

EASTMAN KODAK

1Q08 Sales & Earnings

May 1, 2008

Operator: Good day everyone and welcome to the Eastman Kodak first quarter sales and earnings and 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, Ms. Ann McCorvey. Please go ahead.

Ann McCorvey: Good morning and welcome to our discussion of the first quarter sales and earnings. I'm here this morning with Antonio Perez, Kodak Chairman and CEO, as well as Chief Financial Officer, Frank Sklarsky. Antonio will begin this morning with his observations on the quarter and then Frank will provide a review of the quarterly financial performance.

As usual, before we get started, I have some housekeeping activity to complete. Certain statements in this presentation maybe forward looking in nature or forward looking statements as defined in the United States Private Security Legislation Act of 1995; for example, reference to the company 's expectations for investment in consumer inkjet, distribution expansion, impact of commodity and raw material costs, new product rationalization charges, depreciation, taxes, cash, segment and total company revenue, revenue growth, earning and earnings growth are forward-looking statements. These forward-looking statements are subject to a number of important risk factors and uncertainties, 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 significant reduced its references to non-GAAP measures. In those instances where they are used, they are fully reconciled to the nearest GAAP equivalent in this documentation released this morning, which be also be found on the Web site.

Now, I'll turn the call over to Antonio Perez.

Antonio Perez:

Thanks, Ann and good morning everyone.

2008 is off to good start, and it's a proof point that Kodak has returned to growth.

Overall revenues grew one percent year-over-year, and our digit businesses grew 10 percent. I am satisfied with our first quarter earnings and cash performance, as they are right within our expectations given our seasonality and that gives me confidence for the full 2008.

Let me put the \$119 million improvement in loss from continuing operations before taxes into perspective. The biggest driver of the improvement was lowering restructuring charges of \$161 million. Operationally, our losses increased as we had a full quarters' investment in the placement of the consumer inkjet printer line, and we experienced higher raw material cost. We were also negatively impacted by the Hollywood writers' strike, which is over now. The operational loss was partially offset by earnings growth in both our digital cameras and digital picture frames, where we continue to see the positive financial impact from our world-class supply chain in our improved product design capability. I'm comfortable we are making the right investment across the company to fuel profitable growth.

In the first quarter, much of the cash used was related to planned investments in new products and revenue growth for the year. As a result, Kodak's first quarter net cash usage of \$764 million was higher than last year's first quarter. However, we remain confident in our plans and our seasonality to deliver our full year net cash generation.

Frank will cover cash in more detail during his remarks.

Now, we will discuss the businesses. The Film, Photofinishing and Entertainment group, FPEG was slightly ahead of plan and delivered another quarter of solid earnings. While FPEG's results include a number of positive and negative factors, it's important to highlight the negative impact of the Hollywood writer's strike and higher raw material cost plus the positive impact of a traditional asset useful life change. Our film business continues to be an important contributor to Kodak's success with a sustainable business model and continued product innovation. In particular, I'm pleased with the significant customer acceptance of our Vision 3 films during its first full quarter of sales. When combined with our first quarter performance, it gives me confidence that FPEG will achieve their full year goals.

Graphic Communications Group, GCG.

GCG's revenue was up four percent, driven by growth in annuities across all of the product lines. With double digit growth in plates, workflow and consumables for digital printing. However, our equipment sales declined year-over-year, as we are seeing the typical first quarter's slowdown in orders in anticipation of Drupa in Dusseldorf, Germany and will begin this year at the end of May. Drupa will be a catalyst for revenue growth in the second half.

It is a great opportunity to showcase Kodak as the only supplier with both conventional and digital solutions within a unified workflow. We will be highlighting over 25 new products from our prepress solutions, workflow and digit printing product lines, with new offerings that bring offset class quality, reliability, speed and cost.

GCG's earnings from operations were slightly below plan, down \$10 million versus the prior year first quarter, as the growth in revenue was not enough to upset the increased R&D investment in commercial inkjet and the unfavorable effect of raw materials. We will continue to monitor raw material pricing and will raise prices where appropriate taking into account customer and competitive situations.

We are maintaining full year revenue and earnings growth targets for GCG. Consistent with the 2007 seasonality, amplified this year by the DRUPA effect, we expect to see accelerating revenue growth in GCG as we move through the year.

Now the Consumer Digital Imaging Group, CDG

CDG lead the way in Kodak's return to growth with revenues up 20 percent year-over-year. CDG's growth in the first quarter was driven by digital cameras, digital picture frames and consumer inkjet products. The comparison will become less favorable as we reach the anniversary date of the introduction of consumer inkjet and digital picture frames, but as we forecasted in February, we expect double-digit growth for CDG products for full year 2008.

CDG ended the quarter ahead of plan for earnings from operations with a loss of \$111 million.

