

EASTMAN KODAK

1Q07 Sales & Earnings May 4, 2007

Operator: Good day everyone, and welcome to the Eastman Kodak first-quarter sales and earnings conference call. Today's conference is being recorded.

At this time for opening remarks and introductions, I'd like to turn the conference over to the Director and Vice President of Investor Relations, Mr. Don Flick. Please go ahead.

Don Flick: Good morning and welcome to our discussion of first-quarter earnings. Before we get started, I'd like to make a few brief comments about some changes in the Kodak Investor Relations function. As many of you know, after 15 years in Investor Relations and 33 years at Kodak, I will be retiring at the end of June. It's been a real pleasure to work with the investment community for so long. And I've had the opportunity to get to know so many of you. I will certainly miss the dialogue and the debates that we've had over the years.

But more importantly, I would now like to introduce Ann McCorvey who is succeeding me as Director of Investor Relations.

Ann McCorvey: Thanks, Don. Good morning. I look forward to getting to know as many of you as possible in the weeks and months to come, and to make sure that we continue to meet your needs from an investor relations' point of view.

Now turning to this morning's business, we are here with Antonio Perez, Kodak's Chairman and CEO, as well as our Chief Financial Officer, Frank Sklarsky. Antonio will begin this morning with his observations of the quarter, and then Frank will provide a review of the quarterly financial performance.

Let me start with the usual conference-call cautionary statement first. Certain statements during this conference call may be forward-looking in nature or forward-looking statements as defined in the United States Private Security Litigation Reform Act of 1995.

For example, references to the Company's expectations for growth, digital earnings from operations, digital revenue growth, net cash generation, cash, restructuring, SGA reduction, product launches, inkjet sales and inkjet investments, segment performance, digital camera results and use of cash are forward-looking statements. Actual results may differ from those expressed or implied in forward-looking statements.

These forward-looking statements are subject to a number of important risk factors and uncertainty, which are fully enumerated in our press release this morning. Listeners are advised to read these important cautionary statements in their entirety, as any forward-looking statement needs to be evaluated in light of these important factors and uncertainties.

Also, Kodak has significantly reduced its reference to non-GAAP measures. In those instances where they are used, they are fully reconciled to the nearest GAAP equivalent in the documentation released this morning, which can also be found on the Web site.

Now I'd like to turn the conference call over Antonio Perez.

Antonio Perez: Thank you, Ann and Don.

As Don said, this is the last time we will hear his familiar voice giving our quarterly calls started. Don, on behalf of your colleagues, both internally and in the investment community, I would like to thank you for the exemplary work you have performed in this role, and wish you all the best to you and to your wife, Barbara.

I'm pleased to say that since I talked to you on February 8th in New York we have continued to make good progress toward this year's key strategic objectives. Before we get into the details, I would characterize the quarter as essentially on our plan for revenue, and ahead of our plan for earnings.

There were the usual pluses and minuses across the various businesses. But most importantly, we made progress toward our key strategic objectives. Therefore I'm very comfortable with how the results positioned us for the year.

On Monday we closed the health group sale. Because of the available tax loss carry forwards, we will retain the vast majority of the \$2.35 billion in cash proceeds. Yesterday we repaid the remaining portion of the \$1.15 billion of secure term debt. Now that this is done, we are comfortable with our debt level. Beyond on that, we will continue to evaluate various options for the remaining proceeds.

Our entire focus will be on deploying the cash in a way that creates profitable growth and maximizes value for our shareholders. I can tell you that at the very bottom of the list of likely actions are a dividend increase or special dividend. We have a long list of attractive value-created opportunities. And dividend actions look relatively unattractive in comparison. We will take our time working with our Board of Directors evaluating the different options that we like with great thought and deliberation.

As we've discussed during our February 8th review, one of our key strategic objectives for 2007 is to achieve market success with our new products, both in the consumer space as well as in the graphic communications business.

On the consumer digital side, I'm extremely pleased with the reception of our new line of consumer inkjet printers. We are selling everything we can make, which reflects both strong demands and the usual realities of ramping up production.

It's clear that our targeted consumers really understand the value of Kodak quality, ease of use and ink for as little as half the cost. Best Buy has proven to be a very effective launch partner. We are now adding other channel partners to our distribution network, and are moving into additional geographies.

To date we have announced deals with MediaMarkt and Dixons in Europe, and soon will be announcing deals already agreed on with other major retailers in the U.S. We're very happy with the retailers' response to this new business model that clearly benefits consumers. And we'll continue to make new retail announcements, as we get closer to its introduction.

Our goal continues to be to sell at least 500,000 units in 2007. Given the enthusiastic response, we plan to increase our 2007 inkjet investment by as much as \$50 million in order to accelerate our ramp up, boost new product development and position ourselves to better supply current and future demand. And let me tell you this was the easiest and the happiest decision that I had to make this quarter. Our new consumer inkjet business model has created a very attractive opportunity for Kodak and I intend to aggressively pursue it.

The graphic communications group, as promised, unveiled several new products at the recent AIIM/On Demand trade show, including two new NEXPRESS digital color presses, which expands the price points covered by our product platform in both the high and low end. In addition, we announced a new scanner for the desktop document imaging market, and three new workload products, which expand our leadership position in both of those markets.

The Kodak NEXPRESS M700 received best-in-show honors in its category during the recent On Demand conference. And the Kodak i1860 scanner received the Readers' Choice award during the AIIM conference. Market success with our new products is integral to achieving our planned growth for the second half.

