

## EASTMAN KODAK

### 2<sup>nd</sup> Quarter 2007 Sales & Earnings August 2, 2007

**Operator:** Good day everyone and welcome to the Eastman Kodak Second Quarter Sales and Earnings Conference call. Today's conference is being recorded.

At this time for opening remarks and introductions, I would like to turn the conference over to the Director and Vice President of Investor Relations, Mrs. Ann McCorvey. Please go ahead.

**Ann McCorvey:** Good morning and welcome to our discussion of our second quarter earnings. I am here this morning with Antonio Perez, Kodak Chairman and CEO, as well as our 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 activities to complete. Certain statements during this conference call maybe forward looking in nature or forward looking statements as defined the United States Private Security Litigation Reform Act of 1995.

For example references to the company's expectation for net cash generation, revenue growth, digital revenue, digital revenue growth, digital earnings, digital earnings growth, entertainment imagining film volumes, earnings from operations, unit volumes, restructuring, gross profit margin, target business model, and target cost model 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 certain important factors and uncertainties.

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

Now I would like to turn the conference call to Antonio Perez.

**Antonio Perez:** Thank you Ann, good morning everyone. For the quarter, we were essentially on plan for revenue and ahead of plan for earnings. Our cash usage in the first half was similar to last year. And we continue to be committed to delivering full year net cash generation in excess of \$100 million after spending about \$600 million on restructuring as we discussed on the first quarter call.

We have made significant progress and now we have a solid first half behind us. Giving us confidence that we will achieve our full year key strategic objectives. I am especially pleased by our progress in expanding the breadth of our digital portfolio. As well as our significant progress in improving our supply chain management and plus platform design efficiencies.

The year over year improvement in gross profit margin illustrates that we are on track to achieve our target business model. We are capitalizing effectively on a significantly improved portfolio supply chain and go to market structure in our digital businesses.

This has allowed us to reach a lot of milestones of positive earnings from operations for our digital businesses in the second quarter for the first time. And we continue to take costs out ahead of the revenue decline in the traditional businesses. Kodak employees around the world are working hard to deliver the SG&A reduction required to achieve our business model and I am proud of their performance.

Year over year SG&A was down \$87 million, or two percent points of revenue. Digital revenue growth has begun to accelerate, and while there is work to do in the second half we look forward to achieving our goal of three to five percent of digital revenue growth for the full year, which represents double digit growth for the second half driven by the expanded breadth of our digital portfolio both in CDG and GCG.

Our confidence is reinforced by the positive reception we have been receiving for our new line of consumer inkjet printers, our digital picture frames, our expanded line of Nexpress digital color presses and our work flow software for commercial printers.

I am very pleased as well for the fact that we have designed and introduced the new Kodak Easy Share C513 digital camera to include a Kodak CMOS Sensor. While we already started to design CMOS sensors for all the companies.

Although we do not have any new intellectual property deal for the quarter, our plan is on track to achieve the 250 million we reported previously.

Now let us spend a few minutes on operational highlights for each business. We will start with the Film Product Group, FPG, which performed exceptionally well in the first half. During the second quarter FPG revenues declined 15 percent, yet the business has been able to take manufacturing and go to market costs out ahead of the decline of revenue. Improving both year- over- year gross profit margins and earnings from operations as a percentage of revenue Consumer Film Capture revenues declined 30 percent in the quarter, while Entertainment Imaging film revenues were consistent with last year.

While entertainment and imaging film revenues was up three percent for the first half we continue to expect that for the full year, entertainment imaging revenue will be in line with our forecast and similar to the prior year.

We now expect FPG to end the year with earnings from operations at the upper end of the 13 to 16 percent range.

Turning to Graphic Communications Group, GCG, as anticipated GCG digital growth revenue accelerated the second quarter, growing six percent year over year. We are pleased with the momentum generated by the second quarter sales success of our digital printing and enterprise solution business. We feel comfortable that we will achieve the targeted six to nine percent digital revenue growth for the full year.

In conjunction with the digital revenue growth GCG total gross profit margins improved one percentage point despite the fact that we had a negative impact from increased aluminum costs.