Within CDG, digital cameras and digital picture frames have solid earnings improvement partially offsetting the year-over-year increase in the investment of consumer inkjet. For the full year, we continue to expect our investment in inkjet to be less than 2007 as we complete full ramp up of this important product line.

We're pleased with the demand for our consumer inkjet products. As we announced last week, we are adding new products from our lower cost platform introduced in January and increasing our channel presence both geographically and with new retailers. We are on track to achieve our full year earnings target for CDG.

Now I will turn it over to Frank.

Frank Sklarsky:

Thanks, Antonio and good morning, everyone.

I'll provide a bit more information around our first quarter financial results, and then Antonio and I will be happy to take your questions.

As Antonio indicated, we're pleased with the company's performance in the first quarter, which included total revenue growth of one percent and digital revenue growth of 10 percent. Our overall financial results reflect a few key dynamics; the impact of timing shifts in our digital equipment placements in GCG, much of which is related to the anticipation of products to be shown at DRUPA. In addition, we experienced some headwinds associated with commodity costs and other raw material increases. And, we were also impacted by the Hollywood writer's strike in our Entertainment Imaging Group within FPEG. Our cash usage consistent with our internal expectations was higher than in the prior year due to a number of factors that I'll speak to in a few moments. That said, we are confident in achieving our full year revenue, earnings and cash commitments we shared at our February investor meeting.

For the first quarter, consolidated revenue grew by one percent including a favorable foreign exchange impact of five percentage points. Importantly, we continued to experience double-digit revenue growth in our digital businesses. It's important to note that approximately 60 percent of our business is outside of the U.S., and although our revenues are favorably impacted by foreign exchange, we have a substantial international cost base so the impact of foreign exchange on the gross profit line is less than one percent.

In the quarter, the company's gross profit margin decreased slightly to about 20.3 percent from about 20.6 percent in the prior year. This change is attributable largely to the mixed impact of substantially increased units of consumer inkjet printers as compared to the prior year when the product was first introduced, the impact of the Hollywood writer's strike and FPEG along with continued unfavorable impacts of increased commodities and other raw material costs. These effects were partially offset by continued improvements in digital cameras and digit picture frames and the impact of lower depreciation expense resulting from a change in useful lives. As it looks today, higher commodity and other raw material costs will continue to impact the company throughout the year. The area remains volatile and only a portion of the impact can be mitigated through hedging strategies.

Our SG&A decreased \$9 million or two percent and improved about a half a point as a percentage of sales to 18.4 percent. We continue to build to the substantial structural cost reductions achieved in prior periods.

We had consolidated first quarter GAAP pre-tax losses from continuing operations of \$74 million versus \$193 million in the year ago quarter, an improvement of \$119 million, mostly attributable to lower year-over-year restructuring charges and continued reductions in SG&A.

As for restructuring, the company had minimal restructuring charges in the first quarter which were more than offset by a \$10 million net curtailment credit. We do anticipate some level of rationalization charges for the remainder of the year consistent with our guidance in February. Our corporate cash payments related to restructuring for the quarter were approximately \$60 million.

On a segment basis, our Consumer Digital Imaging Group's revenue grew by 20 percent from \$462 million to \$554 million for the quarter, an increase of \$92 million. This was achieved on the strength of digital cameras, digital picture frames and our consumer inkjet products.

The loss from operations increased by \$36 million from \$75 million in last year's first quarter to \$111 million loss this year. The year-over-year decline in earnings, resulted largely from increased investment in our Consumer Inkjet products including the launch of a new platform, partially offset by improvements in profitability in digital cameras and digit picture frames.

Taking a look at Graphic Communications, our GCG business grew revenue by \$29 million or four percent for the first quarter. This growth was lower than our full-year growth target but in line with our seasonal pattern. And we also saw some softness due to our customers anticipating new product offerings to be rolled out at DRUPA.

As some of you know, in mid-year 2005, the company shortened the useful life assumptions on most of its traditional manufacturing assets to reflect the anticipated decline in the company's traditional film and paper businesses. This operating assessment resulted in the useful lives of these assets ending in mid 2010 for accounting purposes. Based upon the performance of the business and our latest projection of market trends, we have now concluded that, to varying degrees, the estimated useful lives on these assets will be longer than previously anticipated. This has resulted in a decrease in depreciation expense for the company effective January 1st, 2008. As Antonio indicated, other factors aside, this decrease in expense favorably impacted earnings from the first quarter of 2008 by approximately \$16 million. This accounting change will result in a favorable impact on earnings for the entire year of about \$96 million.

With respect to results in FPEG, revenue declined by about 13 percent to 724 million. This reduction was due to the anticipated declines in film capture, paper and photofinishing, along with the impact of the Hollywood writer's strike on Entertainment Imaging. Year-over-year earnings declined slightly by \$4 million. This decline was largely due to lower volumes in our consumer film business and the impact of the writer's strike along with the negative impact of higher silver and other raw material costs. This was partially offset by continued cost reduction efforts and the previously mentioned benefit associated with the change in useful lives.

