

## EASTMAN KODAK

### Investor Mtg at CES January 8, 2008

**Operator:** Good day everyone and welcome to the Eastman Kodak CES Conference call. Today's conference is being recorded we will now go live for the presentation we'll begin momentarily, please stand by.

**Pierre Schaeffer:** Good morning everyone. Welcome to the Q and A session following the tour of the Kodak booth at CES 2008. My name is Pierre Schaeffer. I'm the Chief Marketing Officer for the consumer business at Kodak and before I leave the floor to the three GMs we have today to answer the questions, I want to give you, especially for those of you who are on line and didn't get a chance to tour the booth a quick overview of the background of where we're going with the digital consumer business.

Going into the second slide titled Market Evolution, we really see the broad trends in this figurative slide. The broad trend of the evolution of the market as going for after 120 year dominated by silver halide, the past ten years have been really what we labeled Kodak 1.0. It's been mostly characterized by the mass production of digital capture by the consumer market.

But in terms of use and habits of pictures, a lot of the inertia of what people used to do with their pictures in the film world have been carried through, nothing new or dramatic beyond the sharing of e-mail and bit less printing, we believe now that the market is very similar to what happened to other categories, like music when you saw the transitions from vinyl to CD into the MP3 internet based world, we believe that the category of imaging is now poised for that second chapter which is going to be very much characterized by an explosion of different ways for people to enjoy the category and do more with their pictures.

In terms of enabler of that next phase which is going to unroll in the next few years, you have a few macro trends around the events that we can all see of personal content, as we saw on the show floor the event of also pro quality acceptable to all consumers whether its at the printing level or on the sub display level with HD. The structure in the home and out of the home that's really enabling the imaging experience to always be available. You start to see that in an always on imaging experience. Its not so much limited anymore to the PC but trying to make its way through all the environments in the home and on the go and at retail.

And last but not least, as now the typical shoebox blows through several thousand pictures after those first ten years, you start to see emerging problems that the industry will have to solve around content management to really fulfill the promise of this second chapter of digital imaging which is really going to be about more new ways for consumers to enjoy the category.

Going into the next slide, as a high level summary of the Kodak participation, our vision is that based on our assets of obviously IT brand knowledge of what the consumers really want to do with their pictures, we see ourselves expanding from the pure photography market to really as imaging makes its way and starts to transform many aspects of the digital lifestyle you can expect Kodak to accompany that transition as well. That really defines a market opportunity that's much more exciting for us with the growth that's associated with it.

The core insight that's driving us and how we're approaching that compared to some other players is we truly believe that its until consumers start to do something with their pictures that they truly make them theirs and recharge them with emotion and as they recharge them with emotion along the way there is the opportunity to monetize that process. But that's really a critical component of the reality of the digital world is if consumers do nothing with their pictures, they're filed.

When they start to do something with them, they really become re-emotionally charged and theirs. And in the process we see them really as enabling them to do more of that. Yet having said that, doing more with pictures is still complex. So you can see really the participation of Kodak at the intersection of those two insights.

Consumers want to do more, they actually need to do more with their digital pictures to actually enjoy the category truly in the digital space yet there's a lot of new friction that has appeared in managing now imaging that has expanded well beyond the PC into many aspects of the digital lifestyle. For all of the many of you who have followed the past episodes of our journey on the digital side, we really went through a phase leading up to the around the circa 2005 where we really scaled the business of surfing on big categories that were growing via digital cameras and retail printing, retail digital printing, following that over the past few years we in parallel really worked hard in restructuring our operating model to really have it fit as the foundation for a digital company and for growth fueled by digital.

We're coming to a close with that restructuring chapter, we really now have a digital model in place and that model is going to only help us accelerate our growth in the categories we're in. And when you look at the categories, I'm switching slides now to the one titled 2008 Priority Drive Profitable Growth, it was also a priority in '07 and you can expect it to be a priority in '09. We want growth and we like growth.

We believe that we are well positioned in growth markets and growth categories. And again, now that we are going to be able again too capitalized on the fact that the restructuring is coming to an end and we really have a digital operating model as a foundation for the business models that we have in our digital portfolio. We're going to be able to both scale that we're in but also have a quicker way to hit the new categories that we'll be entering.

Browsing very quickly through the slides, we talked as we went through the booth about digital cameras still enjoying a lot of growth because that category is going from having been household driven historically to being more now the personal device to capture your picture, we talked about also the growth that we see retail printing continue to enjoy as we basically continue to migrate consumers in what they want to do with their pictures and what they are doing with their pictures from the hundreds of millions of transactions that they are doing at retail to get four by six to make it ever easier for them to migrate to more sophisticated form of output composite output including multiple pictures, but beyond that, pictures, sound, video you know along the way.

So still growth in the current categories that we have in our portfolio between retail printing and DSC's but as you look at the new categories, many of them are, all of them are poised for really interesting growth over the years.