The other major objective we announced on our February 8th investor meeting was to wrap up our restructuring program this year. To that end, the recently announced sale of the Xiamen, China facility to the local government is the last major step in our traditional manufacturing-restructuring program.

The other part of our restructuring objective this year is a significant reduction in SG&A expenses. We showed great progress in that area in the first quarter. Year-over-year SG&A is down \$112 million, or three percentage points of revenue. This gives me confidence that we will reach our goal of reducing SG&A as a percentage of revenue by two to three percentage points for the year, and therefore successfully complete the SG&A restructuring this year as well, all according to our plan.

Let me turn now to other elements of the first-quarter performance. As I indicated previously, there were pluses and minuses. Revenue for the quarter was essentially on plan, with earnings from operations slightly ahead of plan. Traditional revenues were better than planned, declining 13 percent year over year, which is lower than recent historical trends, and is lower than is expected. This was led by a stronger than expected performance in our entertainment imaging films, which grew high single digits year-over-year. The film products group's success in getting costs down faster than revenues decline, prove that it will continue to be a very valuable business for Kodak moving forward.

CDG's digital revenues, although down from last year, were essentially on plan. Digital cameras and kiosks were better than expected. The Gallery had solid 23 percent year-over-year improvement in revenues while its snapshot printing was lower than anticipated.

Digital cameras decline year-over-year as stronger-than-expected industry grows, was more than offset by a difficult year-over-year comparison. The tough compare resulted from our move to de-emphasize the low end, starting in Q2 2006, and by shifting the new model launches toward the second half. This change is in line with our decision to focus our product portfolio where we can best achieve our margin expansion goals. This product portfolio changes, combined with the actions we took last year to improve our go-to-market and supply-chain management are showing up in our results. This quarter begins what we expect to be a trend of year-over-year improvement in our digital camera operating results.

Kiosks year-over-year growth was driven by a significant increase in the media burn rates of key retailers and new kiosk placements with retailers who have demonstrated higher-than-average burn rates. The Gallery also had good year-over-year growth resulting from new customer acquisitions as well as increased average order size, as customers purchased higher-margin custom output products.

By contrast, the industry and Kodak saw a significantly higher than anticipated decline in the snapshot printer category. Consumers are choosing snapshot printers for fewer of their printing needs, in favor of more retail, online and general-purpose printers. This shift in consumer preference is not concerning to Kodak because we have a complete array of other choices to support what customers want, including our leading kiosks, our leading Kodak Gallery, and our new line of all-in-one consumer inkjet printers.

Graphic communications digital revenue growth of two percent was slightly below plan as a result of lower-than-expected sales of digital printing equipment and enterprise solution businesses. The exact timing of the sales to large capital equipment is difficult to predict quarter to quarter. But we're very comfortable with our current sales funnel.

Remember we report by quarter, but we manage for the full year. Our plan for the year assumes accelerating growth as the year progresses fueled by our recently announced new product introductions, and a generally improving product portfolio price and mixed environment. Our expectation for full-year digital revenue growth for GCG, in the mid to high single digits, remains on track.

GCG's bottom line was impacted by the expected increase in aluminum costs versus last year. But it's on track for our EFO goal for the full year.

I'm happy to say that both FPG and CDG were well ahead of plans from earnings perspective with both segments benefiting from the momentum in SG&A reduction. In addition we have improved product mix in CDG and synergy and strong earnings from SPG as they continue to maintain strong gross profits on declining sales. We also had a significant improvement in our year-over-year cash performance as a result of our improved earnings, and a constant focus on working capital.

Relative to our full-year financial metrics, our more aggressive investment in inkjet printers will reduce our targeted full-year digital EFO by \$50 million to a range of \$150 million to \$250 million. We continue to believe that our net cash generation for the full year will be greater than \$100 million, and that we will achieve digital revenue growth of three to five percent.

As I said before, I'm very pleased with our first quarter start and what that means for the year.

I will turn it over to Frank now, who will provide you with more details on the financial front.

Frank Sklarsky: Thanks, Antonio, and good morning everyone. Before I get started, I would also like to extend my sincere thanks to Don Flick. Don's efforts on behalf of the Company and investor relations have been invaluable. And he has certainly helped me get up to speed with the Kodak investment community. And for that I'm very appreciative. So again, thank you, Don, for your 33 years of service. And I wish you and your family all the best.

Now I'll provide a little bit more information around the first-quarter financial results. And then Antonio and I will be happy to take your questions. Also I want to remind everyone that our year-over-year comparisons are impacted by the movement of health groups to discontinued operations, as well as the previously announced movement of various products between segments.

And as Antonio indicated, our first-quarter performance was in line with our expectations, positioning us well for the balance of the year. GAAP loss per share from continuing operations for the first quarter was 61 cents compared to a GAAP loss per share of \$1.21 in the first quarter of 2006, an improvement of 60 cents.

First-quarter results include items impacting comparability, totaling 26 cents per share in net expense after tax. This consists of restructuring charges of 49 cents per share, income of 20 cents per share due to a reversal of an international tax reserve, and income of three cents per share from a property sale.

The prior-years first quarter included comparability items of expense totaling 66 cents per share after taxes. Our effective tax rate for continuing operations for the first quarter, about eight-and-a-half percent, representing a benefit against total reported losses was somewhat lower than the U.S. statutory rate. While we did have the previously mentioned benefit for the reversal of the tax reserve, we also had tax expense for certain entities around the world. And we also had expense for valuation allowances associated with various entities that could not immediately benefit from that operating losses generated during the quarter.