As a result, Kodak reported a GAAP loss from continuing operations of \$114 million or 40 cents per share, an improvement of \$61 million or 21 cents per share from the prior year loss of \$175 million or 61 cents per share. This improvement is largely attributable to lower year on year restructuring costs offset by a higher tax provision in the current year quarter. I would like to add a few additional comments on the tax provision for the quarter. The company booked a net tax provision of \$40 million in the first quarter. This is due primarily to losses in the U.S., which are not benefited, as well as taxes provided on earnings on many of our international operations. We're still anticipating a book tax rate of between 25 and 30 percent for the year and cash taxes in the range of approximately \$150 million, including the taxes due on gains from the sale of Health Group and HPA from the prior year.

First quarter net cash generation reflected a use of \$764 million, compared to a use of \$453 million in the year ago quarter, an increase of \$311 million. The year-over-year change is primarily attributable to higher working capital including payments to suppliers related to fourth quarter 2007 revenue growth and increased inventory build in the first quarter in anticipation of revenue growth in the second quarter and beyond. In addition, increases in performance-based employee compensation and case payments associated with a number of previously accrued tax items, contractual obligations and legal settlements impacted the year over year change.

Looking forward, we remain committed to achieving our previous guidance for full year 2008 cash goals.

We ended the first quarter with about \$2.2 billion in cash and cash equivalents. Our debt stands at about \$1.6 billion and we will pay about \$250 million in debt that is due in May. We continue to be pleased with our strong balance sheet and the significant liquidity position it provides us. And, in recognition of the progress we have, S&P recently improved its outlook on the company to "stable".

In summary, we will continue to drive toward achieving our financial performance targets for the year including revenue, earnings from operations and cash. As we continue to place more digital equipment on both the consumer and commercial side, we're building a strong foundation for an increasing annuities business for the future. While we will continue to be challenged with higher commodity and other raw material costs, we will be aggressive in our efforts to maintain a lean cost model, drive working capital efficiency and evaluate product and pricing opportunities.

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

Operator: Thank you. The question and answer session will be conducted electronically. If you'd like to signal for a question, you may do so by pressing the star key followed by the digit one on your touchtone telephone. If you're using a speakerphone, please be sure to use your mute function – I'm sorry, to turn off your mute function to allow your signal to reach our equipment. Once again, that's star one for questions.

We'll take our first question from Matt Troy with Citigroup.

Matt Troy: Antonio, it's been about a year since the sale of the health care and the proceeds. I was wondering if you could just give us an update to the extent possible; one, I know an issue initially identified was it would take some time to repatriate the cash. Has that been done to the effect it can be?

And then, two, could you give us an update either your thought regarding deployment of the cash or at least the process in your engagement with the Board in that decision?

Antonio Perez: Not much changed from what I told you before, Matt. Some repatriation has occurred, and the process continues, say, the first objective is to invest in organic growth. You've obviously seen that this quarter. We have DRUPA in front of us, and we have to put a lot of money behind that and we continue to be investing aggressively in developing the consumer inkjet business.

As far as usage for that extra cash, apart from the organic growth, we obviously looking for opportunities with good returns for the company outside for non-organic growth, and we keep looking very seriously at the possibility of share repurchase. And this is a constant topic in our board meetings, and we have external people helping us with ideas about what to do, what is better for our shareholder, the timing of all of that, and when we have more news, we will certainly let you know.

Matt Troy: OK. We'll stay tuned there. Quick question for Frank. On the reassessment of the useful lives on the film assets, I understand that's a non-cash, so we're really not talking about any difference in economic earnings, but was just curious to the extent it is going to be a \$96 million benefit on the depreciation line, if I looked at your keeping your guidance flat for EBITDA for the year, it would imply something else coming in potentially a little bit weaker.

And again, I appreciate this is not a cash issue, but was wondering if I'm understanding or framing that correctly and what is it that might be coming in a little lighter on the EBITDA side, such that this \$96 million lift doesn't allow you to raise the guidance at this point.

Antonio Perez: Well, this is not Frank, as you probably know by now.. But given the situation with the raw materials, which may or may not change.

Matt Troy: Right.

Antonio Perez: And due to the fact that there were rumors of another strike from actors it looks like it's kind of softened now, we thought it was prudent at this time not to do that. That doesn't mean that we may not change that later, but at this time, there were enough up and downs that the first thing that we thought we should give you was, that is the effect, and you have the number.

If nothing else will change, if the raw materials will stay relatively constant, then obviously this will, have a very important effect on the earnings but not in the cash as you said. We just thought it was too early to make that conclusion. We'll leave it up to you. We give you the data, you can read through it. We thought it wasn't prudent to do right now.