Now Consumer Digital Imaging Group, CDG, second quarter results are evidence that the improvements that we began to implement in the second half of last year to our product portfolio and go to market structure are working. Total gross profit margin improved five percent points with significant improvements in digital capture and devices, which was partially offset by the decline in the traditional business and the introduction of consumer inkjet printers. CDG's digital revenue was flat reflecting the decline in the snapshot printers, which was offset by the introduction of digital picture frames and the new consumer inkjet printers. We have a good lineup of digital products for the second half all across the CDG product lines including competitive digital camera models at all key price points. This positions CDG digital for double digit revenue growth in the remainder of the year. I continue to be pleased with the progress that we are making with our new line of consumer inkjet printers. Consumers are embracing our value proposition especially the claim of being able to print with premium ink at up to 50 percent savings. This claim has been confirmed by Quality Logic, a third party provider.

Production is ramping up and the third printer in our line has been added to the retail offering. As our capacity increases we are expanding our distribution channels. As of now our printers have become available as well online through Dell and Amazon and very soon we will be adding additional retail partners in addition to the Best Buy, Office Depot, in the US and Dixon's and Medimarket in Europe.

Our goal continues to be to sell at least 500,000 units in 2007. Which will put us on the pace to grow this business to achieve revenues on the order of \$1 billion by 2010. Now I will turn it over to Frank for the financial overview.

**Frank Sklarsky:** Thanks Antonio and good morning everyone. I would like to spend some time discussing our second quarter financial results and then Antonio and I will be happy to take your questions.

We are pleased that our second quarter performance was inline with our expectations. We are on track with our digital growth, digital earnings, net cash generation, restructuring plans, and in very good shape as it relates to cost reductions, including SG&A. We believe all of this positions us well for achieving our goals for the full year. As we have mentioned previously, we manage the company on an annual basis. Consequently, we are focusing on those quarterly performance metrics that reinforce our view of our full year performance.

Loss from continuing operations for the second quarter was \$173 million pre tax and \$135 million after tax or \$0.47 per share compared to a loss of continuing operations of \$294 million pre tax and \$355 million after tax or \$1.24 per share in the second quarter 2006. This represents a pre-tax improvement of \$121 million versus the prior year and an after tax improvement of \$220 million, or \$0.77 per share.

Second quarter results include items of expense, impact and comparability, totaling \$266 million after tax or \$0.92 per share. This is comprised mainly of restructuring charges of \$248 million or \$0.86 per share. The prior year second quarter included items of expense, impacting comparability totaling \$206 million after tax or \$0.72 per share.

Both second quarter and first half revenues are essentially unplanned. For the second quarter digital revenue grew by three percent while traditional revenue declined by 17 percent. Consolidated revenue declined by seven percent and included a three percent favorable exchange impact. Based upon our results to date, we are reiterating our goal of achieving three to five percent digital revenue growth for the year.

With respect to gross profit margins, we are very pleased with the continued progress compared to the prior year and prior quarter. The 26.2 percent margin in the second quarter compares quite favorably to the 21.4 percent from the prior year. This improvement of about five points was achieved through continued progress in manufacturing footprint and related cost reductions and slight improvements in mix and foreign exchange partially offset by pricing into a lesser extent volume. This improvement was also achieved despite an increase of approximately \$36 million in aluminum and silver costs.

Looking forward based upon the seasonality of our business we are still positioned to achieve our 2007 target gross profit margin of between 25 and 26 percent of revenue. SG&A was reduced by \$87 million or 17 percent and declined as a percent of revenue from 17 [sic] percent in the year ago quarter to 17 percent in the current quarter. [Note: SGA declined 19 percent of revenue in the prior year].

Year to date SG&A decreased by \$199 million or 19 percent. We continue to show significant progress towards our target cost model which is to achieve a run rate for SG&A as a percent of revenue of 16 percent by year end. Given the substantial progress to date we are confident in our ability to achieve this goal.

R&D costs totaled \$128 million for the quarter or about five percent of revenue and in line with our plans. The spend as a percent of revenue is higher if applied to the revenue associated to our digital business where we focus most of our spending.