First-quarter consolidated revenue declined eight percent and included a three-percent favorable exchange impact. Our first-quarter gross profit margin was 20.2 percent, essentially flat with last-years 20.5 percent. There were the usual puts and takes to the gross profit margin from the following factors; favorable impacts from manufacturing cost reductions, favorable exchange, which is offset by lower volumes and pricing, and approximately \$30 million of adverse silver and aluminum costs.

SG&A decreased \$112 million or 22 percent, and declined as a percentage of sales from about 22 percent in the year-ago quarter to under 19 percent in the current quarter. This represents excellent progress in our push to achieve a run rate for SG&A as a percent of revenue of 16 percent by year-end.

R&D costs totaled \$137 million for the quarter, or about six-and-a-half percent of revenue, in line with our plans.

First-quarter pre-tax restructuring charges on continuing operations totaled \$151 million versus 216 million in the year-ago quarter. These charges included severance, accelerated depreciation and exit costs, as well as asset and inventory write-downs. First-quarter cash restructuring payments were approximately \$115 million. We eliminated approximately 1,100 positions during the quarter, bringing the program to-date total to approximately 24,500 positions.

First-quarter restructuring costs were proportionately lower than what you would expect based on what we are anticipating for the full year. This is due to the precise timing associated with individual actions in the various entities around the world. One major action we announced a few days ago, that will impact second-quarter results, is the anticipated sale of our Xiamen, China manufacturing plant, which will result in cash proceeds of \$40 million and a non-cash restructuring charge of about \$220 million once completed.

As Antonio indicated, this is the last major step in our traditional manufacturing-restructuring program we announced in January 2004. Clearly we are making excellent progress in the areas of both SG&A reduction and manufacturing restructuring efforts.

We had consolidated first-quarter GAAP pre-tax losses from continuing operations of \$190 million versus \$338 million in the year-ago quarter, and improvement of \$148 million attributable to the significant reduction in SG&A costs and lower year-over-year restructuring charges.

First-quarter digital EFO improved by 48 million from a loss of \$91 million in the year-ago-quarter to a loss of 43 million this year. Additionally for the second consecutive quarter, we saw a year-over-year improvement in our traditional earnings performance, reporting \$18 million in EFO compared to a \$1million loss in the year-ago quarter.

Results from the consumer digital imaging group improved by \$53 million from a \$167 million loss in last year's first quarter to a \$114 million loss this year. The year-over-year comparison reflects the favorable impact of SG&A reductions, improved gross-profit margins in digital capture, and favorable media and hardware mix in kiosks, partially offset by pricing in various product lines and increased costs associated with the investment and ramp up of our new consumer inkjet products.

The graphic communications group posted \$16 million of EFO in the first quarter, a decline of \$8 million from the year-ago quarter attributable to lower-priced sales mix and workforce solutions portfolio, lower volumes in digital printing hardware and the negative impact of aluminum and silver costs. This was partially offset by favorable foreign exchange.

We continue to see strong operating margins from the film products group as the result of restructuring savings and growth in entertainment imaging color print films. As a result, FPG posted earnings from operations of \$74 million, or 16 percent of revenue for the first quarter versus \$51 million, or 10 percent in the year-ago quarter despite overall revenue declines of eight percent.

Interest expense was \$25 million in the current quarter, a decrease of 16 million from the \$41 million in the year-ago quarter, largely as a result of lower debt balances.

Other income, which includes interest income, income and losses from equity investments, gains and losses on the sale of investments and foreign-exchange gains and losses were \$23 million in the current quarter versus \$27 million in the year-ago quarter, a modest decrease of 4 million due to a variety of factors including slightly lower interest income.

As we just closed the sale of the health group, we do not yet have a final balance sheet or cash flow statement for continuing operations. These will be provided when we file our first-quarter 10-Q next week. In the interim, we will provide you with some preliminary direction of our estimated results.

Net cash generation for the first quarter is expected to improve by approximately 175 million to \$200 million from the prior-years' first-quarter performance. With respect to working capital, inventories were up a little bit more than \$150 million versus the end of the 2006 calendar year, partially as a result of building some stock in advance of the shutdown of the Xiamen, China sensitizing operation.

Inventories were, however, down by over \$275 million as compared to the end of last year's first quarter. This demonstrates our continued commitment around improving supply-chain efficiency and a leaner go-to-market model. In addition, we also had excellent performance on trade receivables with a decrease of over \$125 million versus the prior year, and an over \$250 million improvement versus year-end. These figures all exclude the divested health group are preliminary. Final figures, once again, will be available in next week's 10-Q filing.

Capital expenditures for the quarter were \$66 million, down 12 million from the year-ago figure of 78 million. And depreciation and amortization was \$248 million in the current quarter versus \$336 million in the year-ago quarter as a result of completion of certain plant closures under the traditional manufacturing, restructuring program.

We ended the first quarter at 1.026 billion of cash and cash equivalents, consistent with our desire to keep at least \$1 billion of cash on hand. We closed the health group divestiture, receiving cash proceeds of \$2.35 billion. And yesterday we fully repaid 1.15 billion of the outstanding secured term debt.

As Antonio indicated, we are assessing all options for deployment of the remaining proceeds. Our goal is to generate the greatest amount of value for our shareholders. This will involve a discipline process of evaluation and we will carefully study the risks and rewards profile of any proposed actions.