Frank Sklarsky: And Matt, just one clarification because you mentioned the revaluation of the film assets. I just want to make sure we understand that this was an assessment of the assets that impact both the film business as well as the paper business.

Matt Troy: Right.

Frank Sklarsky: Our internal teams been very diligent in finding ways to redeploy portions of that traditional asset base toward using it for your digital businesses. We make a portion of our ink at Kodak Park for the consumer inkjet product. We also use some of these assets to produce thermal paper for our growing kiosk and dry lab business. So that was all part of the assessment and what gave us some more confidence looking out into the future, along with the continued steady strength in entertainment imaging.

Matt Troy: Yeah. And absolutely and, you know, I think the longer view would say a net positive that you can extract greater cash flow and economics from those assets.

Antonio Perez: And let me explain, Matt, why we did it right now. I mean, when we faced the decline of film in 2004 we've made our best assessment, and we knew that we had to be aggressive with this, and we said, well, the best data we have, suggests that 2010 would basically be the end of this. Obviously, we had a very complicated manufacturing structure in which some of those assets were used by several products. It was very difficult to do anything but set the date for 2010 as the best information we have.

Today, obviously, the manufacturing structure is very clean. We know what asset is used for what, so we went asset by asset and we did a thorough analysis and, obviously, we know it's not going to go away in 2010 so we added, depending on the asset, maybe one or two years to that, which is the prudent thing and the right thing to do.

Matt Troy: Thank you. And the last question I had, Antonio, is just on inkjet. I think the numbers we look at has you at a two, three, four percent market share on sell through certainly one year in, a good number to be at. I was wondering if you could just maybe expand on your learnings now that you're a year deep. Has the competitive response been what you've thought? Have you seen even a competitive response? And just looking out 12, 18 months, you know, what's the share outlook from a Kodak perspective? You've articulated 2010 and can you stick to those goals at this point? And just talk about, I guess, just generally what you've learned in this first year, both positively and on the challenge side. Thanks.

Antonio Perez: We certainly stick to those goals. There are variety of learnings. The response from our competitors, which there has been one. It wasn't so much in products. We haven't seen that in the business model of the products structure or the product design. What they have been is a lot more aggressive in the channel. And, that was one of the options that they had and an intelligent one, I guess, they made very competitive for anybody to get room in the channel and get the right placements of ads at the right time, there is a limited number of them, everyone fights for those. And in that we've seen a very, very, serious response. We haven't seen a response to our business model and our value proposition, not that we expected to – them to have one because it's – I think it's a pretty complicated thing for them to do for from our point of view.

For us this year, it's a critical year of introducing new products with the low-cost platform. We came with the first platform was, obviously, you can argue over design as you normally do with your first platform. You want to make sure things are going to work, and the first time you make a printer, you tend to over design and it's fine. Obviously, we needed to move rapidly to a much lower cost structure with the same performance or better performance. This is what we did, we introduced the first product of this new platform in January. We just introduced the second, and you're going to see more things coming this year, getting ready for the big season. This is a very important year for us. We think we have very good momentum. We think that slowly but surely the business model is – has been realized by a lot of people, and I think that will play in our favor.

Matt Troy: Excellent. Thank you for the detail as always.

Operator: Thank you. Our next question comes from Jay Vleeschhouwer with Merrill Lynch.

Woo Jin Ho: Hi. Good morning. This is Woo Jin Ho for Jay Vleeschhouwer.

Woo Jin Ho: First, with respect to the inventory build in the first quarter. We understand that it's being built to help fulfill the expanded distribution for the consumer inkjet. But, still, what are your expectations for inventory turns? And how many inkjet sales needed to fill the channel; especially, given the apparent near-term risk to consumer spending?

Frank Sklarsky: Well, without going into any specific details on turns for individual products, we are striving to improve, continually improve, an inventory performance throughout the year across the business. What I would say on the consumer digital side, we are closer to the benchmark in terms of turns, and that is a business that has improved its turn substantial from the two range to well over three, over the past year and a half, and that's attributable to – largely the new business model associated with digital camera devices and frames.

The rest of our businesses still have up side opportunity, quite honestly, the Graphic Communication side; whether it's equipment in graphic communications where we have opportunities to improve our cycle on customer installation an acceptance there by improving the cash cycle and also in the consumer inkjet side. But for consumer inkjet right now the issue is making sure that we can effectively fulfill all the demand that's out there. It's a good problem to have, but that's what we're focusing in on right now before we get up to a level where we are looking at turns. You know, turns are high right now for some specific products in consumer inkjet just because we are building to demand. But that – I would characterize the CDG overall is doing well and GCG still has opportunities. And we have some pretty aggressive internal inventory targets for the end of the year.