Our ink jet participation and you'll hear more from Susan is it has been really grounded in the all-in-one category, which is a category that is growing within the ink jet printing business. HD we've talked about how to accessorize the HD experience, research that we've done shows that 44 percent of HD TV owners as they basically discover the HD experience, one of the first things that they look at enjoying also is their personal content now on those big screens. So there is a huge pent-up demand as HD continues to make its way in the household.

For personal content to follow and us with it, if we do a good job accessorizing that experience and streamlining that experience. Digital frame, tremendous growth, I quoted the number of this year, sorry 2007 exiting basically 2007 with a worldwide market around nine million units, a bit less than that, 8.6 million units according to NPD, here we're showing some a difference source IDC who is basically projecting a market going well beyond 40 million units by 2011.

What we believe is that today, although the digital frame market is mostly grounded in gifting, you have a lot of seasonal gifting as the experience becomes much more embedded in your digital lifestyle and as we naturally make it easy for the consumers to integrate digital frames as part of their rooms, as part of their furniture and the décor of their room, we see basically a second phase of growth, more sustainable coming in at that category which is not only going to be fueled by frames that I offer for others, but also frames that I equip for myself and just you know go into a typical U.S. household, look at the number of pictures in various walls, we see that as potential pictures and frames for replacements in many households as we go into the coming years.

Last but not least, on the printing side, the explosion as I said of photo merchandise both at the kiosk, still a small category at this point although your talking about 1.6 billion market and growing but I really want to bring your attention to the growth behind that category. You are talking about very interesting double digit growth over 40 percent per year and we know that this part is really bound for sustained growth because, because again of, a lot of the opportunity through the reduction of the friction making it easier for us to leverage with our retail partner, the hundreds of millions of transactions around the world that people have in going to the counter to get their four by six printed, transitioning those slowly but surely, into opportunities for consumers to get more out of their pictures into photo merchandise.

So with that said you know we have closed the restructuring chapter we have basically an operating model that has been built ground up for digital, with positions in categories that are enjoying good growth and we're now basically exploring aggressively the growth in new markets to expand our participation to extend our portfolio continuing to leverage basically our assets and building the experience what you saw through for those of you who were today at CES continuing to leverage our expertise in making it easy starting from the back of the camera with some of the improvements in the user experience that you saw, but leading to the printing experience from a kiosk, from a home printer to really take the friction out of a lot of that desire for consumers to do more and as always, taking also the expertise that we have in image science and image intelligence, for us to further simplify those processes.

So with that as a general background, I'll open the floor for the questions and I don't know if there is any specific order to which we want to have John Blake, Susan Tousi and Nikki Zongrone.

**Ann McCorvey:** You can start with Jay in the corner.

**Jay Vleeschhouwer:** Merrill Lynch, first question I'd like to ask about is – no, sorry -- the kiosk composition of the base and the kind of utilization trends your seeing in the Kiosk, this question came up a year ago, there was some debate as to whether Kiosks were gaining share or not, so in the year that's passed, can you update us on how the kiosks are doing.

Secondly, with respect to the on line service, I'd like to better understand how Kodak is going to better differentiate its service from the others. There are different claims of superiority, and new services and so on and so forth, but it really isn't clear how the different services on line really are different from each other, and what your plan therefore is for pulling away from the pack if you can.

And lastly, it appears as though print volume has sharply decelerated for the entire market last year, cameras are growing faster than print, which is kind of an odd relationship, but what's your explanation for why that's occurred and that's for anyone.

**Nikki Zongrone:** OK, I'll start with the first question. You were asking about the install base and in fact maybe you should repeat the first question again just a little bit.

**Jay Vleeschhouwer:** Ten minutes ago, the question is what's the size and composition of the kiosks and more importantly the utilization of the kiosks.

**Nikki Zongrone:** OK. So we are continuing to grow our install base, we are not reporting what we accomplished in the fourth quarter as you heard earlier, so at the end of the third quarter were reporting 85,000 install base of kiosks world wide. We're also leveraging in that install base by adding new features on all those kiosks and also upgrading a number of those order stations that have been out there for a few years now. So there's been a tremendous amount of upgrade in the industry to provide the processing power and the new software that will allow consumers to be able to get their products a lot quicker and a lot easier and, we're seeing continuous tremendous growth in the photo department really configuring differently, the way that consumers interact with kiosks and adding a much more interaction points. I hope that answers your question.

**Jay Vleeschhouwer:** Yes

**Nikki Zongrone:** Wait for Q4 yes; I know you want more numbers but OK. The second question you had again was ...

**Jay Vleeschhouwer:** Specifically how Kodak is going to distinguish itself better from the other online services.

**Nikki Zongrone:** I'm going to let Pierre answer that.

**Pierre Schaeffer:** So when you look at the online participation, obviously we're continuing to work on the dimension of allowing as all of you I'm sure have seen what we've done with the offering, we continue to expand the merchandise offering from our on line. The way that I think we're uniquely differentiating how we're also using the Kodak Gallery as an asset for us is as you start to see on the booth how we are starting to connect the experience, be it through the frame as a starting point for the experience or at the receiving end of pictures.