It's important to note that the health group divestiture was a worldwide asset sale. And a substantial portion of the cash was received outside the U.S. So any options we do pursue involving the need to repatriate cash to the U.S. will require some time to ensure we do this in the most tax efficient manner. That said, the most important point is that we want to have a sustainable profitable growth model for our company while maintaining healthy liquidity, financial flexibility and a strong balance sheet. And as Antonio indicated, it will take some time for us to determine the optimal pattern.

In summary, based upon current conditions and our best internal assessment, we are on track to achieve our previously stated 2007 goals for digital revenue growth of three to five percent, and net cash generation in excess of \$100 million. With the accelerated investment in our consumer inkjet program of \$50 million, our digital earning goal is now in the range of \$150 million to \$250 million.

Thanks very much. And now Antonio and I would be happy to take your questions.

Operator: Thank you. Today's question-and-answer session will be conducted electronically. To ask a question, please press star one on your telephone keypad. If you are using a speakerphone, please make sure your mute function is turned off to allow your signal to reach our equipment. Again if you have a question, please press star one.

We'll go first to Jay Vleeschhouwer at Merrill Lynch.

Jay Vleeschhouwer: Thanks. Good morning. Antonio, a couple of questions, first regarding consumer digital. What are your expectations for the return on investments for the added \$50 million spending related to home inkjet in terms of how or when that will convert to revenue?

Secondly, you talked about the half-million unit sales for this year. What do you think the installed base needs to be for the home inkjets in order for you to achieve break even for that business, assuming also that you've got the burn rate for the cartridges that you're counting on?

Antonio Perez: Jay, the first question is the investment that we're making now is something that we have thought before we started the program. But we wouldn't do it until we had some feedback from the market that our assumptions about the value of the business model were true, you know were positive.

Obviously this is very early in the program. But now after selling, you know ten of thousands of units, and seeing the reception from end users and the reception from retailers all over the world, and reviews that we had from many entities around the world, we have a very good indication that this is a success. . And that's why I said it was, the happiest decision of this quarter for me.

The effect of this \$50-million investment, it will be at the very end of this year and then basically for next year. And that includes a manufacturing capacity, as well on introduction of new products, in the harder push in marketing for next year, . Since we're going to have many more retailers around the world and they're going to need support. That's what the plan is.

Why we're making it now? Originally I thought that this, decision had to be made more toward the end of the year but the signs that we have and I've been doing this for, for 25 years are very clear we need to do now. I've introduced many inkjet printers in my life, and I know this is a great introduction. I've seen the reaction. This is a great opportunity for the Company, and we should plan aggressively to take advantage of it.

The second question is a little more complicated, Jay, because the ideal situation, where we're driving toward is to get to that point where our revenue is about half coming from hardware and half coming from supplies. Once you get to that point, you are in paradise in this business. So we're trying to get to that point as soon as we can.

What we said originally is that it was going to take us three years. And during the third year we will become break even. Obviously if the installed base grows faster, if the burn rate goes a little better, those are very big variables that can change and improve that. But that's what's in our plans now.

Jay Vleeschhouwer: OK. As a follow up – you didn't mention in your remarks anything about IP licensing activity, either in the quarter, or any of your expectations for the year. That was a large part of the conversation in the fourth-quarter call. And could you update us on what you see now?

Antonio Perez: Yes. We haven't signed any new non-recurring deals this quarter. We had an increase in IP over last year. But that is part of the on-going payments that we received from licensing. We bared our souls at the first quarter last year, but due to the ongoing program, at this point we haven't signed any new licenses yet this year.

Jay Vleeschhouwer: OK.

Frank Sklarsky: Hey Jay, it's Frank. We did say on February 8th we expected an excess of \$250 million for IP this year, and we're on track for that.

Jay Vleeschhouwer: OK. And finally back to CDG – as you say you're broadly exposed to multiple consumer-print venues at home and at retail. Do you have any way of gauging what your share is, or what your share trend is for the entirety of consumer digital printing?

Antonio Perez: No, I don't have that number. We have individual numbers and we know that for instance, our share in kiosks is around 60 percent I believe. I can confirm these numbers to you, and it's very high. There is a big difference when you talk about kiosks; about you know one side versus another side. But we know that the kiosks are getting a bigger part of the printing need. You know people are using more and more kiosks. We know as well by the growth in Kodak Gallery that more and more people are going to online services because they tend order more complex products that they used to get, from the one-hour mini-lab. So we know that those two areas are growing.

We know that the home, you know is still a very big part of the image printing. But it's kind of stable now, but it's still at such large part that we think we're going to get a lot of benefit from our inkjet.

We have never taken an overall look of prints. It's changing constantly. Well we're going to make sure that we have the options where customers are going to for the printing needs.

Jay Vleeschhouwer: Thank you.

Operator: We'll go next to Matt Troy of Citigroup.

Matt Troy: Thanks. I just wanted to echo the earlier sentiments. Don, you've been an invaluable resource, if not a Rosetta Stone, to what is a complex story. And I've always appreciated your patience and insights. So thank you and I wish you well.

Antonio, I wanted to talk about the cash infusion from the sale of Health. You mentioned that some of the cash needs to be repatriated. I was wondering if you could give us a sense directionally, how much of the total 1.2 billion is outside of the U.S? What are the terms of timing for that 200 million option, the performance-based option? And when I think about potential uses, you certainly have given some detail there. One avenue would be acquisitions. And in the past you've ruled out consumer as a segment where you do acquisitions. I was wondering if you could just update us, you know in terms of the portfolio where you see you might make an acquisition, if that's the choice and path you go down? And I've got one follow-up. Thanks.