Second quarter pre-tax restructuring taxes totaled \$316 million versus \$224 million in the year ago quarter. We completed the sale of a manufacturing site in Xiamen, China, which resulted in a non-cash restructuring charge to the P&L of approximately \$238 million. Second quarter cash restructuring payments were approximately \$120 million.

We still fully intend to complete the major restructuring this year and as we stated previously we are also very confident in obtaining our cost model. We continue to track cost reductions along with restructuring charges and associated cash payments. To date we have been successful in reducing our costs in a very efficient manner. So we will be sure to keep you posted as we continue to refine our analysis and as we work to complete the remaining restructuring in the back half of the year.

Second quarter digital EFO was \$19 million, versus a loss of \$78 million a year ago in the quarter an improvement of \$97 million. Year to date digital losses are \$24 million compared to year to date losses of \$169 million for the prior year an improvement of \$145 million. It is important to remember that the second half of the year is typically much stronger in terms of earnings performance in our digital CGG and GCG businesses. So we remain confident in our full year digital earnings forecast.

Consumer Digital Imaging group, EFO improved by \$78 million for \$133 million loss in last years second quarter to a \$55 million loss this year. The year over year improvement reflects the favorable impact of SG&A reductions, improved gross profit margins in digital capture and kiosks and increased intellectual property royalties, partially offset by pricing and various product lines, volume declines and traditional retail printing and increased cost associated with the ramp up of our new consumer inkjet products.

EFO in the Graphic Communications Group for the current quarter was \$44 million versus \$16 million in the year ago quarter. An improvement of \$28 million primarily driven by higher volume in digital place and work source solutions, cost control initiatives in both manufacturing and SG&A and favorable foreign exchange partially offset by the negative impact of aluminum and modest pricing changes.

As a result of cost improvements the film products group posted an EFO of \$137 million for the second quarter versus \$119 million on the year ago quarter, on a revenue decline of 15 percent. We continue to year over year improvements in our traditional earnings reporting \$112 million in earnings from operations in the current quarter compared to \$81 million in the year ago quarter. This was driven by the continued strong performance in our film products group.

Overall other income and interest expense improved by \$27 million versus the prior year quarter. This is primarily driven by both the benefits to interest income and interest expense from the impact of cash generated by the health group divestiture.

Net cash generation for the second quarter reflected a use of \$251 million, an increase of usage versus the prior year quarter. For the first half of 2007, cash use of just over \$700 million was in line with last year's figure of \$691 million.

As expected we are showing significant cash usage in the first half of the year due primarily to seasonal effects and increases in working capital associated with projected second half revenue growth. We expect net cash generation to improve in the second half consistent with seasonality effects and plan initiatives to accelerate revenues. We also continue to focus on working capital efficiencies initiatives across all elements of the cash convergent cycle. Cash expenditures for the quarter were \$59 million, down \$24 million from the year ago figure of \$83 million, reflecting improved efficiency around spending.

We ended the second quarter at \$1.925 billion of cash and cash equivalents. This balance reflects the net effect of receiving pretax cash proceeds of \$2.35 billion from the health group divestiture and fully repaying the \$1.145 billion of the outstanding secured term debt. Our debt currently stands at \$1.624 billion.

We are very pleased with our strong balance sheet and strong liquidity it provides us. Overall we remain confident that the company will achieve previously stated 2007 goals for digital revenue growth of 3.5 percent, net cash generation in excess of \$100 million and our digital earnings goal in the range of \$150 to \$250 million.

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

**Operator:**

Thank you sir. To signal for a question on today's call, please do so by pressing the star key followed by the digit one on your touch tone telephone. Once again, it is star one. Please make sure that your mute function is turned off to allow your signal to reach our equipment and if you find that your question has been asked and answered you may remove yourself from the queue by pressing star two. Again, it is star one to signal for a question. We will pause just a moment to assemble our roster.

And we will go to Jay Vleeschouwer with Merrill Lynch.

**Jay Vleeschhouwer:** Thanks, good morning. Frank I would like to ask a corporate level question first and then for Antonio turn to the segments. Could you talk about where you see capital expenditures going? Do you see them continuing to tail off as we saw in the first half or where do you foresee still having to make commitments if any to capacity notwithstanding the footprint reductions that you have otherwise made within the company.