We're continuing to experiment the connection of the Gallery to kiosks, we are basically looking to further integrate the desktop experience with the online experience as I was mentioned with the evolution of the Easy Share software to its new version, so we're basically connecting the dots and knitting the experience in a stronger way cause the reality is that basically 100 percent of people who are using Kodak today at those very different touch points are not yet Gallery customers and we really want to accelerate that funnel, the adoption and the way we see that happening is really by connecting the dots, knitting the experience throughout the portfolio for the benefit of the consumer obviously in terms of streamlining some of those friction points.

**Jay Vleeschhouwer:** Sorry for the added question, so last year there was a sharp deceleration of print volume growth for the entire industry, home has started to decline, retail has grown overall but home has declined, online is growing but we're seeing teens growth according to PMA anyway, and cameras are growing even faster than that so what has to happen for a reacceleration of the entire print market is basically the question.

**Nikki Zongrone:** So you have seen the print market go down but what we're also starting to see is as we give consumers more options to do more with their images as Pierre was talking about earlier, your seeing many more creative products being made and a tremendous amount of growth in that part of the category.

We're seeing--we've seen tremendous growth also with the multiple formats around collages and creating calendars with consumers images as well as we have introduced a simple photo book that you saw being demoed on the floor today, we've seen a tremendous amount of growth and potential for further growth that was launched in the U.S. in the fourth quarter and at CES it was publicly announced, and there is potential growth even beyond what we've already seen. So, we're not going to see consumers just wanting and accepting four by sixes as being the way they want to share their memories and share their images. We're really going to be seeing consumers wanting to do more.

Also another product that encompasses that is our picture movie DVD, we didn't get a chance to demo that again this year but you saw it last year; we launched it this past year and, see also a tremendous amount of growth with that product as well.

**Shannon Cross:** Shannon Cross, Cross Research, a question on digital picture frames, can you talk a bit about what you think is going to happen with ASP's how they're manufactured, components that go into them, just so we can get an idea from a profitability standpoint what it really means for Kodak, I think we understand there's a good revenue opportunity but any clarity you can provide on that and again you know your partners and all of that.

**John Blake:** The digital picture frame market, as you heard from the folks that presented, we're very pleased with our participation, our position in the category and the performance through the third quarter as reported was very strong. So we have a good business model in many markets we are a leader. We will continue to play the leadership position, innovate, continue to bring new product offerings, so that we do not have commodity pricing or parity pricing with many of our competitors. We feel we have a road map to do so, we feel that it's supported and actually strengthened by the rest of the system that we can bring to a consumer.

In terms of the sourcing side of it, because you touched on the components, et cetera it's not news to anyone that we share many of the same components when you build a digital picture frame. From that aspect, I like our starting position because frankly we've started as a strong number one or number two player in most of the key markets around the world. So that works to our favor in terms of the business model. We'll continue to look beyond that though in terms of bringing innovation and that will be the primary driver for the business model going forward.

**Shannon Cross:** So does Kodak actually manufacture, I'm just trying to get an idea of you know are you just sourcing from Taiwan, are there, obviously the software is Kodak but what ...

**John Blake:** Yes we obviously we won't disclose everything we do in the model, we have partners that have certain aspects of the supply chain, I would say much of the value add much of what will allow us to continue to retain a premium is the Kodak value add system, the innovation, the differentiation, that's clearly our architecture working with partners.

**Shannon Cross:** What would you say your market share is worldwide in picture frames at this point?

**Pierre Schaeffer:** I can quote public NPD type of data but ...

**Pierre Schaeffer:** So basically going into year to date November 2007, to answer your question, we had basically 16 percent of, as of we were number one value share in the U.S. with 16 percent share ...

**John Blake:** From a revenue perspective, in NPD track channels.

**Shannon Cross:** Thanks

**John Blake:** I don't know if we've seen this public yet for parts of Europe we're doing very well in many of the key larger countries in Europe as well so we have the number one and number two position in those markets and that data is public.

**Shannon Cross:** OK and then my second question is on ink jets, if we could just get an update, Senior Management at Kodak has talked about some of the manufacturing issues, challenges that you've had getting the product up and running and get refresh out can you just give us update on where you stand with that and obviously you've got your new product out I would assume would 2008 be a strong product year for your division.