Antonio Perez: OK Matt, the first thing I have to say – this report that you gave about Don is the best report that you have given so far about the Company, and the most accurate. OK.

Antonio Perez: OK. I've never excluded anything about consumers. But I, you know I'm very cautious about acquisitions because it's very difficult to buy businesses for the right price these days. But we do have a lot of technologies in-house. You may or not notice that in my comments I made a reference to new, you know new products coming, new categories coming that we've been working – not just in inkjet as you can image. And we're working on other things. And this influx of money can help us to accelerate our internal investment in which I have a lot faith, because we do have a lot of know how in this company that hasn't been commercialized yet. And obviously we have not said no to purchasing shares back because I do believe that the shares are undervalued. The question about where the money is, I'm going to let Frank answer that.

Frank Sklarsky: Yes Matt, we don't want to get into specific jurisdictions where we have cash. We have a significant amount of cash both in the U.S. and over seas. The only point we were trying to make is that, if we were to explore any options requiring a very, very significant amount of cash to pursue that option, we would clearly have several months involved in making sure we repatriate that cash to U.S. in the most tax efficient manner. So obviously with more than half our revenues over seas, we've got a lot of cash in a lot of difference kinds of places.

As for the timeline on the potential \$200 million up side, there is no specific timeline. It really is just based on Onex's ability to generate the internal rate of return target that was specified in the press release, and our share of that, but no specific timeline on that.

Matt Troy: OK. My follow-up relates than, Antonio, to some of the internal technologies that you've alluded to in the past. (1) Are we still on track through 2008? I think there are some building expectations to see a high-end inkjet product extension from Kodak. Are we still on track there? And (2) it was certainly nice to see the introduction of the 70-page-per-minute device in On Demand a few weeks ago. You have book end the market nicely now. Is there opportunity to further flush the portfolio in between those two bookends, and is partnership the continued preferred strategy? Thanks.

Antonio Perez: I won't answer the second question, but yes there is an opportunity between those two ends for sure, a big opportunity between those two. Whether is partnership or it's our own technology, we won't disclose at this point in time.

Matt Troy: But more to come?

Antonio Perez: But more is coming, yes.

Matt Troy: OK and then on the inkjet side, just an update. Are we still on track?

Antonio Perez: We're very much on track, both for the home and for the stream. You know the continuous inkjet, we have a very large investment in getting, continuous inkjet into the use in 2008. It's a key program, for the future of GCG and that is on track too.

Matt Troy: All right, thank you. And Don, thank you again.

Don Flick: Thank you, Matt.

Operator: And our next question comes from Sam Doctor at J.P. Morgan.

Sam Doctor: Thank you. I had a question actually on CMOS handsets. Can you give us an update on how many handsets you have in the market right now? And at what point would you expect to reach 100 million run rate for handsets?

Antonio Perez: This is a long sales process, Sam. We have to reach at least a design win. . The only thing I can tell you for sure is, it can be a few months in advance in this business that we will have some of our cameras with our own CMOS sensors inside before the end of this year. We have 12 projects to equip, cell phone manufacturers with their own, CMOS sensors. And that is we're working very hard on that. The deals are done. It's just a matter of coming out with the products. You will see them come, and I will not dare say when at this point of time. But the program is working nicely. This is a long process.

The bad news is it's a long-sale process. The good news is, once you're in you stay for a long time. This is how the business is going on.

Sam Doctor: On the inkjet, I just had a question. For some time you said that you're looking for about 500,000 units this year. That really hasn't changed in the last month or two?

Antonio Perez: No, no, that's the same.

Sam Doctor: Yes. So I just the extra 50 million – you said some of it was for product development. What else are you looking for? And how has that changed in terms of, you know, what you're seeing in the market, and what else you need to spend for?

Antonio Perez: Well specifically to speed up the whole program, Sam. We obviously had other products coming out. And we never said when, or how or what products. But you can image what they are. And those products are certain investments –in tools for manufacturing and ...

You know given the response, we know you know our best knowledge now is that we're going to need more volume that we planned originally. Therefore we have to plan now, buy the tools now and then get t them installed when they come out.

It is possible that some of our investment will show the benefit of units before the end of the year. But we're not counting on it.

Sam Doctor: OK.

Antonio Perez: But it's basically the same program we had except that we have learned of our own success, maybe three or four months earlier than I thought I would feel comfortable doing this. And I was thinking that would be more toward the end of the year. And I'm very

excited with this product. I've got hundreds of e-mails from end users that are very excited and uplifted and in many cases emotional. I got the response of the retailers. They all call me to complain why I didn't give them the product earlier. So I think things are going well.

Sam Doctor: Great. Can I just ask quickly, as for the health group stranded costs, what are the actions that you have taken so far, and how is that proceeding?

Antonio Perez: I'm going to let Frank go through that.

A little better than we thought.

Frank Sklarsky: Yes, we've got after the SG&A very early in the year, in fact you know late last year in terms of trying to look at both opportunities to reduce the overall SG&A cost for the Company while taking into account the fact that we really had to accelerate that effort as a result of – at least in January, once we announced health group, we had to accelerate that.