Secondly, there was a substantial year over year increase in inventories, is that second half preparation for the home printers or is there something else as driving the inventory change, year to date.

**Frank Sklarsky:** On CapEx Jay we still expect year annual CapEx this year to come in between \$300, \$350 million range as previously communicated. You know combination of capacity in various parts of the business as well as new product tooling and things like that. So, we are still holding to that number for this year.

As far as inventory goes, a couple of factors driving that, one, preparing for the double digit digital revenue growth in the back half of the year in both CGG and GCG. Another factor that did impact us in the second quarter was a build in inventory related to paper as a results of closing down the Xiamen China facility. So we built a little bit of a bank for the transition with that facility. We expect a lot of diligence around working capital in the back half of the year to get ourselves where we want to be.

**Jay Vleeschhouwer:** For Antonio, first with respect to CGG. Two things could you comment on the restructuring benefits of the changes you made in your camera distribution and portfolio over the last year? Are you pretty much done with the retraction of your exposure in different markets and are you now prepared to see some year over year positive comps in cameras and in profitability for cameras?

Longer term, which is more important, is it really the home inkjet printers do you think that will provide the most earnings leverage in CDG or will it necessarily be elsewhere that you would get the best leverage in long term profitability from CDG, namely retail printing?

**Antonio Perez:** Ok Jay we expect every product line to make money in the company. While, some obviously produce more than others, but every single one has to stand by itself and contribute to the bottom line.

The first part of the question was about the work that we have done. The realignment that we have done in CDG and this affected a few things. The first one was the, way we design our products. We have improved dramatically in the way we design our products. We use platforms rather than individual products,

This is something that you have heard me say now for three years and this has been a process, but the company has made terrific progress in being able to decide on the same platform with different products to satisfy customer needs at a much lower cost and do it a lot better without high cost parts and so this is one element you can see the effect right now. The five points improvement in gross margins comes in part from that. As well as supply chain, we had at the very beginning thought it was an not efficient supply chain.

By working through others, and with others, in taking advantage of the volumes that all of us have, we still have control over the whole process but in the same time we took advantage over much lower costs and much more efficient way of making our products and distributing our products.

Also, in our product portfolio growth, the product portfolio is a lot more balanced. We have products that we did not have before and they cover the desires of the customers better than we had in the past. So, we compete better against our competitors and we are in better shape. We have proved this, it is a very important part of the company but so is digital capture and it is getting to be a very, very nice business. We did not ask me the question are going back into the low end of the printer line.

If you remember a couple of years ago or a year and half ago I mentioned that we were going to abandon the low end of digital cameras because the design strategy that we have without a platform strategy and without the supply chain, was appropriate for those products, that was not an effective business for us. I said that at the time it was a temporary thing that we needed to do our work and then of course the third element is that we are putting our own CMOS sensor into digital cameras which obviously helps with the margins. It is a combination of those.

Kiosks continues to do very well. You are going to see more quarters where there is more top line growth from the consumables. We have a higher percentage of media growth than new installs and therefore less growth in the top line, but phenomenal bottom line. That is an important to the bottom line and printing is getting better too. So we do not want to have any business in which we do not see a way to make money.

**Jay Vleeschouwer:** Finally, in GCG your pre-press business was up only one percent I assume if that is with currency benefits and your digital printing was also down two percent. So I assume that is Nexpress and Versamark. So I guess the question is why do you, particularly in printing, see such little year over year progress when the overall production printing market seems to be doing reasonably well. Are you seeing the joint benefits yet that you would like in terms of leveraging combined with analog and digital sales which is the strategy behind creating GCG.

**Antonio Perez:** Yes, we actually see the benefits. The numbers you mentioned they include everything. They include black and white, they include color, they include all sorts of things. You cannot really go through the comparison and get to that conclusion doing that Jay. In the color market we are doing very well.

We are very happy with the growth in the color market. We have just introduced a bunch of Nexpress products and they are very important for the color market that we are going to see the effect more in the second half than in the first half and we have begun to see some of that effect in the second quarter by the way.