**Susan Tousi:** I can't comment on our future product strategy but I will say that our focus in leading up to our first set of products was creating a writing system technology that provided a lot of innovation in the pigmented inks and the permanence and the ability to provide value in printing to the consumer so we built a very strong engine and as you see in our first set of products, we've made very good use of that engine, now with our new product that we introduced at the show, the ESP3, we really focused on a more compact design, more efficient and cost effective design that really addresses what would be considered our low end for most of our competitors it would be in their mid range and as you know we have a premium priced hardware model and provide value in the ink. So we now have two platforms of printers as well as a very strong writing system technology and from that we think we can make a wide array of products that address the market.

**Shannon Cross:** The fact that Best Buy and a few others have the midrange of your first 5300 at \$99 and your coming in at \$129 here, I mean, I don't think this is quite a refresh cause its more of a product line expansion, so how do we think about where that fits in?

**Susan Tousi:** Some of the activities that you see going on at the retailers, its part of our strategy that we would provide promotions during the very heavy sales season of the market and that is on target with what we plan to do in driving the install base that we need, but if you look at the majority of the market below \$99 if you look at most of our price points on our products as you seen have been above \$99 and consumers have opted in to our value proposition they've been willing to pay more for the hardware and that is something that we see going forward. So if you've seen some promotions during the very high sales season, that is, that would be expected.

**Shannon Cross:** And one last question is there any change on the cost per page matrix or will they use the same cartridges in the ...

**Susan Tousi:** They use the exact same cartridges they have the same value proposition in ink value both in photos and documents. They also have a lot of the same performance characteristics, using the same engine; you get the same photo quality, the same image permanence, fast photos that last a life time without protection, a lot of the same features of our first line.

**Ananda Baruah:** Ananda Baruah, Bank of America, I just wanted to get your thoughts on what the growth potential of the camera market might look like as we go into 2008 have you seen any shift in the underlying trends that lead to pretty solid growth in 2007. Thanks.

**John Blake:** Yes, we've seen better then expected industry growth for 2007 and Pierre and others started to talk on it but I'll give you my quick perspective. The industry continues to do better primarily inside the U.S. is where I have been surprised with the growth; the growth has been mid-teens in terms of unit volume growth through November which is the most recent public data.

I believe that there are a couple of different factors; one is that the number of units per household is actually higher than what we previously modeled and what others had modeled. When you buy a new digital camera, there's no cost for you to take that old digital camera and give it to a spouse or a child or a family member. So the number of units per household continues to grow.

I believe we as an industry have offered enough value more attractive price points to get you to upgrade, so if you looked at our camera portfolio two years ago and compared it what you get for the same dollar value you get for today, its substantially better.

The forecast looking forward, I see that trend continuing into 2008 where the dynamics of a strong value from not only us but others in the industry at attractive price points, the continuation of the number of units per household continuing to grow, and I do not see yet the huge substitution effect that we're all concerned about primarily in the U.S. in terms of digital camera coming from a mobile phone and what that impact will be. So it's at a good place right now.

**Ananda Baruah:** So similar growth from a market perspective is a reasonable expectation.

**John Blake :** Yes, but we won't show those numbers, but its continued growth.

**Ananda Baruah:** And should we expect, with sort of your most recent emergence in the camera market, should we expect for that to outgrow that market.

**John Blake:** We've been in the camera market for a while. We were number one in the U.S in '05 and '06. We had a very strong third quarter.

**Ananda Baruah:** The build out of the product line.

**John Blake:** Say that again.

**Ananda Baruah:** The expansion of the product line over the last six quarters or so. Should we have an expectation that you're in a position to perhaps outgrow the market is the question.

**John Blake:** I'm being asked to outgrow the market? I'd like to outgrow the market, I feel good about our position to the third quarter doing so. We will continue to look at the family categories that you saw out there, whether it's the value or whether it's the high zoom or whether it's the style category and really try to understand crisply what the consumer values at the price point the features that are most important and I feel very good about the intelligence we've gathered in this business the past several years to continue the trend we're on. I feel good about that.

**Ananda Baruah:** Thank you.

**Bill Shope:** Bill Shope, JP Morgan. A quick question about inkjets, actually on inkjet strategy. So far, still early stages of this business clearly and I think '07 while we might have had some slow down in units in general, we did see fairly stable pricing, at least fairly predictable pricing for the industry, my question is trying to understand Kodak's strategy, if we get into a period where maybe we hit some aggressive price wars which we haven't seen in a few years in the industry, and given the fact that we are seeing some evidence that units may be slowing further whether that's macro or other factors driving that, how does Kodak respond, how do you maintain this premium pricing strategy at a market where HP and Lexmark perhaps go into a pricing war and really squeeze the profit margins down very aggressively.

**Susan Tousi:** We are dedicated to our strategy. We feel that some of the slow downs in the market place is because consumers have restricted their demand for prints in the home. Seventy percent of consumers restrict how much they print because of how expensive it is to print in the home and we feel that with our strategy we create a little more excitement again in the category as demonstrated by the fact that we won the PC World 25 Most Innovative Products, so there is something that's getting noticed.