So I would say that, when you look across the spectrum, it is in obviously positions, which we have talked about a little bit. And we keep on that track for the remainder of the year consistent with our prior guidance. It is also in the labor and non-labor spend. And it's in the area of also making sure that we are proportionately reducing the fixed-cost load on the Company, and the G&A cost load on the Company consistent with where we are sized now in a post health group environment. And it's identifying every single opportunity we can. And it's based on a zero-based approach of what we really need to drive value for the shareholders, drive value for our customers. So really taking a fresh look at every individual area of the Company to get the leanest cost structure we can while not jeopardizing anything we're doing to introduce new product and drive the top line.

Sam Doctor: So in the first quarter, how much expense was there in the health care group, which we would expect to see it declassified into, you know or re-allocated to the other divisions in the second quarter?

Frank Sklarsky: Yes. You'll see that more in our upcoming disclosures in terms of specific amounts associated with the health group. But the numbers that you're seeing today, and that you will see in the 10-Q next week, do reflect all the remaining costs that will remain in continuing operations for Kodak. So there's no additional overhang that you will see incremental to what has been and will be disclosed next week, no other hidden costs. We've been very careful to segregate that according to the accounting rules. And also we've been very careful to take as much of that out as we possibly can, as early as we can.

Sam Doctor: OK great. Thank you.

Antonio Perez: The only thing that I would say, Sam, is that I repeatedly said at the end of last year, beginning of this year that I felt that the SG&A program, which we couldn't be executed fully until we had the conclusion of the sale of health, was going to be one of our biggest tasks and the fact that it seems to have done a pretty good job, and I feel much better. And I feel very confident that we will get to the cost structure that we wanted before the magic 2008.

Sam Doctor: Yes, thank you.

Operator: We'll move next to Shannon Cross at Cross Research.

Shannon Cross: Hi. Just a few questions – first on terms of your inkjet strategy, can you talk a little bit about your mix of sales so far in the U.S.? And then I don't know if this is going to last, but it seems to me that, according to your announcement, you're going to be selling just the two higher-end inkjets in Europe, at least through the channel partners you've announced. So is that correct, and anything you can give us there.

Antonio Perez: So Shannon, it all has to do with the amount of product that we can create, that we can build. Our plan is to have the full portfolio in the region in which we are participating. But we're going to start with what we think is most appropriate discussing with, with our partner. So there is no reason to eliminate the low end in any particular place. It's just – you know good production, number of units that you have. We have already commitments. We're making deals with many retailers at the same time. We're making commitments to them about how many units we're going to give, and we have to balance all those things while we, don't have enough product. That's the only thing behind – I forgot your other question.

Shannon Cross: I was just curious about the mix of sales in the U.S. so far; you know the 149 versus 199.

Antonio Perez: I think the \$200 product is doing very well. I can't tell you exactly. It seems to be doing very well. I mean you know we're selling everything we build for both. But we've been seeing the one with the screen is kind of gets more attraction to people. So they are willing to pay more for the printer. So we are driving manufacturing to those units because it looks like the first impression is that's the one that will be selling the most.

Shannon Cross: OK. And then just if you can give a little more detail just in terms of your manufacturing capacity, because you mentioned part of the 50 million was to go to you know to fund some of that. I'm curious as to what specifically – since you're using Flex and a number of others, is that more in the ink cartridge side to put them together? Or where does that expense go.

And then also can you just talk about what are the limiting factors in terms of your ability to ramp up production of these printers since you're using Flex and others who obviously have a lot of experience.

Antonio Perez: Well we are using Flex and others. Some have more experience than others and this is a new platform. So whenever you put a new platform, and before you get to volumes, you've got a lot of checkups that you have to do, in the lines and in the supplies. Not just the lines, it's the suppliers. The suppliers have to raise all their components that they build. This is a very, very, very difficult for anyone that is been in manufacturing knows that it is not about throwing money. You know there is a limit. You can put as much money as you want and you won't get it any faster.

We have very, very experienced people doing this.. They've done this many times before. So we're doing as fast as we can. The only limit was our own. We have to be convinced that we had a business model that was accepted. At this point of time, I already declared that it's very well accepted. And therefore there's no limit in any part of the organization. It's not just "how much can we invest to get faster." The order is, "go as fast as you can."

Shannon Cross: OK. Just curious though on the 50 million and manufacturing, like specifically what would your – you know again since your whole model is outsource, which makes a lot of sense, I'm just curious what you're actually manufacturing, or is it just something to fund the start of those lines for your partners?

Antonio Perez: It's three things. It's the lines – we buy more lines. That's the first thing. So we place orders to get the tools that we put the lines. We will train people to run those lines. You

know it costs money. We have accelerated the development of the new product. We want them earlier, so you will see new product coming from us earlier than we were planning to originally, although we never told you when they were coming. You have to believe me; we are accelerating the rate with which we come with new product. And as well we know that the more volume we put out there, the more money we have to have to support those volumes because of marketing, training and things of that nature. You know those three buckets.

Shannon Cross: OK. That was helpful. Just one final question, Antonio – could you revisit your comments on share repurchase that you made, you know in terms of – you know your thoughts about the use of the cash. And just I want to make sure we got it correctly in terms of your thoughts on share repurchase.

Antonio Perez: Yes what I'm trying to tell you is nothing. . I'm trying to tell you my best thinking, but with the idea that you have to realize that this is the decision of the Board ...that it is not ours. And that what I did feel comforting to say is that it is really at the bottom of our thinking is dividends.

But the rest is all for grabs. And I think there is value in any of those options. And we have to get the money from, you know from over seas. And we have to look at these options and it will take some time.

Shannon Cross: OK. Thank you very much.