Antonio Perez: Let me add a couple of things. As far as consumer inkjet and all the CDG products, we believe we have a leading supply chain.. We have a lot of flexibility in moving volumes up and down a lot faster than, obviously, we were able to do a few years ago, so we feel comfortable with that. We haven't seen, obviously, given the results that we have, a huge effect of consumer spending, a little bit in the U.S., certainly not in Europe where our performance has been spectacular.

And the other thing to our advantage, if there is one advantage, I hate to say it like that in having such small market share, is that it will be a lot easier for us to grow, and in many of these categories, we have still, in the new categories, we're still newcomers, our ability to grow, we have a good value proposition, good value chain, good cost structure. We think we're very well protected, as much as you can, obviously to changes in consumer spending.

Woo Jin Ho: OK. With respect to consumable usage, what are you seeing in terms of the usage, specifically, consumer printing activity at retail, online and at home, as well as, prepress and digital uses within GCG?

Antonio Perez: Well, GCG has gotten growth thanks to the increasing consumables. An example, the color pages in Nexpress went up by 21 percent quarter to quarter. We don't disclose every single product, but we've been disclosing, you know, color pages because it's such and important, you know, indicator of where that business is growing. If it wasn't in GCG for the good growth of the consumables and the usage, we wouldn't have been able to grow this quarter because the equipment sales, as we said, we knew that we're going to be low because of Drupa.

We're introducing more than 25 products at Drupa. Nobody wants to make a decision unless it's absolutely necessary before Drupa, and we see that every four years when Drupa comes, so for GCG, the consumables, we're very happy. We're very happy. The usage keeps growing very nicely. As far as inkjet nothing much has changed since the data that we gave up to the fourth quarter, very high usage. I will be cautious and, I will be the first to proclaim what it is when I think we have enough of an install base to certify that this is something that is going to continue.

Right now, we are very well aware that the customers that we attracting are the ones that tend to be more attracted to this business model; and, therefore, they going to print a lot; and, therefore, our numbers are fantastic, but we cannot say how much they are going to continue like that. We hope that will be high. We know it will be higher than the average, but we don't know up to what level.

Woo Jin Ho:

OK and a couple of more. First, do you foresee in possibility of any gross margin improvement this year in any of your hardware or equipment within CDG and GCG? And you talked about the pre-Drupa effect on the GCG revenues. How are you making that – how are you taking in the post-Drupa effect into the outlook for the year as well as further out?

Antonio Perez:

The first one. We have already seen margin improvement in devices for us both in digital cameras and in digital picture frames. Mostly because we have improved the way we design these products and our supply chain is paying back the work we did last year, so yes we expect an increase of the device, you know, gross margins.

We were very conservative on the first quarter with our number for GCG because we knew by talking to our customers, obviously we show to many of our future customers the new products that we're going to introduce in Drupa. They're not going to see them in Drupa for the first time. And that, obviously cuts both ways. In one hand, you excite your customers where the new thing's coming. On the other hand, they were ready to make a purchase, they're not going to make it, we think it is the fair thing to do. We have to let them know, as far as we know, we haven't lost any orders that we are aware of. We've seen delays in orders. We actually seen delays in very significant orders for Versamark in the big financial institutions.

From what we know, we're still going to get these orders, it's just that we didn't get them in the first quarter. And so when we see the effect of Drupa and, obviously our funnel, we believe that we're going to achieve the goals that we set for the year for GCG, which were six to seven percent growth of the top line.

Woo Jin Ho: So in terms of the Versamark business, I know there was a lot of anticipation for the stream technologies that you've previewed over the past couple of quarters. And you mentioned, Antonio, that there has been some delays, but given the anticipation of stream, could there be a lingering drag on demand to the Versamark business at all?

Antonio Perez: No. It's not just STREAM that's going to be introduced over there. We are introducing a very important new drop on demand, commercial printing press that has received a lot of very, very nice comments from the customers that have seen it, and we think this is immediately for sale when we go to Drupa, and we think that's going to have an effect. I think as well, people – they need to see what stream is going to do, so they make their choices of what model of Versamark they're going to buy, thinking about the future, and I think after Drupa and during Drupa you're going to see an acceleration of this industry. It happens every four years. I don't have any reason to believe that it won't happen this year.

Woo Jin Ho: Great. Thank you.

Operator: Our next question comes from Carol Sabbagha from Lehman Brothers.

Carol Sabbagha: Thank you. Just first a question on cash flow. Just looking at it from a very big picture, we were down a little over \$700 million in the first quarter, seasonally, usually a weak quarter; nevertheless, you have a lot to make up to get to your full-year target, so if we look at it from a very sort of big picture perspective, what are the big buckets that we should look for improvements or to contribute to cash flow to get you to your full-year target? And my second quick question on cash flow is you were down a little bit more than you were last year in the first quarter, should we see a meaningful improvement in the second quarter? Or is this more of a second half event for you guys on the cash flow side?