We're hearing it in the consumers, we're seeing it with the media and press and industry analysts, we are getting noticed for very innovative value proposition in this market.

Number one complaint of consumers has been the high cost of printing and we are the first to really come in with a new model to address that issue. So if we see a squeeze, if you look at what's happened over the past many years, printer prices have continued to just go further and further down and as I mentioned, two thirds of the market is below \$99 but if you look at the trend on ink price, its gone the opposite direction and people are paying more to print today than they ever have. So by offering a new model and getting people to opt in who really actually want to print, you know we're seeing that, we're seeing consumers make that choice. So we are dedicated to our value proposition.

**Bill Shope:** So with that said historically we've seen a vendor like Hewlett Packard if they needed to push their units a bit more they felt like their share was slipping behind, their lever was pricing on hardware. Would that mean that going forward, Kodak's lever would be pricing on the ink?

**Susan Tousi:** Being a new entrant to the market we are focused--definitely focused on getting a healthy install base, but we're also focused on capturing the right consumers who really want to print. So in terms of just driving share of hardware at any cost, that's not our model. We feel that we're giving a very good value on the ink today and 50 percent less cost in printing compared to our competitors and people are seeing the value there. Being a new entrant we're seeing the traction already so we don't see that as any kind of short term issue.

**Bill Shope:** No need for that right now yes. Right. OK, thank you.

**Susan Tousi:** Certainly.

**Female:** How much of the decision making on the consumers part is actually done based on research that you know lets the consumer be aware that the cost of printing over the life of the inkjet printer will be lower with Kodak versus just point of sale impulse buys based on the cost of the hardware.

**Susan Tousi:** Yes that's a good question. You know getting our value proposition across to the consumer is a very important point of our model working and as you see through this year we've tried many different forms, we've kind of changed our medium mix to effectively get that message across. And those of you who have the 28 minutes to watch the infomercial, we have found that to be a very effective medium, you know the response on that has been fantastic, in terms of people really kind of spending the time getting that message across our communication at retail has been very strong as well and will continue to evolve and improve that, and just recognition in terms of awards and analyst, pointing out to influencers, to those consumers who are influencers really recognizing the value. Last year I was asked a lot of questions around is this real value or is this kind of another game playing which has been done a lot in this industry kind of confusing the consumers.

Most consumers don't know that they pay more for ink today than they ever have. So I think as consumers have bought the product and are really experiencing this value for themselves and seeing the third party test results and seeing it's true, we are actually providing a value in ink because we want you to print more. We want consumers to print more to choose our product and as that's happening its really helping to get the message across and will continue to evolve as we go forward.

**Pierre Schaeffer:** Yes. That's a big point compared to where we were a year ago, now we have real consumers who really purchased our products and experience the reality of the value position and they're talking about it amongst friends and family so we're starting to see in the second half and we expect to see that in '08 also kicking in the word of mouth the positive word of mouth on the value proposition, not just coming from us, but coming from consumers actually its true, you are saving 50 percent on what you print.

**Susan Tousi:** They send us letters thanking us for not having to lock up their ink cartridges any more. So we know that they're experiencing it first hand.

**Mark Mackenzie:** Thanks. Sorry, I know your now a digital company but can you maybe give us an update on one of the last of analog products how are the one time use of business is going. (Mark Mackenzie – Alliance Bernstein)

**Ann McCorvey:** I'll take that since we don't have anybody here from the film business. One time use cameras are declining similar to consumer film. The entire consumer category has been declining at the rate of 30 percent and we expect that to continue.

**Adam Wright:** Adam Wright here Kenneth Cole Associates. Someone had a comment earlier that camera phones in the U.S. are not encroaching on digital cameras, I was wondering how about in Europe and Asia, to what extent that has happened in the past and also at what point that started happening, at three mega pixels, four mega pixels, five, et cetera.

**John Blake:** OK so I'll repeat the question. The question was, there was a previous comment around substitution cannibalization, cell phone capture, digital camera U.S. not as much affected, the question was the rest of the world was it impacted yet? And in Europe, you know that the network is much faster than what we have here, and therefore the product offerings tend to be higher resolution cameras.

I would say that it's more advanced in terms of a substitution there and we have seen declines in digital camera category in Europe that I believe is partially attributable to the capabilities of the network and the capabilities of the camera phone.

Asia is the same thing, Asia you have a second dynamic where you have many that have never owned a camera that are just going directly to an all in one device that's a phone that also happens to be a camera and its shared among a family or even a larger extended family to use for capture and its their initial capture experience so I would say for a substitution impact Europe and GAR Greater Asia area are certainly feeling the effect of that.

**Adam Wright:** At what point did that start happening in terms of when you measure from four mega pixels on a camera phone, five ...