Operator: And we'll take our next question from Chris Whitmore at Deutsche Bank.

Chris Whitmore: Thanks. Just a follow-up on the inkjet – I was curious if you could quantify the amount of total investment of inkjet in the quarter, and how much you expect to invest for the full year, 2007?

Frank Sklarsky: Well to separate for the investment – we said there would be an "investment" for losses for the total inkjet program for this year. Our previous guidance was in line with what we experienced in 2006. And now it would be \$50 million more than that. I don't want to get into specific details on how much investment versus gross profit, loss or things like that. But we had said last year it was, you know in excess of \$100 million. It was certainly in our plans to be well in excess of \$100 million this year. And we're adding 50 million to that.

Chris Whitmore: So is that north of \$200 million loss on inkjet for this year, is that the target now?

Frank Sklarsky: If you take everything all in, in terms of operations, additional investments, R&D, new tooling, investments, everything else, you'd probably be north of \$200 million.

Chris Whitmore: Yes, yes. OK and secondly I'm a little confused as to why you're not raising your unit forecast for this year given the incremental investment, and marketing and manufacturing capacity. What changed over the past several months that requires additional spend relative to that half-a-million unit target?

Antonio Perez: It doesn't require additional spend. We could have stayed with the plan we had. We think that it's an opportunity to speed up the program we have. And as I said before, if we get lucky with everything, we will get extra capacity before the end of the year. I cannot promise that will happen. And that's why we're not changing those numbers.

But we're going to spend that money and get it back as soon as we can. It takes time to do those things. But yes there is the possibility that we will get, slightly higher capacity

before the end of the year. And then I can assure that we'll use it fully. It will be a great time to use it because it's a big season. So yes.

Chris Whitmore: Of that 50 million, how much is being spent on marketing versus capacity expansion?

Antonio Perez: We don't disclose that. We don't want to tell anybody how many lines we have. That wouldn't be helpful for us.

Chris Whitmore: Any quantification in terms of units shipped into the channel, and what ships through the channel and into the customers hands?

Antonio Perez: It's really not relevant, but I'll tell you. It's tens of thousands. I mean they keep changing every day. . Given the size of this market, I don't think it's very relevant. The moment we become significant, you're going to get all this data from third parties anyway. That's the data that you want the most. All we have is our internal data. That is very valuable obviously because it's through communications with our customers and with our retailers.

I know for example that Best Buy has told us that one of our SKU's was one of the top three SKU's. So that means a lot to us. That means that it's really working really well. But it's too early, and I hate to make assumptions just based on things like this. So then we have a lot of data from customers. They bought and you know they write to us, which is not normal in this industry by the way. This is a pretty old industry, so people don't write back to the manufacturer about their printers any more. They used to do it, like you know 15 years ago. They don't do it any more. But we get a lot of those, because people are incredibly happy with the quality of the SKU's, and you know more than anything else, the cost of print.

So all those in combinations gave us enough visibility to the point that we have a business model that is very well received. So we need to, accelerate this as much as we can.

Chris Whitmore: OK. Any update of your thoughts on OEMing the technology to a third party manufacturer?

Antonio Perez: We will – as long as we can make money, we don't have any credo here that will stop us to do that. As long as we have a way to distribute Kodak technology, with the Kodak brand, and make money while doing it, so we don't have any limit.

Chris Whitmore: OK and lastly, just housekeeping on inventory write down. You mentioned it in your comments. I was wondering if you'd quantify what you wrote down, you know how much and what it was you wrote down? Thanks a lot.

Frank Sklarsky: Yes. No I don't want to quantify exactly write-downs. That was a relatively minor part of our total restructuring charges, to be honest. Most of it has to do with exit and severance costs. Inventories is very minor.

Antonio Perez: And next quarter will be more. Next quarter will be non cash.

Frank Sklarsky: Right. In Q2 we will have the significant write down, asset write down of the \$220 million for the Xiamen, China facility. But again, inventory, the piece of that would be relatively small. It's mostly the fixed-asset piece.

Operator: And we'll move to our next question from Eli Lapp at UBS.

Eli Lapp: Thanks. Two questions – one is, could you give us the remaining cost for severance for the remaining portion of the year? Then the second questions is, just to beat that same subject to death, you know you essentially know exactly where your balance sheet is today. You know where your stock price is. You have a good sense of the M&A environment.

Could you give us a sense of your philosophy for you know where you would prioritize, you know your cash position, you know your capital structure, et cetera? And you did actually say that you know, a one-time dividend is at the bottom. So I guess you have a sense about, you know your priorities there.

Antonio Perez: Yes. And I thought I was doing well by going that far. Apparently I'm not. But I really am not ready to go any further. Sorry about that. But this is where we are. We do have internal growth opportunities. And you know there is the option of buying back shares, we are examining that too. And we are looking at the rest something that can be bought that will be very low cost and give us, you know a lot of growth and a lot of technology.

And in the meantime, we're trying to get hold of the money, which is as Frank told you is all over the place. And we're not going to do anything stupid, bringing it back to the US and, you know and losing a bunch of it just because that. So it's all of those things together.

Eli Lapp: OK. So what about the ...

Frank Sklarsky: Yes, well let me address the restructuring. We had a 151 of restructuring in the first quarter. We said that the year would be approximately \$900 to a billion dollars in total. A lot of that is non-cash charges, which the 220 million for China is a big piece of that.