Frank Sklarsky: Taking the second question first, Carol, I think that you'll see gradual improvement throughout the year. As you know, we generate the vast majority of our cash in the back half of the year and, really, in the fourth quarter, and this year I don't see a substantial change in that dynamic.

I would say to your first question, where we would see some the improvements, we're a pretty agile management team. We've got a lot of levers to pull. One thing we're not going to do is slow down the investment and think their going to grow our top line. What we will do is keep a very tight rein on capital spending to make sure we're deploying that to those areas which are going to contribute to growth.

Number two, we have some very aggressive initiatives under way for the remainder of the year on all the elements of working capital, so continued improvements in past due receivables, continued improvements in simplifying the business, which will help us leaning out the supply chain, improvement in our revenue forecasting, which will also help us keep inventory levels lower. And also, very significantly, some aggressive initiatives around accounts payable, which were commenced in the middle of last year but which we are accelerating this year to bring ourselves much more quickly in line with our peer group days payable outstanding. So those are some the key areas.

And, of course, for the remainder of this year, cash payments for rationalization charges will be much, much lower than last year. So when you look at the year-over-year compare on a quarterly basis that will also help us improve. And, again, in the first quarter there were about a \$150 million plus of items that I'll say were special in nature that were accrued at the end of the year that were paid out in the first quarter, so that was part of the explanation also. But our goal is still to achieve our cash targets for the year.

Carol Sabbagha: Another sort of broad question for your outlook for the year. I know that the CDG EBITDA came in as you expected, although a little bit below our expectations, but you're still for the year looking for that business, I think, to have two to three percent EBITDA margins, but you're going to have more inkjet hardware sales, hopefully, on this year versus last year and potentially lower licensing given your forecasts. What are the variables this give you confidence that you can have this margin improvement from '07 to '08?

Antonio Perez: Carol, you made two wrong assumptions there from our point of view, OK, with all due respect. I don't know why the IP is going to be less. We stick to the 250 to 350, I don't know why you said that. We don't agree with your statement. The other one, yes, we are going to put more inkjet printer into that, but guess what, we're getting a very nice number of cartridges coming in now, slowly, you know.

Inkjet is a big investment still for the year, but we believe it's going to be less than last year, and it's because even though we're going to place more units there. Remember, they're a low-cost platform so they're less costly for us, and we're beginning to see a lot of cartridges being sold so

Carol Sabbagha: I wasn't just saying that – I thought last year you had over 500 million and I thought you've said average annual 250 to 350. That doesn't mean that's what 's coming in this year, so that's sort of why I made that comment.

Antonio Perez: I don't recall making that statement. All I can tell you is that we do expect this year from 250 to 350 and it will come. It didn't come in the first quarter so it will come later.

Carol Sabbagha: OK. And my other question is on GCG. You've had a lot of head winds on commodity costs over the last 12 to 18 months, and I'm assuming that underlying that, the margin trend is, obviously, much more meaningfully than we can see. Aside from sort of a reversal on these commodity costs, is there a lot of potential cost savings from all that you've done integrating these businesses less to be had, or have we gotten most of them, and they've just been sheltered. You can't see them because of their higher commodity cost.

Antonio Perez: But two things; The answer to your first question. Yes, there's better margins that you can see. Second, Drupa comes only once every four years, and we put a lot of money behind Drupa, and that's the right thing to do, but, unfortunately, all the expenses tend to come in the two quarters before Drupa, and we talked about R&D.

There are many other expenses that are associated with Drupa and all the cash that is used because you have to have a good show. I mean, if you don't have a good Drupa, you can really damage your business, so when Drupa will be gone, we don't have those expenses anymore. We'll have a lot less I mean, so you will see that, too.

You know, Versamark, which was basically the most under performing as far as units, is very easy to understand why this has happened. I mean we also caused it by ourselves by talking so much about the new stuff that we're coming with. NexPress grew. I think it will grow more after Drupa, but it grew this quarter, and the color units, black and white is going down, the colors they grew nicely, and the color printing pages, as I said before, grew 21 percent, so we see a lot of potential in that in this group.

The only fear for that group is that we have, you know, small customers and medium size and larger customers, so what's going to happen for the rest of the year for those small customers that are not well capitalized and they need loans to get to get this product. So we put in place ourselves the ability when it's appropriate to provide finance for those people. If we see, obviously, that it's a good deal for us, so that's the only thing that I have.

My only worries about GCG is how well we're going to do in Drupa. We're coming in with a very good intentions, a lot of products, a lot of stuff, a lot of very good stuff, a lot of money behind, but then what happens with a crisis as far as them being able to get the money they need to buy these products. Those are the two things that, you know, that bother me about GCG.