**John Blake:** I think it's very dependent upon the quality. The quality is not linear with the mega pixels.

**Adam Wright:** Sure.

**John Blake:** I can show you a two mega pixel image on a high definition screen that stunning and that's frankly what high definition is, one-k by two-k for those that know the video space. I can show you an eight or ten mega pixel image where you actually make the pixels so small that it deteriorates the quality of the image so rather than say a linear relationship to mega pixels it has to do with the quality the consumer gets off of that.

That works very well for us, you heard earlier about how we continue to go after quality as one of the still unmet, you know completely unsatisfied needs for a consumer in a digital camera and smart capture as a way to keep true differentiation between a specialized unit and a digital camera versus the capability that would be resident on a camera phone.

**Adam Wright:** OK if you don't mind follow up in terms of how much of an impact has there been in Europe, for instance.

**John Blake:** Numbers? I don't have specific numbers to give you in terms of an impact, but it is in a market industry perspective, Europe is in much more of a stable or flat versus the growth that we continue to see in the U.S.

**Adam Wright:** Sure OK.

**John Blake:** Digital camera industry.

**Adam Wright:** Thank you.

**Jay Vleeschhouwer:** Jay Vleeschhouwer, Merrill Lynch, two questions on cameras, on the tour the view was expressed from current pricing on an average dollar per mega pixel on retail level 20 to 25 that it might drop to 10 to 15 within a year. Do you concur with that and since it's unlikely you'll increase your units 50 percent or more the next year to offset the roughly halving of price per mega pixel, it doesn't mean your camera revenues will shrink and if they do, can you maintain margins. You've improved thus far in the last year but can you continue that, and then let's see, sensor technology, when do we run into the limitations of current sensor technology in terms of microns per pixel. There was some talk a year ago at the show about some physical limitations at the semi conductor level and when do you see this hitting the wall in that respect.

**John Blake:** OK so the first question around the dollar per mega pixel again its not a linear relationship right, you can have a digital SLR that's six mega pixels that's \$600 or \$1,000, very different, it's the quality of the image. I believe that for whatever statement you referenced, the dollar per mega pixel across our product line is pretty varied depending upon the family and the category that your looking at and whether the consumer who's making that purchase decision values mega pixels or not, and we will over index where they value mega pixels, we will under index where they do not value mega pixels. As far as how that fits into our business model, we certainly haven taken all that into consideration to make sure we still have a sound business model.

In terms of the second question and I'm not sure this was mentioned in the tour, one of the key elements of smart capture is also floating resolution. So rather than give you a standard mega pixel, e.g. give you an eight mega pixel shot in all situations, we will float the mega pixels that are available for the scene. So if it's a low light scene, we'll actually do things where we will pull back on the number of mega pixels that we use to shoot, do some pixel bending afterwards to bring out the light and therefore, actually I can prove to you that a lower mega pixel capture will be better than a higher mega pixel capture. In terms of a physical limitation. We're getting pretty close on CCD's at 12 and 14 mega pixels. I think that you will see over the next two to three years, certainly more prevalence of CMOS sensors into digital cameras because of some of the capabilities they will provide where again, I'd like to get the world focused on image quality not on the mega pixels.

**Jay Vleeschhouwer:** Follow up for Susan, do you have enough data thus far in terms of the ink jet sales to gage what the average consumption is, in other words what kind of burn rate are you really seeing relative to your expectations of going after the high burn use consumers and you said earlier directly quoting your words, "We are driving the install base that we need" or "to get to the install base we need" what is that number.

**Susan Tousi:** Well let me try to answer the first part of your question which is, make sure I remember your question, it's still early for us to be able to tell exactly what the burn is on our printers versus our competition, but we do know that consumers have the choice. They went into the store; they had the choice to buy a \$49 printer or to buy our printer at a higher price as a new entrant into this market. There are plenty of other brands having very low price hardware and consumers made a choice to buy our product and to opt into our value proposition. They are enjoying the lower cost printing because we hear from many of them. So we feel we're in the right place and we do have an early data on that, but we're not willing to share it because we do need a lot more information before we can go out and quote those numbers.

But for those consumers who have opted into our value proposition, we feel that they did it for a reason and their enjoying the value in the printing and knowing that that is such a barrier today to people wanting to print in home, we feel confident we are on the right track.

Your other question was what's the right scale for us, what's the right number of units. You know our model with the premium price hardware, low cost printing model; we really are focused on share of prints. We don't want all consumers; we want those consumers who really want to print. There is a portion of the market place these consumers get a free printer and never replace an ink cartridge. We really are targeting those consumers who are higher burn, who enjoy printing or who have enjoyed printing but haven't had the opportunity to do so because its been so cost ineffective and so we do need to build that momentum, we need to build an enough scale so that we're a real player in the market place, so for the long haul, we really are interested in share prints and you know we have said that we are targeting to be a billion dollar business in 2010 and that remains true.