You have seen though we have done an enterprise software, that is the glue that is holding this printing business. And you mentioned serving the hybrid market, the type of hybrid industry that we decided to serve, is working and serving as the glue for all of these customers to be able to deal with their printing, remote printing and digital printing.

So yes the strategy is working well. The fact is that the digital part of GCG, which is the majority, has grown six percent, that is at the end of the day what counts. And they have improved the bottom line significantly. I cannot complain that it would have been a lot better without the aluminum, there is nothing I can do about the aluminum but it would have been incredibly much better without the aluminum.

But anyway even with that, they have a great top line improvement and a very important bottom line improvement. And the best part is still to come in the second half. I am very pleased with our growth.

**Jay Vleeschhouwer:** Thank you very much.

**Operator:** We will go next to Carol Sabbagha with Lehman Brothers.

**Carol Sabbagha:** Thanks very much. Just a couple of questions. One very broad question on cash. Now that you have the cash in hand after the sale of Health can you talk about the process you are going through to decide exactly how to use that cash and over what time period, what is the timing you may be able to share more details about what your plans are around the cash usage?

**Antonio Perez:** We do not really have a timing Carol, we have not changed from the last time we talked. We have those three options that we continue to examine with the board. We are looking at the market as well, we are looking at our competitors, we are looking at how internal investments are coming along, we are looking at the consistency that if something is attractive out there and we keep examining the possibility of buying back stock. We have not changed and we do not want to put a deadline on ourselves, we are going to do what we think is best. So, as soon as we have any indication as to what we are going to do we will go public with it.

**Carol Sabbagha:** Ok, and then a question on FPG, the margins have been up year over year in the first half, and nicely so. You talked about for the full year that you now expect to be at the top end of the 13 to 16 percent range, but given the strong performance in the first half of the year to end up at 16 percent would imply that second half margins will be down year over year in that business. Is something changing in FPG in the second half of the year or is this just a way to be conservative?

**Antonio Perez:** Well that is the conversation I had with Mary Jane earlier. We tried to give you our best guess, and that is our best guess, could it be better than that? Yes it could be better than that. But we are trying to give you the best guess that we have. We believe very much in this business especially EI and we believe that has strong contribution to this company.

But we did have an extremely successful first part of the year that was a little better than we thought it was going to be, therefore we are going to be prudent and say we do not have the same reasons to believe that this is going to continue at the same level. And you know we can be wrong obviously, but this is our best guess.

Our best guess is that the second half is going to be a little lighter than the first half in volumes, but we can be wrong. One or two blockbusters can make it, big and then we can be wrong, so. But this is our best guess, nothing else is changing. The structure of the business is the same, nothing else except, it is basically, the revenue is not going to be as high as the first half and a little lower in the 2<sup>nd</sup> half, that is going to be the difference.

**Carol Sabbagha:** Ok and my last question is on aluminum. Can you talk about what you think the impact is for the whole company as aluminum cost and what you think what type of headwind, sorry is it going to be for the year.

**Frank Sklarsky:** Yes, Carol this is Frank. It was about \$21 million for aluminum. Virtually all of this was in GCG for this quarter and it is a difficult call for the rest of the year quite honestly. But our internal planning horizons tell us that on a proportionate basis the second quarter was about what we expected. So, for modeling purposes and our internal planning purposes that is about the right range on a quarterly basis. I mean on some point, Antonio said, we hopefully will level off, but that was the impact this quarter.

**Carol Sabbagha:** Ok and you do not expect the pricing action to really kick in until next year, in terms of starting to offset some of the headwinds, is that correct?

**Antonio Perez:** We expect some of those pricing actions to be put in place already to get some affect in the second half.

**Carol Sabbagha:** Ok, got it, thank you very much.

**Antonio Perez:** We will not recover all of it though, we will not get it all back. There is only so much that you can do, but we put those factors in place.

**Carol Sabbagha:** Terrific, thanks a lot.

**Frank Sklarsky:** Thank you.

**Operator:** And we will go next to Matt Troy with Citigroup..

**Matt Troy:** Yes, Frank I had a question as I reconcile EPS to cash EPS it looks like the depreciation and amortization fell about \$50 million sequentially, accounting for about half the gross margin improvement. Those are rough estimates; I just backed out from a cash flow statement. Is \$200 million or there about a good run rate for D&A to assume going forward. Is the majority or entirety of the facility rationalization done so we can start to think about that number leveling out? I just was wondering if you could help me with the trajectory there.