Carol Sabbagha: Thank you very much.

Operator: Our next question comes from Shannon Cross with Cross Research.

Shannon Cross: Good morning. One question to start with on the commodity pricing, obviously, silver and aluminum impacted you fairly significantly. A few years ago, I, you know, and this goes back to Bob Brust and that, but it used to be common sort of like a dollar of silver increase, you know, impacted us, say, 30 million to 60 million. I know it's much less than that now given how you've changed your product mix, but can you give us any indications on how sort of to think about with some of these moves in commodities, which, you know, who knows what the dollar may go down again, you know, how to think about the impact, both on the silver side as well as on the aluminum side?

Frank Sklarsky: Yeah. A couple points there, Shannon. Obviously, silver is a lower impact now than it used to be. It's probably more, and I will characterize it into the high teens to the low 20 millions per dollar of silver because of the reduction in the Troy ounces that we both buy directly as well as the Troy ounces that are embedded in some of our other raw material buy. Aluminum, I don't have a number for you, but I will say that aluminum was a larger impact in the quarter than silver. Some of that was just the magnitude and some of it was relative amount that we've been able to cover through different strategies.

The other point I would make, though, is that what's hitting, you know, all competitors right now are other raw material costs other than just aluminum and silver, and that means anything that's petrochemical-based; whether it's resins, plastics and so on, and also the fuel surcharges on transportation costs, so I don't have an exact number for you. Those are the things that we are very watchful of in addition to just the raw import commodities for, you know, for aluminum and silver. So again, mid-20's millions of dollars for the first quarter on aluminum and silver and then some amount above that impact on petro-based inputs and transportation costs.

Shannon Cross: OK. So I just – just to confirm because I don't want to make – I want to make sure I get this right, the mid-20's is basically ...

Frank Sklarsky: That's aluminum and silver.

Shannon Cross: ... per dollar? Or is that year-over-year impact?

Frank Sklarsky: No. That – year-over-year for first quarter ...

Shannon Cross: OK.

Frank Sklarsky: About 24, \$25 million.

Shannon Cross: And can you give us any indication on your hedging strategies? I noticed you're doing a bit more now.

Frank Sklarsky: Well, we – the strategy – on aluminum as opposed to actually direct hedging, we have the ability to vary our contracts between a fixed and a floating rate, and we kind of try to stay agile on that as we see the market. The thing with silver is because the run off was so dramatic in such a short period of time, I think it would have been impossible to layer on the kind of coverage, according to the step model that we have, just in a very short window, but we do have some amounts of coverage for each of the commodities as long as, you know, as we go out through the year in declining amounts quarter by quarter.

We do buy some of our aluminum in Euro, which does help us a little bit, but, you know, nevertheless, it's still an impact year-over-year and we continue to pursue what is step model for hedging, which declined – declining coverage over time in the out quarters.

Shannon Cross: OK. Great and then I just had a follow-up question, Frank, on the change in useful life, just to make sure. There is no impact to cash taxes. Has there been any accelerate, you know, any accelerated depreciation, anything that we should keep in mind that might impact cash over the next few quarters related to the depreciation change?

Frank Sklarsky: Not anything significant. We're still holding to our cash tax number of about \$150 million this year, and that includes about 60 million that'll be paid on the gains of sale for health and HPA, so, yeah, no significant impact on taxes from cash depreciation changes.

Shannon Cross: OK. Great and then just one final question for Antonio from a sort of macro stand point. Given the pressure you're seeing on the commodity side, and I'm sure the Euro's impacting you on the SG&A side as well and that, you know, what – sort of how do you sit back and look at your cost structure and say, OK, you know, at what point will we need another restructuring? Just if you could give us any thoughts, you know, as to how you're sort of viewing it. How many quarters are you going to give us before you, you know, before take another look at your cost structure? Any – anything you could give us on that would be helpful. Thank you.

Antonio Perez: No. I don't see anything like that, certainly not this year or even in the years to come. When we came into this year, and when we put our plans for the year, we kind of knew a lot of what was going to in the market, so and I think you probably remember. In February we did say that we took into account our best estimate of the economy and how that would impact both retail as well as the small businesses we were worried about, and we put that in our numbers, so our numbers already included when we came out with the number for the year, a prudent approach to a market that we weren't sure how it was going to be.

The cost structure's getting better every day. I don't see anymore than the \$60 to \$80 million in rationalization for 2008. There's no scenario in my mind that will do that. In few years from now but I cannot tell you when, but there will be one time in which we will have instead of two factories for film and paper paper, we will have only one. I can assure you by that time, the restructure will be so small that you won't even notice because we are already getting ready for that, but I can't even tell you when it is because it will take few years for us, so I don't see any restructuring of any magnitude that I can think of and any of the scenarios that you tell me the economy, the whole world economy going to crash down, I mean, then we'll have to have another conversation, but with what I know and what we know and with the modeling we do and with the growth that we expect, no, I don't expect anything more than what we have published.