If I think about severance – we don't really separate severance from exit costs. But I would say there's another \$400 million to \$500 million probably in what we'd call payments for severance and exit for the year, and some portion of the \$151 million for the first quarter of that.

Eli Lapp: Maybe more importantly, how much of that is cash?

Frank Sklarsky: Well our cash, if you go back to our February 8th meeting, we were very careful to say that we would have approximately \$600 million of corporate cash for restructuring payments for this year. That includes the cash required to follow through on the remaining restructuring that was done in '06 and prior, as well as about 40 percent of that related to actions we would take this year. And in addition to that 600, there will be somewhere between \$100 million and \$150 million in special termination benefits that would be taken out of our U.S. pension assets. So we're still holding to that general guidance from February 8th.

Eli Lapp: OK, thank you.

Operator: And we have time for one more question. We'll go to Jack Kelly at Goldman Sachs.

Jack Kelly: Good morning Antonio. I was going to say something complimentary about Don, but decided not to, given I might be setting myself up. Anyway, I did have a couple questions. You'd indicated that in the second quarter you expected consumer digital camera growth to be positive. And it sounded like you thought it would be in line with the industry, or maybe better. So can you share with us in terms of what you think the industry is going to do this year in terms of consumer digital cameras?

Antonio Perez: Yes we do expect the tough compare that we had in the first quarter will disappear in the second quarter. So we won't have much of an excuse then. We've kept selling a lot of low-end cameras the first quarter of last year, some in the second quarter. But you know that compare will be better. And I know how well we are doing with the cheaper cameras. So I could only expect to grow as the industry grows. And I won't go any further than that.

And the second, the third and the fourth quarter are the quarters that in our original plan showed; the digital growth both for CDG and for GCG. So I expect them both to start showing digital growth and get to the numbers that we set for the year. And that goes in line with the timing of introduction of products and everything else. You can figure it out. We introduced a lot of products in GCG as well. The plate contracts will be renegotiated and they will have an effect more toward the second part of the year. All of that is positive. The digital growth that we promised for the Company, that we expect for the Company, will happen in the second, third and fourth quarter.

Jack Kelly: OK. And then I had a question about overall digital profits for the Company. Last year you earned 343 million in operating profits. That was composed of roughly 250 in IP and then 93 from other. If we take the mid point of the range that you gave us, today it would be mid point I guess of about \$200 million, of which maybe we get another 250 from IP. So I guess the question is, last year excluding the IP, you earned about \$93 million, the 343 less 250. This year it looks like a swing to a minus 50, so a swing of about 143 million. Now part of that might be the – you know the additional investment in inkjet. But just would you just kind of generally characterize that swing of 143, where it might be coming from?

Frank Sklarsky: Yes. Jack this is Frank. I think that you're right on your last point there. The major part of the swing is the investment in inkjet this year. And we always hate to attribute IP as being the only or major contributing factor of digital earnings. There's another very nice part of the portfolio called graphic communications. And we can just as easily attribute a substantial portion of digital earnings to that part of the portfolio. So there are obviously some puts and takes. There's a nice performance from GCG. There is nice performance from royalties, offset somewhat by the significant cost associated with the inkjet launch this year. And those are really the three major factors. And I guess that's the way I'll characterize it.

Jack Kelly: OK and just a final ...

Antonio Perez: The growth in digital earnings from CDG is about the amount of money that went into cover for the investment in inkjet.

Jack Kelly: So plus 50 roughly. Yes, got it.

Antonio Perez: No, I don't get to those numbers. But you better sit down with one of my people and go through those numbers. I don't get to that number.

Jack Kelly: OK. And then finally, Frank on currency, you identify the positive impact of currency in terms of gross profit. Can you maybe quantify what it was on the bottom line, the EPS line?

Frank Sklarsky: Well generally it does flow through, as it goes to gross profit that the same amount would generally flow through the bottom line. There's some impact on G&A costs in those same jurisdictions, so there would some offset to the gross profit number, relatively in proportion of G&A to the gross profit. So if G&A is, 19 percent of revenue rather, and gross profit was something on the order of 24 percent of revenue, roughly in that proportion would be the offset for G&A savings in those jurisdictions.

Jack Kelly: OK, good. Thank you.

Operator: And that does conclude the question-and-answer session. At this time, I'll turn the conference back to Mr. Antonio Perez for closing remarks.

Antonio Perez: Oh thank you. Thank you very much, everyone, for attending the call.

From my point of view, we had a very good first quarter. We have a great balance sheet with strong liquidity. We're enjoying very promising success in the market place with our new products not only with inkjets, but as well as in GCG. And we have more important new products to follow as we continue to commercialize the powerful internal know-how that we have in this company, both in digital imaging as well as in output technologies.

We have announced the last major step of our traditional manufacturing and restructuring program. And you can't believe how relieved I am that we're already at this point. And now obviously we are, you know we're now poised to bring it to our conclusion this year, which was always our plan. This has been a very difficult job. Well done by a very committed Kodak team.

And at the same time, I had certain fears at the beginning of the year about how well we were going to SG&A, was it going to be well enough. And I feel a lot better. You've seen that as getting a lot of momentum, so I think we can conclude the last part of our restructuring as well, before the end of this year.

All I want to tell you is a new Kodak is emerging in my view. And this Kodak will deliver very sustainable value, for our shareholders by, positioning the Company in those areas where we have a lot of strength, improving in our basic process, and of course concluding this four-year restructuring plan. Well thank you very much for joining the call.

Operator: And that does conclude today's conference. Again thank you for your participation.

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