**Frank Sklarsky:** You want a quarterly basis.

**Matt Troy:** Yes, a number to use for the second half in terms of D&A.

**Frank Sklarsky:** Yes it might be a little bit heavy on the quarter basis for the second half. It is going to continue to taper off as we finalize and complete the reproduction. So I think we said somewhere in the range of \$700 million for this year. It will probably be a little bit less for next year \$200 million a quarter is probably a little heavy.

**Matt Troy:** Ok, Antonio, I know it is still early days in the wake of the CMOS announcement but based on your initial conversations I would be interested in your thoughts. Where do you see the opportunity with that product as I turn the dial? Is it selling, co-manufactured chips into handset makers, is it licensing it to other chip manufacturers, is it putting into your own cameras. I know it is some combination there of, but I was just wondering where you see it in at least the next 12 to 36 months. The largest opportunity based on your conversation so far.

**Antonio Perez:** Well I think the largest is in the handset, Matt. As you know we have a close relationship with Motorola, we are working diligently to help them develop cell phones with our CMOS sensors and I want them to announce a product that we are working very hard to get it to market quickly but that is the best opportunity. Not just with Motorola, but our plan is to serve anybody that is in the digital capture market.

Having said that, we have one camera that is going to have our CMOS sensors. We would like to see many more and all the other competitors using our CMOS sensors in their cameras. So I would not see a reason why, if we have the quality that we do believe we have in the different appreciation that we do have in the pixel technology and the imaging technology that we embed in those sensors we should be able to get a good share of that market. Our tentative goal that we share with investors so far is that I do not see a reason why we should not get to \$300 million by 2010. If we hit, it could be a lot more than that. But that is the number that we are planning for this purpose.

**Matt Troy:** Ok, last question or series of questions. This relates to DRUPA obviously big technology show for a lot of other folks to attend the show. I was wondering if we are still on track to see at least a demonstration of the Versamark stream product that would be question one.

Two would be you know have you seen, I would expect not yet, but started to hear rumblings elsewhere in the industry some deferral on hardware purchases, But I would be interested to see on the hardware systems side if you are seeing any deferral on that as people hold off ahead of that.

And then three, echoing questions that I have asked earlier, now that the Canon co product is out, is there opportunity and are you in discussions to further partner to flush out that product line, you know by filling in the bookends you have in the market today. Thanks guys.

**Antonio Perez:** We are right on track for DRUPA and, it is a very important moment for GCG. We have been working now for more than three years on getting stream to be something that we could put in a product. So yes we are. And we will have units there that we will demonstrate the power of that technology and you know the possibilities that technology.

No, I have not seen any purchase delayed in hardware. I think that the people need to see that this works. But we have been talking about it many people in the industry. Just a few weeks ago, I talked to you know 400 owners of printing houses. We are trying to make sure that the industry that this is coming and trying to raise their interest to see. I mean that there are a lot of applications that can be get into and we have a lot of respect for the power of offset, but we think we can make a dent mind you it is more dent in the beginning and the marketing to get some of the jobs to the technology.

What was the third question Matt? .

**Matt Troy:** Partnering, you know with, it is something that I asked for 18 months and then the Cannon product finally came. I was just wondering if there was opportunity to further increase the threat, filling in the bookends or taking the technology higher.

**Antonio Perez:** We keep looking for that obviously. But the relationship is going well as they sell their own product, we sell our own product. We use their engine but we have a very significantly different product and by the way it is doing very well. We have got a lot of awards and we got a lot of sales orders too. So we are very pleased with the relationship and where this is going and we will keep looking, to expand, the product line, obviously.

**Matt Troy:** Great, thanks for the time.

**Operator:** And we will go next to Shannon Cross with Cross Research.

**Shannon Cross:** Hi, good afternoon, I guess good morning, sorry I am rushing things. Couple of questions. Curious if you could talk a little bit about the impact of the inkjet business on working capital and how we should think about that, both for this year and next as it runs through the model.