Operator: Our next question comes from Ananda Baruah with Bank of America.

Ananda Baruah: First, taking the question, a couple of questions. I guess the first one is on cameras. One of your competitors made comments last week that they've seen camera pricing become meaningfully more aggressive and it impacted their top line and their margin. It certainly doesn't seem to have impacted your top line too much, but I was just wondering if you could talk about any change in camera pricing trends, or I guess what you're seeing as far as camera pricing goes out there in the marketplace. And how, if at all, the outsourcing of your camera manufacturing could insulate you from margin pressure?

Antonio Perez: Well, I don't know who told you that. But, yeah, I think that is been true since 2003 when I came here. I wouldn't change one single word of what you said describing the situation with additional camera market since the moment I came into this company as being as brutal and as aggressive and as difficult as you just described, so there's nothing – there is no news.

Yes, it is very aggressive. That's why we made the changes we made in the what with design, our product platform. That's why we changed our whole supply chain to one that we're very proud of, and we think is very agile, very low cost. And remember, we tend to play in more of the kind of the lower price, so if one should be suffering with this, it would be us, and we're not suffering with that.

Ananda Baruah: So I appreciate those comments, so from your vantage point, you know, sort of aggressive pricing as a rule notwithstanding, you haven't seen anything incremental occur over the last couple of months.

Antonio Perez: No, no.

Antonio Perez: That is very aggressive. Yes, it is aggressive because it's hard to differentiate. You know, having said that, we are one of the first companies that came with a smart capture, which is the way these cameras are going to be, with Sony, and I think that some other companies are coming with that too, but we are leading in feature set that really matter for the masses, and we keep a very, very low and lean cost structure. That's the only way to run this business.

Ananda Baruah: OK. Thank you. And just a follow-up if I could, regarding your plate business and just general trends that you're seeing in the offset market sort of so far in 2008, I think there's some data that suggests, at least in the U.S. that the offset market is slowing to some degree. Could you talk about what you're seeing in that market, I guess, both in the U.S. and Europe and sort of any impact to your business there, your plate business?

Antonio Perez: Well, we have double-digit growth in plates. If we can keep that worldwide, which is the figure that we disclose, but we see the plate market healthy. Again, it's very competitive, though. I can say the same thing as far as cameras. It's a good margin business, larger, higher margin than cameras in the key competitors involved, they're very aggressive. So are we. We work constantly in lower costs. You know, that we put a new plant in China to help us with lower cost for Asia Pacific.

Actually, we've been suffering with lack of capacity, in a couple of things. We didn't mention that in the call, but in plates we kind of getting better now with China. We're not quite out of it, and in inkjet, I'm surprised that none of you has called and said that you went to five or six stores, you couldn't find our printer because they're out of stock, so we still have some capacity issues; in part because we play safe and we are obsessed, you know, with supply chain, and maybe too much.

We have to do better, but plates I see the business is going to be competitive for a long time. It's about very good processes, very low cost and good quality. And you have to have critical mass, though. This is one business without critical mass, you can go anywhere, so we are the largest supplier in the world of plate, and I guess that gives us some advantage in critical mass. But I expect the market to be very competitive. We don't have any dreams that it's not going to be like that.

Ananda Baruah: And do you view what's going to in the U.S. economy as a potential headwind to the plate business as you move through the next couple of quarters?

Antonio Perez: Well, the biggest installation of NexPress is in the US, and they – they're printing a lot. Now, they don't need plates for that.

Ananda Baruah: Oh, I'm sorry. The plate business I was referring to. The offset market.

Antonio Perez: OK. OK, plates.

Ananda Baruah: Yeah.

Antonio Perez: I don't have the number of the U.S. in plates, but worldwide, it's been a great quarter of plates. If something were to happen significant in the U.S., I believe where the issue was more in Europe. I mean, the less growth was in Europe than in the U.S., so, no, I haven't seen anything.

Ananda Baruah: OK. Great. Thank you.

Operator: And ladies and gentlemen, that does conclude today's question and answer session. At this time I'd like to turn the call back over to Mr. Perez for any additional or closing remarks.

Antonio Perez: Well, thank you very much. Thank you for all for your questions and for attending, you know, the call. I know that there are other important companies doing this the same day, so I appreciate that you chose to be with us. We are pleased with the first quarter. It is within the plan that we have. This quarter fits perfectly within the plan that we presented to you in February, so we're on track to achieve our revenue, our earnings and our cash goals for the year. Thank you very much.

Operator: This does conclude today's conference call. We appreciate your participation, and you may now disconnect.

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