunch during trading hours.

The bonds due 2013 looked interesting as a trade when they were 69 cents, but at 86 cents (currently) we'd want more than 11% for the CCC+ risk.

There is always a possibility the equity can rally some more simply on news driven events (re favorable changes to the financing, etc.). Rather than shorting a $5 stock, investors might consider put options such as the Oct. '09 7.5 or 9, or Nov. '09 7-10 . **Options involve risk and are not suitable for all investors.**

Disclosure: None.
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