**Frank Sklarsky:** Yes, Shannon so far this year I would not say that it is the biggest part of the working capital chain as we are ramping up and because of the model that we have it has not been a huge impact on the second quarter. That will increase in the back half of the year as we invest and supply the other channels that we have announced and still have not yet announced. I cannot really give you a number right now, but you will see a ramp up. The good news is however, that because of the way that we structure the model and supply arrangement a good part of the inventory will not be on our books. So it is mainly going to be in our area of receivables where you will see that ramp in the working capital.

**Shannon Cross:** Ok. And then if you could talk a little bit about your IP licensing revenue. I do not believe you had anything that was big enough to call out from a non-recurring standpoint in the quarter since it was not in the release. Maybe what you could help us out if you could, of the \$250 million approximate goal for the year, like what percent of that has already been reached and you know that will give us an idea of how to think about the second half for the year.

**Frank Sklarsky:** I can take that one Shannon. We did say at least \$250 million for the year. We are still on track for that and if you would look at both the second quarter and the first half of the year, I would say that on a proportionate basis that puts us on track.

**Shannon Cross:** Ok, but no idea of what percentage you have done so far?

**Frank Sklarsky:** Not an exact percentage. I just say proportionately we are on track. And you are correct there were no significant new deals in the second quarter.

**Shannon Cross:** Ok and just to clarify there were no significant deals either in the first quarter, is that correct?

**Antonio Perez:** No, no I said there were no new deals.

**Frank Sklarsky:** Right.

**Shannon Cross:** No first quarter, not second.

**Antonio Perez:** No significant, and we did not have any new deals.

**Frank Sklarsky:** Right.

**Antonio Perez:** As I said in my speech.

**Shannon Cross:** No, I said first quarter. So I just meant for first half of the year.

**Antonio Perez:** No, no.

**Shannon Cross:** Ok, just clarifying. Ok.

**Antonio Perez:** We did not have, so it is just the ongoing, it is just the ongoing licensing.

**Shannon Cross:** Ok and then Antonio perhaps you can talk a little bit about your thoughts on the entertainment and film business. You know it was flat this quarter; obviously, it was up significantly in first quarter. How should we think about entertainment film as it goes through the latter half of the year?

**Antonio Perez:** As I said to Carol, we think our best guess is going to be flat, year over year. Flat year over year as far as revenue. We still have the efficiency of the cost, of the new structure and the fact that we do all the film in just one size. We have those efficiencies working in our favor. But for revenues the best information that we have is that the second half should be a little more than, the first half and it will make for a flat year overall. It is an industry that could move either way. But we know that movies are coming we know the deals we have with the studios. We know the amount of people that go to the theaters and we put all that together and we have a complicated chart to get through all of this. And it looks like it is going to be flat for the year.

**Shannon Cross:** Ok, that is very helpful.

**Shannon Cross:** That is very helpful. Just one final question. On inkjet, when you launched inkjet I think it was in March you talked about having, I think Phil talked about having three product lines by the end of the year or more. I do not want to put words in anybody's mouth I am trying to think of what it exactly was, but additional products. So I am just curious as to you know the pipeline and how your feeling, you know your comfort level with your manufacturing capabilities to meet sort of your internal targets of new products as opposed to just units.

**Antonio Perez:** Well I am getting more confident with time. We had what I would call normal ramping up issues that I live through all my life and we had them again. But we went through those and we resolve them. We finally put the third product into the line just two or three weeks ago I believe. So we finally have the three products that we wanted. And I feel more confident now that we went through all of this and we are capable of bringing more products into the line up.

You, of course, know that I am not going to tell you when and what, but I feel much more comfortable now that we went through this to start off and were are learning about ourselves and about our partners. We have a value chain that is very efficient financially but it is slightly harder to control that without owning one building and you control everything but you make it work. It is very attractive so that is what we need to do to compete. So I feel a lot more comfortable and anxious to see new products in the line and I hope we can call you soon with those.