**Amanda Sigouin:** Hi, Amanda Sigouin from Lehman Brothers. On what Jay had just asked to follow up, can you say what you think the average burn rate for the industry is, like number of cartridges per year?

**Susan Tousi:** Well I can talk a little bit about different competitors in the industry enjoy different burn rates, but the competitors kind of in the average of maybe four cartridges a year or probably the more significant players and there are players who average about two cartridges a year and that's certainly not the part of the market we're interested in at all.

**Amanda Sigouin:** You'd be going for higher than the four cartridges per year, higher than average.

**Susan Tousi:** The average and higher, yes we think those would be the consumers attracted our value propositions is one of opting in because you see yourself as getting that value because of the fact that you burn enough to kind of offset the premium hardware price.

**Amanda Sigouin:** One other question on inkjet also, you guys talked about increasing the in store presence on the third quarter call so I'm just curious did that happened during the key holiday season and did you find that effective and will that continue kind of in a used up in store presence.

**Susan Tousi:** In store presence in terms of the number of the outlets ...

**Amanda Sigouin:** Sales where there's actual sales people ...

**Susan Tousi:** And your question was in the third quarter?

**Amanda Sigouin:** You talked about it in the third quarter call that it was going to be something that more money was going to be invested in and I'm just wondering do you see that happening in the fourth quarter and was it a positive thing and would you continue to do that.

**Pierre Schaeffer:** Open new retailers.

**Susan Tousi:** We have been very pleased with the acceptance of the retail channel to our products and to value proposition by the end of the year we are in the U.S. and in Europe and all the major CE premium CE Channels Best Buy and Circuit City in the U.S. we're in Wal-Mart and Sam's, were in in France and Media Mart in Germany and Dixon's Group in the UK so we've had a tremendous response in terms of retail distribution and that's continued to grow over the years so that's been a very good sign for us as momentum. And I can't really comment on how much additional volume we've seen by the end of the year.

**Susan Tousi:** I think if you had been in the stores during the third and fourth quarter the real kind of heavy season for consumer demand you would have seen we had a lot of demo days going on, you would have seen that we've really kind of beefed up our marketing mix of targeting consumers who are in the stores making a decision.

**Pierre Schaeffer:** To the point where we really took the whole chain, tried to obviously educate the consumers as much as possible before they hit the store, you know have them basically as friendly an environment as possible at the time they were making a decision. But there is this dimension that I think Susan mentioned couple of times now that our value proposition at this point is very self-selective.

When talking about the choices that the consumers have on the market of buying very cheap hardware and very expensive ink, our value proposition at this point is crystal clear. If you opt in, you are paying a premium hardware and you are getting a much fairer price for the ink and I think, we believe that every single consumer who purchased our printers during last year understood that very well.

**Susan Tousi:** Made a conscious decision

**Charlie Carter:** Just a quick question on digital cameras. Sure, (Charlie Carter with Trusco) Capital, I guess throughout the year you all pursued a more focus on profitability at the expense of some market share and one of the more recent data points showed that overall ASP's have come down obviously improved, so can you give an update on what the strategy is?

**John Blake:** Sure. The strategy is consistent with what was shown on one of the very first slides that through 2005 we were very focused on scale in the digital camera category for Kodak. 2006 we made many very visible and public changes to the operating model. Those changes were the way we designed developed our supply chain logistics our go to market, those improvements were done to move after margin expansion, which we did through all of 2006. I'd feel very good about the digital business model we have in place, we put it in place I would say with you know 90 percent finality through the first half of '07 and now we're very focused on profitable growth. And you started to see that in the third quarter where we showed, we publicly stated we had 35 percent unit share year over year in digital camera in Q3 and so that's our new consistent objective is profitable growth going forward and I believe we have the business model to do so.

**Shannon Cross:** Just a couple of additional questions one with regard to digital cameras. On the CMOS opportunity that Kodak manufactured CMOS, what can you tell us about the sales of the five mega pixel that you put out, how you expect that to sort of move through your product line over time. If you talk to Canon or Sony and granite Sony has a major vested interest in CCD's but if you talk to them, they're not anticipating CMOS really moving into the compact camera line any time soon, so I'm just curious as to how fast you think it will move up.

**John Blake:** So the first aspect of the success of 513, the C513 was a camera that we launched in the late, latter part of the summer, very attractive price point, five mega pixel Kodak manufactured CMOS sensor, did very well, is doing very well. We will not disclose individual data on a specific product but we're very pleased with the results very pleased with the performance and the capability we've registered the important learning for the business of integrating a Kodak CMOS sensor into a Kodak camera.

Going forward, I do believe that CMOS sensors will be in compact cameras. I do think that will happen over the next two to three years and having the capability and the technology we have in CMOS sensors does very well for us in bringing to life some of the unmet consumer needs in terms of the value they can provide for the end camera product.

**Shannon Cross:** Then I had an inkjet question. When you did the presentation back in March at the SNL studios in February, there were a number of commercials that were shown, not infomercials but what appeared to be commercials. I'm just curious as to why since educating the consumer on the cost of on the benefits of Kodak's product, why we haven't seen those commercials or any actually other than infomercials out there.

**Susan Tousi:** You mean like a short commercial in a prime time spot.

**Shannon Cross:** Exactly, I mean you've done historically for years go back to film, then move back to digital cameras I mean Kodak always had a very aggressive advertising budget and it was just kind of strange that we'd seen them there then never saw them outside.

**Pierre Schaeffer:** So let me basically answer your question. First I think when you look at the roll out of a marketing activity, it really also accompanied the roll out of our retail expansion and what was very clear for us and thus, with reference in terms of our instances in terms of reply that's the foundation. We wanted to make sure that we weren't starting to pour awareness dollars and not having mastered the puts and takes of a good retail execution because going down that path, we have been pouring Kodak dollars to have us basically switch sold at retail because of a not good environment there. So phase one, when you look at the year we haven't been on the market for that long, there's been a big component of stabilizing the environment of retail having really as good as possible an experience.

As many of you have witnessed in the mix we took we started to really amp the volume on the awareness component before consumers going in store. The infomercial has been a big innovation for that. We believe that beyond the sales that it has driven direct, it has provided an interesting list for us also at retail completing to that awareness side. We've been on TV for basically a full month from Thanksgiving to December 31st but in a different format from what the old Kodak used to be.

The other thing also is because we have a good profile in mind of who we want to target, we use the many routes that are available to any marketing department to go and touch those consumers beyond the 30 second TV spot and mostly tackling on line direct marketing, so the mix the phasing of our activity really a good retail foundation kicking in the awareness level but through a mix of communication that did include TV but that was probably atypical of where Kodak was, five, six years ago still we believe very effective.

Moving forward, we're not excluding the fact that we will be on TV so ...

**Susan Tousi:** In fact, we'll be on the Apprentice coming up very soon.

**Pierre Schaeffer:** With a typical 30 second spot. We're basically building the awareness blocks as also we're solidifying our way into retail.

**Shannon Cross:** From a shelf space standpoint, how shall we think about how the new product fits in with the existing product and have you gotten commitments from say Best Buy for instances to carry all three cause they have two of yours now and then the third, and how should we think about that or do you assume over time you'll transition out the 5000 series.

- Susan Tousi:** Well I can't comment on which retail partners are going to carry our new product as of yet, we will be with the new products, we will be essentially in a lot of the same channels the CE channel and the mass channels that we're in today as well as the office channel. We expect by retailers they make their choice and we've gone through a lot of those discussions already. They will carry kind of a combination of our new product as well as the existing products.
- Alice Hur:** Hi Alice Hur, Morgan Stanley just another quick question on the inkjet to expand the growth and install base what OEM partnerships make sense for you with people like Dell or is that a market you don't want to really target?
- Susan Tousi:** Repeat the question, I think the question was in expanding our install base is our presence in the category of OEM partnership be something we would consider or is it not part of our strategy. Is that your question, OK, so I think going forward that it's definitely a potential strategy that we would look at, we're not disclosing anything at this time but I wouldn't consider it not a possibility. We are, obviously we are very interested in establishing our brand presence in our technology in this space and that has been our focus to date and that will continue to be a focus as we go forward.
- Jay Vleeschhouwer:** Jay from Merrill Lynch, question on the software business, it seems in your product portfolio one of the common threads is the software and the ease of use and leveraging your risk technologies there, consumers have been notorious for not really, paying for software. Is there a way to better monetized the software and if so, how and can it be a contributor to growth.
- Pierre Schaeffer:** So we basically are seeing a direct connection between for instance as we are strengthening the length between the Kodak Gallery and the desktop software. We are definitely seeing a link between uptake in the gallery business coming from the software so although our strategy right now has not been to have people pay for the easy share software, they're getting the Easyshare software when they buy into a Kodak product or download from the web.
- By building those pipelines, those experiences, starting from the software which is really still a main repository for a lot of peoples pictures, but building the connection to the gallery or also through some of our most recent addition to the software experience for instance Kodak custom creation software, how do we build those links back to retail as well. So taking the desktop as the reality of where very high number, I don't have the number in mind but its probably 90 percent plus of where peoples pictures still reside and starting to remove the friction on printing path especially where they want to get something done with those pictures either on line with the gallery or back at retail with our retail partners.
- Ann McCorvey:** Thank you so much for your interest in Kodak and thank you for coming today. I wanted to let you know that a copy of the slides will be up on the website for those of you who would like to have a copy, the transcript will also go up as well and invite you to listen in to our January 30th fourth quarter earnings release and of course we will be in New York on February 7th for our annual strategy review. Thank you so much bye.

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