**Shannon Cross:** Ok thank you very much.

**Operator:** And we will take our final question from Ulysses Yannas from Buckman, Buckman & Reid.

**Ulysses Yannas:** Antonio I hope that you do not fall into the same trap as two of your predecessors as far as using your cash. I notice on your balance sheet you had \$5.7 billion worth of treasury stock, 100,000,000 shares. Buy stock at multiples of book value that does not exactly hold shareholder value. It creates a nice flow for traders. Any thoughts on the subject?

**Antonio Perez:** Give me again Ulysses because I do not know if I follow you.

**Ulysses Yannas:** Ok your balance sheet says treasury stock at \$5.8 billion, that represents 100,000,000 shares which in turn tells me that you, two of your predecessors used \$5.8 billion.

**Antonio Perez:** Yes, we did repurchase and I cannot remember the years, but I did go through the history and I remember we looked into the affect for the company and doing this was a pitiful.

**Ulysses Yannas:** Yes, yes.

**Antonio Perez:** It was pitiful. Ok, I got your point, I got your point and I appreciate you telling me this. I will be very careful with it.

**Ulysses Yannas:** I have another question if I may.

**Antonio Perez:** Sure, sure.

**Ulysses Yannas:** Last year appears that your printer, which was in the other category, cost you \$26 million in the second quarter. It was high, lower this year?

**Antonio Perez:** You mean the inkjet printer?

**Ulysses Yannas:** Yes.

**Antonio Perez:** It will be more. It will be more, yes. Yes, yes. The we have all the cost of the ramping up, we have all the costs of you know building all sorts of things in relationship so it will be higher than that.

**Ulysses Yannas:** Then can I ask the question about when do you expect to start seeing lower losses?

**Antonio Perez:** Well we said it was in sometime in 2010, the business of this model is that the moment you get to a point the revenue that you bring from hardware, equals the revenue that you bring from ink.

**Antonio Perez:** Yes, it becomes a paradise. We brought a business model that should be attractive in our view to people that print the most. Therefore we expect to have a slightly higher burn than our competitors. If we achieve and we pass the message properly we should be able to have a slightly higher burn.

**Antonio Perez:** For the whole year in our plan we have been saying publically that we would like to be profitable in 2010. If we achieve the profile of the customers that we are looking for it is very possible that sometime during 2009 we will break even then we will start moving out of there. But it is really early to know. But a lot is going to depend on our ability to pass the message appropriately and get the type of customers that we would like to have with this business model.

**Ulysses Yannas:** You also had the loss from the transfer of the finish paper business. Was the loss bigger or smaller?

**Antonio Perez:** Smaller, smaller.

**Ulysses Yannas:** So in essence the improvement you had in the CDG was despite an increase in cost associated with the printer?

**Antonio Perez:** Oh, yes. We had five points of gross profit improvement that came from operational issues. Really, better operations. We have better pricing, better margin in the products that we are selling. We have low cost distribution; we just have a much more efficient operation that is allowing us to go now into lower price points. That will help with the volume and with the overall, the overall cost of the units. So the IP as you will see is slightly better than last year, but based on the same deal as we had last year, and about two-thirds or so improvements are in operational improvements.

**Ulysses Yannas:** Incidentally let me congratulate you on the speed with which you are reducing your SGA.

**Antonio Perez:** Well you have to congratulate about 35,000 people because they are working really, really hard on this. And this is the hardest thing that we have to do and thank God we are almost done.

**Ulysses Yannas:** Antonio, thank you very much and good luck.

**Antonio Perez:** Thank you. Well I think this closes the call. Thank you again for joining the call. I have to give you my summary. We remained focused on delivering on key critical objectives. Complete the restructuring to achieve our targeted business model is fundamental. Achieve market success with our new product is critical.

Driving double digit revenue growth for the second half, we have not done this as you know, organically, so this is the challenge for us, but we think we have the portfolio and the cost structure and the go to market, and the supply chain to do that and we feel very confident and obviously we are going to deliver in our digital earnings growth and the net cash generation after the cash restructuring payments. This is the last year that we have to make this large payment.

So I believe this quarter is a great, and represents another significant step in positioning Kodak for sustained success. Thank you very much.

**Operator:** And that does conclude today's call and thank you for your participation. Have a good day.

END